



SEVEN&i HLDGS. Co.,Ltd.

CSR Report 2007
Corporate Social Responsibility
Annual Report 2007

SEVEN & i HLDGS.Co.,Ltd.



Seven & i Holdings Corporate Creed

We aim to be a sincere company that our customers trust.

We aim to be a sincere company that our business partners, shareholders, and local communities trust.

We aim to be a sincere company that our employees trust.

Seven & i Holdings Corporate Action Guidelines

Preamble

The Company's mission is to provide customers with valuable products and services and to create new wealth and employment opportunities by conducting management with respect for business ethics.

All the management and staff of the Seven & i Holdings view pleasing the customer as their highest responsibility, and all are engaged in the pursuit of this mission.

To this end, we have established a sound management structure. We meet our social responsibilities, employing business practices in conformity with laws, regulations and social norms and with respect for human rights, the dignity of everyone with whom we are associated and the diverse values of international society.

We conduct business based on these policies and in compliance with the following regulations:

Basic Policy with our Regulated Items

Introduction

Ethics and Compliance with Regulations

In operating our business, our corporate actions are devoted to following management ethics, compliance with laws, ordinances, rules and social precepts, and to fulfilling our responsibilities to society.

Article 1: Business Activities

1. Relationship with Customers / Sales Activities
2. Relationship with Business Partners / Business Activities
3. Relationship with Shareholders
4. Promotion of Fairness

Article 2: Social Responsibility

1. Respect for Human Rights and the Dignity of Human Beings
2. Employment and Workplace Environment
3. Environmental Management
4. Relationship with the Community
5. Information Management

Editorial Policy

This Report represents CSR management by the holding company and CSR activities by the operating companies as part of their business operations.

In our CSR Report 2006, a thematic-based reporting format was adopted to focus on key societal issues and stakeholders' concerns and interests, as well as the way in which we addressed them with group policies and various initiatives by operating companies. Internal and external readers commented that this reporting style did not present the characteristics of each operating company effectively, and thus the readers could not gain a good understanding of which CSR issues were important to each operating company.


In response, the CSR Report 2007 (the "Report") features

different sections for different operating companies, focusing on respective priority areas identified and resulting initiatives performed as part of business operations of each operating company. In addition, the Report includes interviews between top management of the operating companies and their external stakeholders or experts, who offered objective perspectives on the priority areas.

Another new feature of the Report is the addition of a chapter titled, "Responsibility as a holding company," to highlight Seven & i Holdings' own key agenda in its capacity as the holding company of the group, and to demonstrate how the holding company fulfill its own CSR requirements and manage group-wide CSR activities.

CONTENTS

Messages from CEO and COO	4
Overview of Seven & i Holdings	6
Corporate Governance	8
Compliance	10
Responsibilities as a Holding Company	
1. To our shareholders	12
2. For further growth of the operating companies	14
3. For group-wide CSR management	16
In Focus	
Group-wide CSR management	17
Five specialized sub-committees at Seven & i Holdings evaluate CSR activities by operating companies, identify challenges for the Group and develop appropriate programs.	
CSR Reporting of Operating Companies	
 Seven-Eleven Japan	
Overview of Seven-Eleven Japan	26
Dialogue 1 Recycling of Food Waste	28
Dialogue Sunao Kawai (Professor, Dean of the School of Fundamental Science and Engineering, Waseda University) Toshiro Yamaguchi (President and COO, Seven-Eleven Japan)	
Responsibilities to Franchisees For coexistence and co-prosperity with franchisees/For promotion of CSR activities by franchisees	30
Responsibilities to Customers For product quality and safety/To make our stores friendlier to all customers	32
Responsibilities to Business Partners For fair trade practices/For coexistence and co-prosperity with business partners	34
Responsibilities to Local Communities To help create safe and secure communities/Giving back to communities	36
Responsibilities to Employees Respect for diversity/To maintain and promote employees' well-being	38
Responsibilities to the Environment Waste reduction/Global warming prevention/Reduced use of packaging material	39
 Ito-Yokado	
Overview of Ito-Yokado	42
Dialogue 2 Adoption of Universal Design	44
Dialogue Satoshi Nakagawa (President, tripod design Co., Ltd.; Vice Executive Director, Universal Design Forum) Atsushi Kamel (President and COO, Ito-Yokado)	
Responsibilities to Customers To offer safe and reliable products/To make our stores friendlier to all customers	46
Responsibilities to Business Partners For fair trade practices	49
Responsibilities to Local Communities Support for parents in local communities/Responsibilities to communities in new operational locations	50
Responsibilities to Employees Respect for diversity/Support for building employees' capacity	52
Responsibilities to the Environment Global warming prevention/Waste reduction/Reduced use of packaging material	55

 Millennium Retailing	
Overview of Millennium Retailing	58
Dialogue 3 Raison D'être of Department Stores	60
Dialogue Akira Nishimura (Economic commentator) Kazuyoshi Sano (President, Millennium Retailing)	
Responsibilities to Customers To ensure credibility and safety of our products/Creating a safe and comfortable store/Protection of personal information	62
Responsibilities to Business Partners For fair trade practices	65
Responsibilities to Local Communities Giving back to communities/Supporting educational and cultural programs in local communities	66
Responsibilities to Employees To maintain and promote employees' well-being/Creating a motivating workplace	68
Responsibilities to the Environment Global warming prevention/Environmental education/Collaboration with customers	70
 York-Benimaru	
Overview of York-Benimaru	72
Dialogue 4 Promotion of Local Production for Local Consumption	74
Round-table Discussion Tetsuya Kouno, Masayuki Hashimoto and Seiji Yoshida (Agricultural producers) Zenko Ohtaka (President and COO, York-Benimaru)	
Responsibilities to Customers To ensure product safety and quality/Rigorous hygiene control/Creating a safe and comfortable store	76
Responsibilities to Business Partners Coexistence and co-prosperity with business partners	79
Responsibilities to Local Communities Supporting cultural and educational development in local communities	80
Responsibilities to Employees Hiring and promoting diversified employees	81
Responsibilities to the Environment Global warming prevention/Reduction in packaging material consumption/Recycling activities	82
Seven & i Food Systems	
Overview of Seven & i Food Systems	84
Dialogue 5 Safety and Confidence in Food-Service Business	86
Dialogue Tomoaki Hisatsuka (President of F.B.T. Planning; Special Visiting Professor of Gifu Women's University; Ph.D. in Agriculture; Certified Professional Engineer) Akihiko Hanawa (President and COO, Seven & i Food Systems)	
Responsibilities to Customers To offer safe, reliable and health-conscious products/To make our restaurants friendlier to all customers	88
Responsibilities to Business Partners To ensure fair business and mutual prosperity	92
Responsibilities to Local Communities As restaurants open to local communities/Disaster response	92
Responsibilities to Employees Fair employment and promotion/Creating a motivating workplace	94
Responsibilities to the Environment Effective use of resources/Global warming prevention	96
Third-Party's Comments	98
Responding to Third-Party's Comments/Editor's Note	99

•Report Boundary

Seven & i Holdings Co., Ltd.; Seven-Eleven Japan Co., Ltd.; Ito-Yokado Co., Ltd.; Millennium Retailing, Inc.; York-Benimaru Co., Ltd.; and Seven & i Food Systems Co., Ltd.

•Report Scope

This report examines the "economic," "social" and "environmental" aspects of the activities by the entities listed above, including related planning, performance, results and future policies.

Publication Schedule

Current Report September 2007 Next Report Scheduled September 2008

•Reporting Period

Fiscal Year 2006 (from March 1, 2006 through February 28, 2007). Some activities in FY 2007 are also included.

•References

Environmental Reporting Guidelines (FY 2003 version), Japanese Ministry of Environment
Sustainability Reporting Guidelines (Version 3.0), Global Reporting Initiative (GRI)

Disclaimer

In addition to past and current information concerning Seven & i Holdings and its operating companies, this report includes speculation about the state of society as well as predictions concerning business plans and policies, and their anticipated results. These predictions and speculation represent hypothetical conclusions based upon information available at the time they were recorded, and both the future state of society and actual business results may vary due to changes in various factors. We request the understanding of our readers in this regard.

Seven & i Holdings is committed to meeting societal needs and making a positive contribution to a sustainable society by fulfilling our duties in our main business.



Toshifumi Suzuki
Chairman and Chief Executive Officer
Seven & i Holdings Co., Ltd.

Creation of a “new, comprehensive lifestyle industry” in an ever-changing society

We at Seven & i Holdings are working to create a “new, comprehensive lifestyle industry” that provides new values. To this end, in each and every operational area that is closely connected to the daily lives of our customers—convenience stores, general merchandise stores, department stores, supermarkets, restaurants, financial services and IT/services, we are devoted to meeting diversifying customers needs that reflect societal changes in Japan, such as consumption saturation, an aging population and declining birthrate.

In addition, Seven & i Holdings, as a holding company that manages its operating companies, has further improved its corporate governance systems. We are also committed to fulfilling our corporate social responsibility (CSR) across the group of Seven & i Holdings (the “Group”).

Offering solutions to social issues through our business activities

Seven & i Holdings and our group companies believe that listening to our shareholders, customers, business partners, local communities and employees, and incorporating the obtained feedback into our daily activities and innovations is a fundamental element of CSR. With this belief, we are emphasizing daily communication with stakeholders at all our stores. By doing so, we can gain a better sense of challenges today’s society faces, such as an aging population, declining birthrate, global warming, and food safety and reliability, enabling us to implement more effective responses through our business.

We also recognize that the sustainable growth and development of Seven & i depends on whether each and every group company and employee puts high

values on, and takes steady actions to: comply with laws, rules and social norms; observe fair business practice; respect diversification of workplace; coexist with local communities; conserve the environment; and fulfill other social responsibilities. To promote this, we have established the CSR Promotion Committee that manages overall initiatives by operating companies, and ensure an effective and consistent performance of CSR activities throughout the entire Group.

Review of our approach to societal needs from CSR perspectives

While some social issues can be addressed only by the public sector, in our opinion some social challenges can be best addressed by businesses, leveraging their infrastructure and expertise. In preparing this report, we have asked each operating company to review their activities from CSR perspectives. Throughout the Report, you will find many examples of how we are addressing societal concerns in our business. We will continue delivering transparent information, with a variety of communication tools, including the CSR report. We also aim to take our group-wide CSR activities to the next level by conducting active dialogues with our stakeholders.

Seven & i Holdings will continuously pursue sustainable growth together with society and strive to maximize our enterprise value. We look forward to your continued support for many years to come.

We aim at taking our CSR activities to the next level through active stakeholder engagement.



Noritoshi Murata
President and Chief Operating Officer
Seven & i Holdings Co., Ltd.

Promotion of stakeholder engagement by five specialized subcommittees

At Seven & i Holdings, we have established the CSR Promotion Committee and its five specialized subcommittees (Corporate Ethics and Compliance, Fair Trade, Environmental Management, Social Contribution and Information Management) to manage and guide CSR activities by each operating company. They serve as champions of CSR activities within the Group, providing forums to share relevant information and experiences, discussing policies and methodologies to identify group-wide issues, and thus checking management and operational activities against CSR criteria. The subcommittees are also facilitators of dialogues between our operating companies and their stakeholders, and take leadership roles in “stakeholder engagement,” where feedback obtained through stakeholder dialogues is incorporated into the Group’s decision-making process.

Advancement of CSR activities across the entire supply chain

As business activities are globalizing, stakeholders of a business—including investors, consumers, and non-governmental organizations—expect a company not only to fulfill its own CSR requirements but also to ensure that legal compliance, environmental conservation, and proper working conditions, and other CSR elements are properly in place throughout its entire supply chain, ranging from development of products to their manufacturing, distribution, sale, and disposal.

In response to such societal needs, in March 2007, we formulated *the Seven & i Holdings Business Partner Action Guidelines* (p.19), based on *the Seven & i Holdings Corporate Action Guidelines* (p.2). We

plan to start implementing these guidelines for our business partners within the current fiscal year. We believe that full compliance with these guidelines and collaboration in fulfilling social responsibilities will lead to a greater enterprise value of both Seven & i Holdings and our business partners.

Furthermore, aiming at further advancement of our societal contribution activities, we formulated *the Seven & i Holdings Basic Policy on Social and Cultural Contribution* (p.23) in June 2007. Under the Policy, we are focusing on creating a peaceful and prosperous living environment through even more collaboration and cooperation with local and international communities.

Employee-driven CSR with reinforced commitment of top management

In FY 2006, top management of our operating companies held dialogues with their external stakeholders and experts, discussing expectations from, and concerns of the society as well as appropriate future directions and next steps to be taken in connection with priority areas of their business domain. The resulting improved awareness of the top management is now being shared by every member of our group whether at our stores or offices, who will translate it into their individual actions on their own initiative. By leveraging each individual's proactive efforts, we will work to further increase the breadth and depth of our CSR activities to the next level.

Seven & i Holdings will continue placing a high value on communication opportunities, and living up to our commitment to being a company of integrity. Please read the Report and give us your candid feedback to help us serve you better in future.

With the goal of creating “a new, comprehensive lifestyle industry,” Seven & i Holdings pursues maximization of group-wide synergies and enterprise value.



We, Seven & i Holdings Co., Ltd., are a holding company that was established on September 1, 2005, through a stock transfer by Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd.

We completed full acquisition of Millennium Retailing, Inc. and York-Benimaru Co., Ltd. on June 1 and September 1, 2006, respectively. In addition, with the objective of consolidating and restructuring restaurant operations, we established Seven & i Food Systems Co., Ltd. in January 2007. The three main operating companies in restaurant operations, namely Denny's Japan Co., Ltd.; Famil Co., Ltd.; and York Bussan K.K., became fully-owned subsidiaries of Seven & i Food Systems in March 2007. On September 1, 2007, the three subsidiaries were merged and they made a fresh start as the restaurant, dining service and fast food divisions of Seven & i Food Systems. As a result of such new development, we now oversee 94 operating companies (as of September 1, 2007).

Seven & i Holdings operates a network of about 33,000 stores worldwide in its seven core operational areas—convenience stores, superstores, department

stores, supermarkets, restaurants, financial services, and IT/services. We posted operating revenues for the year ended February 2007 of approximately ¥5.3 trillion.

At Seven & i Holdings, none of our activities can be merely an extension of the past. Adopting “breakthrough thinking,” we first set up a future goal from customers' perspectives and then find what we should do now to reach that goal. Moving beyond conventional ideas or frameworks, we continue working to bring innovation in retail business, creating a “new, comprehensive life style industry.”

To this end, we are working to generate synergy to the fullest extent among operating companies. Specific initiatives include integration of group-wide IT systems—such as information systems and operating systems, sharing of networks of suppliers and external experts, and joint procurement or development of raw material and merchandise. Furthermore, aiming at maximization of our enterprise value, we have aggressively promoted structural reform and restructuring of our group business in such a way to optimize our responses to changing customer needs, market trends and global economic conditions.



With the debut of *nanaco*, we became the first retailer who launched original e-money service. Mustering abilities of the Group having one of the largest networks and customer bases in Japan, *nanaco* aims to provide greater convenience to customers and increase store traffic.

2007.4
Launch of *nanaco*, the Group's original electronic money service



Akachan Honpo, an operator of maternity and baby-goods stores, became a subsidiary of Ito-Yokado. Through a financial and business tie-up with this popular retailer, we intend to enhance our products and services that support parents in local communities.

2007.7
Acquisition of Akachan Honpo Co., Ltd by Ito-Yokado

2007.3
Acquisition of the Loft Co., Ltd.

The Loft, operating variety stores mainly in and around Tokyo, became our subsidiary. By strategically developing the popular brand among young people, we aim to enhance enterprise value of our group.



2007.5
Launch of Seven Premium, new private brand products

By utilizing the Group's strength in product development, sourcing and quality control, our original brand, *Seven Premium*, was rolled-out, recasting the images of private brand products. In May 2007, initial 49 items went on sale.



Corporate profile (as of February 28, 2007)

Company name Seven & i Holdings Co., Ltd.
Establishment September 1, 2005
 Listed on the First Section of the Tokyo Stock Exchange
Headquarters 8-8, Nibancho, Chiyoda-ku, Tokyo
 102-8452, Japan

Nature of business A pure holding company that plans, administrates and operates a corporate group with seven principal businesses—convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services—as well as specialty stores, manufacturing and processing services, real estate/security, publishing and others.

Paid-in Capital ¥50 billion

Convenience store operations	•Seven-Eleven Japan Co., Ltd. •7-Eleven, Inc. •SEVEN-ELEVEN (HAWAII), INC. •SEVEN-ELEVEN (BEIJING) CO., LTD.
General merchandise store operations	•Ito-Yokado Co., Ltd. •Marudai Co., Ltd. •Hua Tang Yokado Commercial Co., Ltd. •Chengdu Ito-Yokado Co., Ltd.
Department store operations	•Millennium Retailing, Inc. •Sogo Co., Ltd. •The Seibu Department Stores, Ltd. •Robinson Department Store Co., Ltd.
Food supermarket operations	•York-Benimaru Co., Ltd. •York Mart Co., Ltd. •Shell Garden Co., Ltd. •K.K. Sanei •Beijing Wang fu jing Yokado Commercial Co., Ltd.
Restaurant operations	•Seven & i Food Systems Co., Ltd. [restaurants (Denny's Japan, Famil, etc)/fast food [Poppo]/dining service]
Financial services	•Seven Bank, Ltd. •IY Card Service Co., Ltd. •SE CAPITAL CORPORATION •K.K. York Insurance •Seven Cash Works Co., Ltd.
IT/Services	•Seven and Y Corp. •7dream.com •Seven-Meal Service Co., Ltd. •Millennium Casting Inc. •Gottso Bin Co., Ltd.
Specialty store operations	•Mary Ann Co., Ltd. •Oshman's Japan Co., Ltd. •The Loft Co., Ltd. •Akachan Honpo Co., Ltd
Manufacturing and processing	•IY Foods K.K. •K.K. Terre Verte (qualified special subsidiary) •Life Foods Co., Ltd.
Real estate/security service	•Mall & SC Development Inc. •IY Real Estate Co., Ltd. •Ikebukuro Shopping Park Co., Ltd. •Yatsugatake Kogen Lodge Co., Ltd. •K.K. York Keibi
Publishing	•SEVEN & i Publishing Co., Ltd.
Others	•SEVEN & i Life Design Institute Co., Ltd. •SEVEN & i Financial Center Co., Ltd. •S-WIL Co., Ltd.

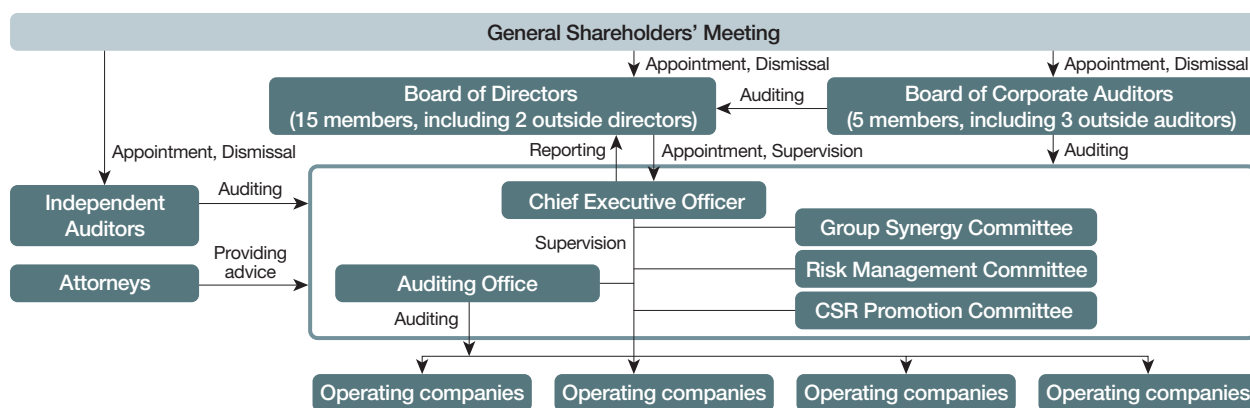
Seven & i Holdings has a distinct segregation of management oversight and business operation responsibilities to ensure the transparency and reliability of our business and increase business efficiency throughout the Group.

Our mission, as a holding company that oversees and controls its operating companies, is to strengthen corporate governance and maximize the enterprise value of our group.

In corporate governance, we take a logical approach to four issues: (1) operational effectiveness and efficiency, (2) reliability of financial reports, (3) strict compliance with laws and regulations in operating activities and (4) appropriate preservation of assets. The ultimate objective is long-term growth in

enterprise value.

In taking steps to achieve this objective, Seven & i Holdings seeks to achieve group synergies and implements careful monitoring to ensure the appropriate allocation of management resources. On the other hand, each operating company fulfills its own responsibilities in its field of business, where it acts independently to secure growth in profits and higher capital efficiency.



Basic Structures and Systems

Segregation of supervisory and business execution functions of the Board of Directors

As of May 31, 2007, the Board of Directors at Seven & i Holdings comprised 15 members, of whom 2 were outside directors. The term of directors has been set at one year to ensure prompt reflection of the wishes of shareholders.

In order to facilitate prompt decision making and execution in a rapidly changing management environment, we have introduced the executive officer system. Under this system, the supervisory functions of the Board of Directors are separate from the execution functions of the executive officers. The Board of Directors is able to focus on the formulation of management strategies and the supervision of business execution while the executive officers can focus on business execution.

Corporate governance led by the Board of Corporate Auditors

We monitor management through a system of corporate auditors. As of May 31, 2007, the Board of Corporate Auditors comprised five members,

including three outside corporate auditors. Each corporate auditor takes steps to audit the work of the directors, such as attending meetings of the Board of Directors and other important meetings, exchanging opinions with the representative directors, periodically receiving reports from directors and others regarding business execution, and actively exchanging information with the Auditing Office.

Furthermore, we have established the Auditing Office as an independent office to conduct internal audits. The Auditing Office has general responsibility for verifying the internal auditing of each of the core operating companies and providing guidance to them. The Auditing Office also has internal auditing responsibility for the holding company itself. In addition, the Auditing Office actively exchanges information with the corporate auditors and works closely with them while strengthening its general and internal auditing responsibilities.

In addition, an independent auditing office has been established in each core operating company to ensure that internal auditing responsibilities are handled in a thorough manner.

Internal Control Systems

As the Corporate Law of Japan came into effect in May 2006, corporations are required to develop a mechanism of internal controls to manage regulatory compliance and other overall risks, and ultimately to prevent corporate misconduct.

Accordingly, our Board of Directors has passed the resolution on the company's *Basic Policy on Internal Control Systems*, in accordance with which various steps have been taken, such as reviews of existing internal rules, evaluation of compliance with the applicable rules and of risk management activities.

Through an amendment to the Securities and Exchange Law and related laws, the Financial Instruments

and Exchange Law was enacted in June 2006. Under the new law, from the year commencing April 1, 2008 onwards, publicly listed companies in Japan will be required to file reports evaluating internal controls for the purpose of securing the reliability of corporate financial statements and prevention of accounting fraud.

As a result, from the year ending February 2010, we will be required to submit internal control reports evaluating our system to ensure the accuracy of documents regarding its financial accounts and other information. To prepare for this, the Group is taking steps to meet these requirements and to establish the appropriate systems.

Summary of the resolutions of the Board of Directors

1. Systems for ensuring that the work of directors and employees is compliant with laws, regulations, and the articles of incorporation

Each group company shall comply with the *Corporate Creed* and the *Corporate Action Guidelines*. In order to be trusted and known for integrity, all group companies shall implement ethical corporate activities; strictly observe laws, regulations, and social norms; and announce their fulfillment of corporate social responsibilities. All group companies shall establish Corporate Action Committees, which shall operate help lines, and Fair Trade Committees, which shall promote fair trade. The Corporate Ethics and Compliance Sub-Committee of the CSR Promotion Committee shall maintain this spirit as it reevaluates the Corporate Action Guidelines and each company's guidelines in order to further advance compliance.

2. Systems for the storage and control of information related to the execution of duties by directors

Seven & i Holdings (the "Company") is making efforts, mainly through the Information Management Sub-Committee of the CSR Promotion Committee, to study the current situation, make appropriate improvements, and establish document control regulations for the appropriate storage and management of information and documents (including digital records) related to the execution of business.

We confirm existing group-wide document control regulations and study the standardization and application situation.

3. Regulations and system for loss risk management

The Internal Control Promotion Project has been established under the auspices of the Risk Management Committee, which is chaired by the President and Representative Director. The project has established a risk management policy for the recognition of risk areas and the formulation of countermeasures for the work conducted by the Company and its operating companies. Risk management will be verified in accordance with this policy.

4. System for ensuring the efficiency of duties executed by directors

Duties are to be properly executed according to the appropriate regulations, including those concerning the right to make final decisions, administrative authority, organizational regulations, etc. In addition, through the Internal Control Promotion Project mentioned above, work execution efficiency shall be verified and appropriate corrective measures implemented.

5. Systems for ensuring the appropriateness of the work performed by the Group

As noted in 1 to 4 above, the Company will establish control systems for the Group as a whole covering all items such as work efficiency, compliance, etc.; notify its operating companies of the general outlines of these systems; and require concrete policy formulations. In addition, the Company shall provide support and guidance for the internal control activities of operating companies.

Each operating company shall maintain contact with each business division, mainly through the Corporate Action Committee, and will share information with Seven & i Holdings' Internal Control Promotion Project.

6. Matters related to the provision of support staff for corporate auditors

The Company shall provide support staff for corporate auditors when so requested.

7. Matters related to the independence from directors of the staff described in the previous item

The selection of support staff (including subsequent replacements) to work exclusively for the corporate auditors shall be subject to the approval of the corporate auditors.

8. System for reporting by directors or employees to corporate auditors and other systems for reporting to corporate auditors

A system shall be established for the prompt reporting by directors or employees to the corporate auditors of situations that have the possibility of causing significant damage to the Company as well as of malfeasance or unlawful/improper activity on the part of directors or employees. No director or employee providing such reports shall suffer any adverse consequences.

In addition, the Corporate Ethics and Compliance Sub-Committee shall provide regular reports to the representative directors and to the corporate auditors concerning the operation of the help lines, which should function as a public interest report mechanism.

9. Other systems for ensuring that corporate auditors can conduct their activities effectively

The corporate auditors shall meet regularly with a representative director and exchange opinions concerning important audit matters.

The corporate auditors shall maintain close contact with the Auditing Office and may request examinations by the Auditing Office when necessary.

The corporate auditors may consult with the independent auditors of the Company's accounts and with attorneys as needed, and the Company shall bear all of the costs of such consultation.

To further raise CSR awareness, Seven & i Holdings is flexibly promoting *the Corporate Action Guidelines* so that their letter and spirit will permeate across the Group.

To ensure full compliance with the *Seven & i Holdings Corporate Action Guidelines*, and all applicable laws and regulations, Seven & i Holdings has established Corporate Action Committees or assigned fulltime employees with responsibility for compliance and sound corporate actions, in each operating company.

These committee members and the specially assigned employees are involved in the Corporate Ethics and Compliance Sub-Committee (p.18), under the CSR Promotion Committee, to better implement the Guidelines and improve the quality of related activities by bringing them together to share their

knowledge and experience, establishing a common understanding on this area and discussing measures to upgrade their activities.

At the operating company level, “Help Lines” and “Yellow Whistle” systems, which allow its employees to report or consult on actual or possible wrongdoings, are in place for the purpose of deterrence and prevention of, and early solution to any behaviors or actions against *the Corporate Action Guidelines*. The systems are operated in a way to protect the informants from any disadvantage. For example, employees can even use the systems anonymously.



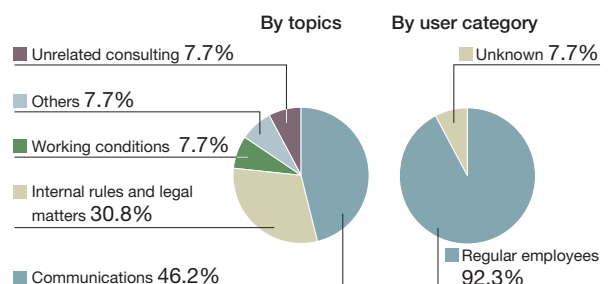
Internal reporting system at major operating companies

Seven-Eleven

In response to recommendations by the Audit Office of the holding company, Seven-Eleven has transferred the responsibilities for the operation of the Help Line to the Corporate Policy/Development Office from the HR Department in FY 2006. This change in responsibilities has been communicated to all employees.

In addition, a female employee joined the Help Line team in June 2007.

Access to Help Line System during FY 2006
Total access: 13 (5 in the previous year)



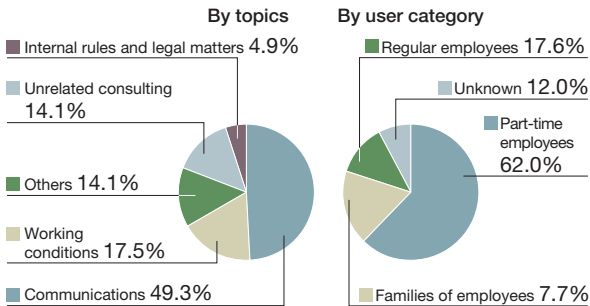
Ito-Yokado

With new, upgraded posters displayed, Ito-Yokado has intensified its efforts to increase recognition and encourage further use of the Help Line. It has also reaffirmed that all new part-timers should receive a copy of the Instructions on the Corporate Action Guidelines, which describes how each employee should follow the guidelines in their daily activities.

Furthermore, information obtained through the Help Line was incorporated into an educational DVD for managers, which has been used at corporate ethics training sessions for store management staff since March 2007.

Access to Help Line System during FY 2006

Total access: 142 (103 in the previous year)

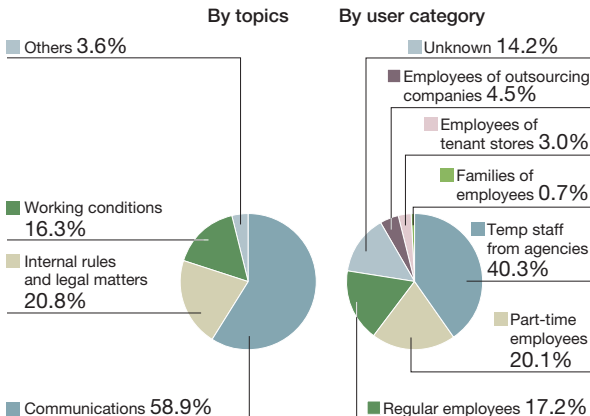


Millennium Retailing

To ensure all employees recognize the Yellow Whistle system, Millennium Retailing has revised awareness-raising posters and distributed a guidebook on harassment prevention to all managers and officers. Some examples of frequently reported wrongdoings were shared internally through company newsletter. Compliance training programs were provided to management staff, and sales representatives responsible for premium customers.

Access to Help Line System during FY 2006

Total access: 134 (170 in the previous year)

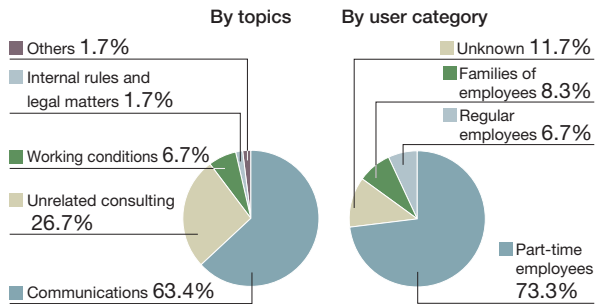


York-Benimaru

To eliminate discrepancies in levels of awareness and understanding of the Help Line system among new and existing employees, in FY 2006, York-Benimaru has distributed awareness-raising posters once again to all its stores and held compliance training sessions as part of sales meetings for senior managers. During the session, the information reported through the Help Line was shared among the participants.

Access to Help Line System during FY 2006

Total access: 60 (54 in the previous year)



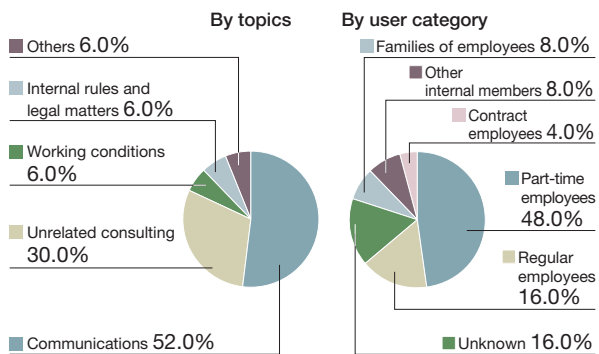
Seven & i Food Systems

(information below is that of formerly Denny's Japan)

Compliance activities during FY 2006 include the development of new versions of posters to raise awareness of the Help Line in March and November, distribution of the posters to all its stores, and implementation of training sessions on compliance for store managers twice a month, and for new district managers twice a year.

Access to Help Line System during FY 2006

Total access: 50 (96 in the previous year)



Seven & i Holdings will continue fulfilling our responsibilities to our shareholders by bolstering group performance and actively communicating with shareholders and other investors.

“We aim to be a sincere company that our shareholders trust.”—to achieve this first sentence of our corporate creed, we at Seven & i Holdings take actions from shareholders perspectives and strive to improve the Group’s financial strength, transparency and efficiency, as well as to secure steady profit growth and to expand and develop our group business.

In the year ended February 2007, with the objective of consolidating and restructuring restaurant operations, we established Seven & i Food Systems Co., Ltd., of which the three main operating companies in restaurant operations, namely Denny’s Japan Co., Ltd.; Famil Co., Ltd.; and

York Bussan K.K., became fully-owned subsidiaries. In September 2007, the three subsidiaries were merged. We will implement reorganization of our food service business and increase brand value of our restaurant and other food stores.

Our major initiatives during the current year include the launch of “nanaco,” the first original electronic money by a retail business operator; and of “Seven Premium” products, our private-label products jointly developed by our group companies.

With these and other programs, we will continue generating greater synergies across the Group.

Financial summary and shareholder returns

Consolidated financial results for the year ended February 2007

In the year ended February 2007, the second year of Seven & i Holdings, we saw substantial growth in our consolidated financial results: revenues from operations increased 37.0%, to ¥5,337.8 billion; operating income rose 17.1%, to ¥286.8 billion; and net income rose 51.7%, to ¥133.4 billion.

Status of shareholder returns

Our basic policy on shareholder returns is to provide a return of profits in line with profit growth. During the year

ended February 2007, we distributed interim dividend of ¥25.00 per share on August 31, 2006 and year-end dividend of ¥27.00 per share on February 28, 2007, an increase of ¥2.00 per share over our forecast.

We will maintain our target annual dividend of ¥50.00 per share and our target consolidated payout ratio of 35%.

Basic policy of shareholder returns

1. Provision of a return of profits in line with profit growth
2. Emphasis on dividend payout ratio
3. Future target of annual dividend: a ¥50.00 baseline

	FY ended February 2006 (actual)		FY ended February 2007 (actual)		FY ending February 2008 (target)	
	Seven & i Holdings (consolidated)	Percentage	Seven & i Holdings (consolidated)	Percentage	Seven & i Holdings (consolidated)	Percentage
Revenue from operations	¥3,895.7 billion	100%	¥5,337.8 billion	100%	¥5,755.0 billion	100%
Convenience store operations	¥2,015.2 billion	51%	¥2,249.6 billion	42%	¥2,330.0 billion	40%
Superstore operations	¥1,687.7 billion	43%	¥1,882.9 billion	35%	¥2,100.0 billion	36%
Department store operations	—	—	¥988.3 billion	18%	¥1,084.0 billion	19%
Food services	¥124.0 billion	3%	¥121.6 billion	2%	¥123.0 billion	2%
Financial services	¥82.2 billion	2%	¥100.2 billion	2%	¥125.0 billion	2%
Others	¥19.7 billion	1%	¥32.3 billion	1%	¥35.0 billion	1%
Eliminations/Corporate	(¥32.2 billion)	—	(¥37.4 billion)	—	(¥42.0 billion)	—
Operating income	¥244.9 billion	100%	¥286.8 billion	100%	¥300.0 billion	100%
Convenience store operations	¥209.8 billion	85%	¥206.0 billion	71%	¥207.0 billion	69%
Superstore operations	¥15.3 billion	6%	¥29.1 billion	10%	¥40.0 billion	13%
Department store operations	—	—	¥26.7 billion	9%	¥29.0 billion	10%
Food services	¥2.6 billion	1%	¥0.9 billion	0%	¥2.0 billion	1%
Financial services	¥17.2 billion	7%	¥24.5 billion	9%	¥19.5 billion	6%
Others	¥0.8 billion	1%	¥1.6 billion	1%	¥2.0 billion	1%
Eliminations/Corporate	(¥0.9 billion)	—	(¥2.2 billion)	—	¥0.5 billion	—
Net income	¥87.9 billion	—	¥133.4 billion	—	¥150.0 billion	—

Communication with shareholders and other investors

Toward an open shareholders meeting

Seven & i Holdings sends notice to shareholders of the annual meeting earlier than the statutorily required date to improve the vibrancy of the meeting and to facilitate smooth exercise of voting rights. For institutional investors, our notice of the annual shareholders meeting is posted on the membership websites of several trust banks.

At the second annual shareholders meeting of Seven & i Holdings held on May 24, 2007, there were 957 attendants.

Summary of the latest annual shareholders meeting

- Date: Thursday, May 24, 2007 ● Attendants: 957 persons
- Meeting duration: 81 minutes
- Voting rights exercised: 73.76%

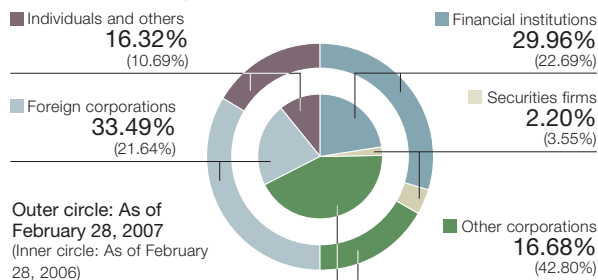
Fair and timely disclosure

At Seven & i Holdings, inquiries from shareholders are directly addressed by staff of the relevant department so as to ensure timely and appropriate responses. In addressing questions from investors, our staff members

pay due consideration to provide fair information and to avoid the leakage of insider information and to strictly comply with laws and regulations.

We are also focusing on investor relations programs to disclose adequate and appropriate information to individual investors, as well as institutional investors and financial analysts. In addition, our website includes relevant information for investors, such as financial results (*Kessan Tanshin*), financial statements filed (*Yuka-Shoken Houkokusho*), real-time disclosure information, and IR material of major operating companies.

Shareholder Composition



External recognition

Inclusion in SRI funds

In recent years, there has been growing attention to socially responsible investment (SRI), which combines social elements—including legal compliance, environmental conservation, employment retention and creation of employment, and contributions to local communities—with financial conditions and growth potential of a business from an investment perspective.

Seven & i Holdings has been included in a number of SRI funds that are highly recognized by both Japanese and overseas valuation firms.

Notably, we have been listed on FTSE 4 Good Global Index* since 2006. We will continue conducting our business responsibly, which will lead to greater enterprise value of our business and in turn steady shareholders returns.



* A SRI index developed by UK-based FTSE Group

FTSE4Good

Financial ratings

We use bond credit rating services by rating agencies to provide shareholders a referential indicator to help them understand the financial conditions of our group.

Excellent ratings by various agencies demonstrate that our financial strength, especially that of Seven & i Holdings, Seven-Eleven Japan and Ito-Yokado, is world class in the retail industry.

Credit Quality (as of August 31, 2006)

		R&I	JCR	S&P	Moody's
Seven & i Holdings Co., Ltd.	Long-term	AA	AA+	—	—
Seven-Eleven Japan Co., Ltd.	Long-term	—	AA+	AA-	—
	Short-term*	—	—	A-1+	P-1
Ito-Yokado Co., Ltd.	Long-term	AA	AA+	AA-	Aa3
7-Eleven, Inc.	Long-term	—	—	A	Baa3
Seven Bank, Ltd.	Long-term	—	—	A+	—

* Seven-Eleven Japan's short-term rating is its rating as the guarantor of 7-Eleven, Inc.'s commercial paper program (from January 2006).

Seven & i Holdings, led by the Group Synergy Committee, strongly promotes effective use of resources and business infrastructures within the Group to increase competitiveness

As the holding company of the Group, Seven & i Holdings is responsible for maximizing group-wide enterprise value. Accordingly, we are taking various measures to fulfill this duty.

For example, led by the Group Synergy Committee and its Group Merchandising Sub-Committee, we have been aggressively promoting a mechanism for collaboration among group companies since our foundation in September 2005. Such initiatives include joint sourcing of materials and collaborative sales and marketing of original products

developed by other Group members. This collaborative mechanism allows us to generate synergies among the Group, having each operating company draw on other group company's business infrastructure and expertise.

During FY 2006, we focused on the development of infrastructure for *nanaco* electronic money service. We also launched the Group Merchandising Reform Project in the year, under which our new group-wide private brand, *Seven Premium*, was rolled out.

Launch of electronic money service *nanaco* as the result of maximum leverage of group infrastructure

The first proprietary electronic money service by a Japanese retailer

In April 2007, Seven & i Holdings became the first retail group in Japan to launch an original electronic money service, *nanaco*. Since May, our customers enjoy shopping with *nanaco* at all Seven-Eleven stores in Japan.

Electronic money is an alternative payment tool that uses digitally coded cash equivalent, instead of real currency. Many businesses, including public transportation operators have introduced this new "money" because of its convenience without the burden of using cash.

Shoppers can use two types of *nanaco*: *nanaco Card* and *nanaco Mobile*. The former is an IC card issued by our Seven-Eleven stores, and the latter is available through "wallet phone" services provided by NTT Docomo, KDDI au and SoftBank Mobile. In either type, *nanaco* is a rechargeable pre-paid e-money system, which does not require credit card or bank account information.

Upgraded services to increase customer traffic

With *nanaco*, customers enjoy shopping without carrying cash at about 11,700 Seven-Eleven stores across Japan 24 hours a day. Each *nanaco* purchase awards points in accordance with the purchase value, and accumulated points can be converted into *nanaco* money. These benefits and user-friendliness are likely to increase the number of store visits by customers. For this reason, Seven & i Holdings intends to extend *nanaco* service to other stores in our group. In addition, we are planning to increase the convenience of *nanaco* to our customers with a roll-out of *nanaco* service outside of our group, and a tie-up with other point-awarding systems.



Launch of original electronic money, *nanaco*



Payment is completed by simply flashing a *nanaco Card* to reading devices at the checkout



Development of new private brand, *Seven Premium*, under the Group Merchandising Reform Project

Original brand products in pursuit of seven, premium offerings

Seven & i Holdings has developed the Group's private label brand, *Seven Premium*. We aim at developing and establishing a highly competitive private-brand product line both in terms of quality and price, resulting in greater profitability of each group company.

This original private brand of *Seven Premium* was created as a result of the broad-ranging practices and expertise our group companies have, including those of merchandise development, material procurement, production management, quality control, market information obtained from day-to-day business activities, and consumer needs learned from interaction with customers at our stores. Under this brand name, various products in the categories of instant noodles, beverages, confectionaries and snacks, seasonings and other packaged foods, as well as yogurts and fresh desserts have been, and will be developed. *Seven Premium* products initially went on the market in May 2007 with 49 items, which will be expanded into 300 items by the end of February 2008, and 1,000 to 1,200 items by the end of February 2011.



Seven Premium brand developed by a cross-company initiative, the Group Merchandising Reform Project

Seven, premium offerings by *Seven Premium*

1. Safety and quality assurance

Made at hygienic factories using selected material, the products are all safe, reliable and traceable.

2. Delicious

By thorough research on what makes food delicious, we strive to offer products the majority of consumers find tasty.

3. Locally tailored taste

Where appropriate, we adjust the tastes and manufacturing processes of the products, tailored to regional markets to please the taste buds of our customers in different areas.

4. Supreme technology

Joint product development with manufacturers of excellent technologies generates the products with supreme value for money.

5. Universal Design

The products feature easy-to-read standardized labeling and packaging designs. And the text information on the package is displayed in larger-than-usual letter sizes.

6. Support for healthy lifestyle

Calorie information is placed on the front of the product package to support the customers' health conscious lifestyle.

7. Reasonable prices

Economies of scale enable us to offer quality products at reasonable prices for daily shopping.

Collaboration across the Seven & i Group to increase competitive edges of operating companies

For the development of *Seven Premium* products, Seven & i Holdings launched the Seven & i Group Merchandising Reform Project in November 2006. A total of 76 members, mainly those in merchandise development, from Seven-Eleven Japan, Ito-Yokado, York-Benimaru, York-Mart, and Shell Garden were involved in this product development initiative.

Previously, each operating company developed its own original products and thus shared underlying market data or sales performance information of its private label brand with other group companies only to a limited extent.

However, the Project started with drawing on the information and experiences that each participating company has collected and accumulated, then analyzed this information from objective standpoints, and defined the envisioned brand positioning and quantitative quality targets of the products. At the same time, the Project has established a centralized system for the private brand of Seven & i Group, under which the entire process—from product development to procurement and to sales—is jointly carried out by the participating group companies. As a result, *Seven Premium* products achieve excellent quality and are priced at 70-80% of the prices of national brand equivalents, applying the economies of scale of our group to our material procurement, product distribution, and advertizing and marketing activities.

In addition, full-time quality control personnel are assigned to ensure timely communication and information sharing among the participating companies. Products and packaging material information, as well as manufacturing process sheets are managed centrally, under the unified quality control criteria, "Seven & i Holdings Standard."

The project members have brought their experiences and findings back to their respective companies, and will share them with their colleagues for future product development in other areas.



Sharing experience and expertise among merchandise developers of group companies

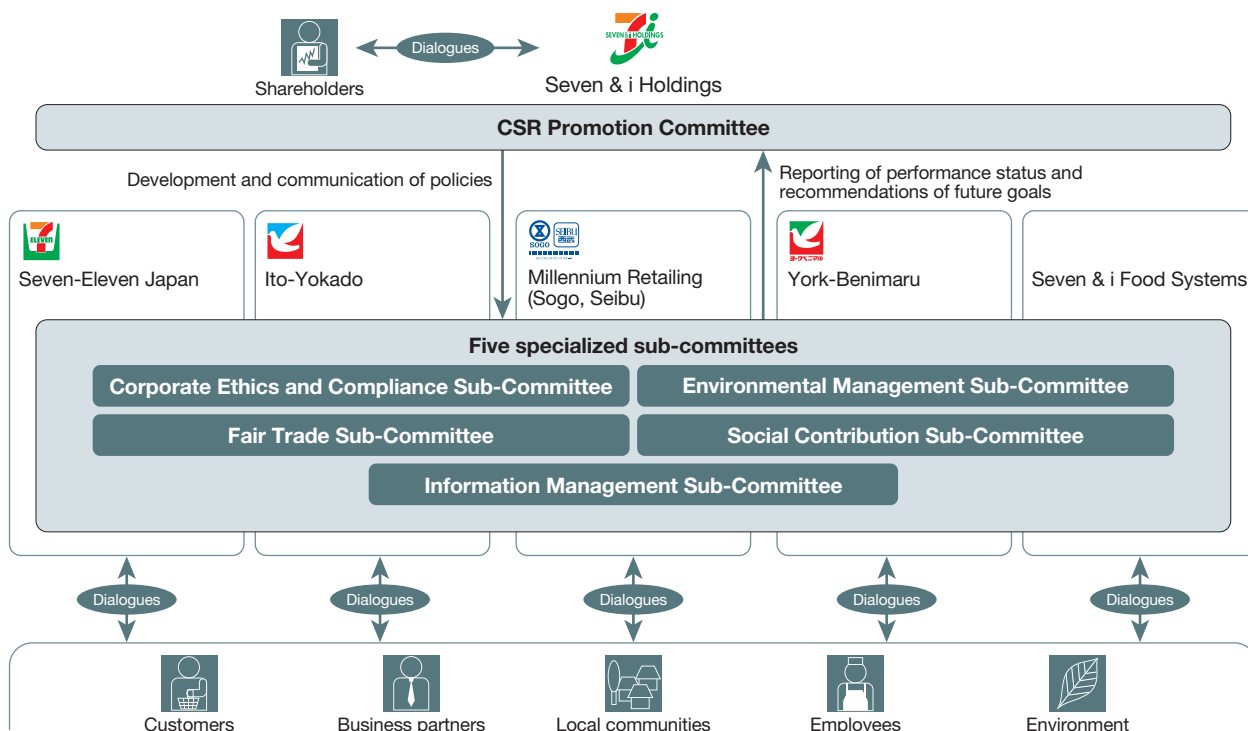
Seven & i Holdings have established the CSR Promotion Committee and its five specialized sub-committees that centrally review and assess the CSR activities of each operating company to make them socially responsible business operators.

Seven & i Holdings strongly believes that along with the responsibilities to our shareholders and to our operating companies, we have a responsibility to manage our operating companies to ensure they are responsible to their stakeholders.

With this belief in mind, we have established the CSR Promotion Committee and its five specialized sub-committees. They are taking the lead in the Group’s stakeholder engagement initiatives process, by facilitating

active dialogues between operating companies and their stakeholders, and incorporating obtained feedback from stakeholders into their business operation.

They also responsible for the management of plan-do-check-action (PDCA) cycle—checking the performance of each company and applying the check results to future group-wide management objectives and action plans—with regard to the Group’s CSR activities.



Establishing group-wide CSR targets and monitoring their progress with the management

For effective implementation of stakeholder engagement process, Seven & i Holdings have established the CSR Promotion Committee—which is led by the Chief Operating Officer and includes directors with related responsibilities—and its specialized five sub-committees. The Committee and its sub-committees provide oversight and guidance to ensure that all group companies, in accordance with *the Corporate Creed* and *the Seven & i Holdings Corporate Action Guidelines*, strictly observe all laws, regulations and social norms, and fulfill their responsibilities to stakeholders.

At the sub-committees, relevant staff members from operating companies and Seven & i Holdings share information on which issues and requests were raised by stakeholders and how the relevant operating companies respond to them. They also define specific and quantitative goals in the relevant areas both at the Group and operating company levels, evaluate the progress toward the goals, and report them to the Committee.

The Committee then studies the input from the sub-committees and develops new policies and action programs, when appropriate.

In Focus

Group-wide CSR management

Five specialized sub-committees at Seven & i Holdings evaluate CSR activities by operating companies, identify challenges for the Group and develop appropriate programs.

Emphasizing on effective group-wide CSR management, Seven & i Holdings established CSR Promotion Committee and its five specialized sub-committees at the inception of our organization in September 2005. This system was in full operation from FY 2006. The Committee and its sub-committees have been discussing various issues our CSR activities face—based on their evaluation of each operating company's performance in the related areas—and developing specific measures to address the identified areas for improvement.

In this special section, we would like to focus on these five specialized sub-committees and their activities.

CSR Promotion Committee

(Chairman: COO Observers: outside directors and auditors)

Development and communication of policies

Reporting of performance status and recommendations of future goals

Five Specialized Sub-Committees

Corporate Ethics and Compliance Sub-Committee

Mission

Ensuring all Group employees fully understand and comply with *the Seven & i Holdings Corporate Action Guidelines* (p.2) which stipulates laws, regulations and business ethics the group member must observe

•Key members

(Members of Corporate Ethics Committees and Compliance Promotion Committees of operating companies)

Environmental Management Sub-Committee

Mission

Sharing information on environmental activities, issues, and actions for improvement by operating companies, and developing and promoting environmental policies and activities for the Group

•Key members

(Personnel in environmental departments and staff responsible for waste disposal, logistic operations, and procurement of containers and packaging material)

Fair Trade Sub-Committee

Mission

Ensuring fair trading practices across the Group, both in terms of fairness to customers (fair labeling) and fairness to business partners (fair contracts)

•Key members

(Staff at FT Committee Secretariats and in quality control functions of operating companies (The members consist of those who do not have direct contact with suppliers.)

Social Contribution Sub-Committee

Mission

Developing and establishing group-wide basic policies and guidelines to integrate discrete societal activities by individual companies into consistent and distinctive societal contribution programs across the Group

•Key members

(Staff responsible for societal contribution or human rights advancement at operating companies, and personnel in the Office of Seven-Eleven Green Fund)

Information Management Sub-Committee

Mission

Developing and establishing group-wide basic policies and guidelines to ensure and intensify rigorous systems for personal data protection and information security, as well as sharing information on specific measures implemented and the reporting line for identified and possible risks

•Key members

(Personnel responsible for information systems at operating companies)

Corporate Ethics and Compliance Sub-Committee

The Sub-Committee met in November 2006, and January and April 2007 to review how well individual companies implemented the *Seven & i Holdings Corporate Action Guidelines* (p.2) and internal reporting systems, and to discuss issues identified and their corrective measures.

Key issues identified

- Education for employees on the *Corporate Action Guidelines*
- Awareness-raising of internal reporting systems among employees

The Sub-Committee evaluated the organizational systems and processes and educational programs (content, frequencies and tools) in place at operating companies in order to ensure their employees understand and comply with the *Seven & i Holdings Corporate Action Guidelines* which specify applicable laws, regulations, business ethics and other requirements. It also shared information on how well internal reporting systems are utilized. Additionally, the Auditing Office of Seven & i Holdings inspected the system and process for the reception of information on improper behaviors, how the received information was addressed, and whether the information was reported to the management.

As a result, issues were identified in the following areas: 1) employee education on the *Corporate Action Guidelines*, 2) employee awareness-raising of internal reporting systems and 3) the internal reporting systems' independence from operational divisions, and personal data protection.

Next steps

- Intensification of internal compliance training programs
- More active communication and development of group-wide rules on the internal reporting systems

To address the issues identified, the Sub-Committee will work to: 1) provide compliance training programs on greater numbers of occasions and for a broader range of participants, 2) intensify internal education on the internal reporting systems through posters, leaflets, DVDs and internal newsletters, 3) formulate group-wide standard policies and rules on the internal reporting systems, and 4) regularly report to the COO and the Auditing Office of Seven & i Holdings, as well as the top management of operating companies. On most material compliance matters, employee surveys already conducted by some operating companies will be extended to cover the entire group.

Fair Trade Sub-Committee

The Sub-Committee met in November 2006 and January 2007 to review the systems, processes and activities to ensure fair business—primarily fair product labeling and fair trading contracts with business partners—by operating companies, and to discuss issues identified and their corrective measures.

Key issues identified

- Continual education based on the training manuals
- Verification systems on the nature and processes of transactions

The Sub-Committee reviewed how the operating companies ensure fair trading practices, such as fair labeling of product information and fair contracts with suppliers. Specifically, it examined if the operating companies have transaction manuals in place and what are covered in the manuals, how they provide training programs for their sourcing staff, and how they verify that the trading rules are duly met.

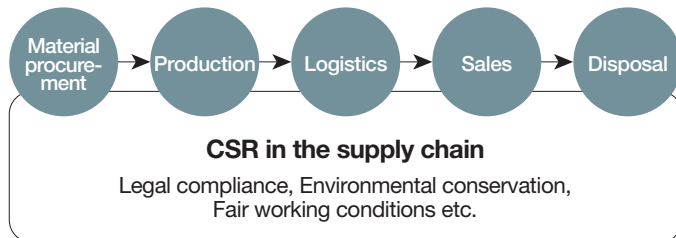
As a result, the following issues were identified in some operating companies: 1) while information labeling manuals and training tools were in place, there was a lack of sufficient implementation of employee training programs; 2) while training for new sourcing staff was thoroughly provided, subsequent ongoing education was insufficient; and 3) a robust monitoring system to check the nature and processes of transactions was yet to establish.

Next steps

- Improvement of education programs on product labeling for sourcing staff
- Development of reporting rules in the event of problem detection
- Discussion on an internal reporting system for business partners

To address the issues identified, as well as to maintain fair trading practice and intensify group-wide risk management efforts, the Sub-Committee will work to: 1) improve education programs for sourcing staff on product labeling and to gradually expand the program participants to include our suppliers, and 2) establish and document reporting rules (including reporting requirements, reporting criteria and reporting channels) when a problem is detected in labeling or trading practice, and 3) discuss the launch of a Seven & i Holdings Business Partner Help Line.

To advance legal compliance, environmental conservation, fair working conditions, and other responsibilities across the supply chain, we have formulated *the Seven & i Holdings Business Partner Action Guidelines*.



Formulation of the Business Partner Action Guidelines in response to globalization of our sourcing partners

As economic activities are increasingly globalizing, products are manufactured by contractors around the globe, using materials sourced from various countries. Against this backdrop, businesses are required to meet their social responsibilities, including legal compliance, environmental conservation and fair working conditions, not only in their own business activities but also in the entire supply chain of their products and services.

With this in mind, the Corporate Ethics and Compliance, and FT Sub-Committees have addressed individual relative issues identified, and discussed how best risk management should be performed at the supply chain level. In March 2007, *the Seven & i Holdings Business Partner Action Guidelines (the "BPAG")* were formulated.

The BPAG covers the following nine areas:

Seven & i Holdings Business Partner Action Guidelines

- | | |
|---|--|
| 1. Legal compliance | 5. Relationship with society and local communities |
| 2. Respect for human rights and dignity | 6. Information management |
| 3. Employment and workplace environment | 7. Commitment to product safety |
| 4. Environmental management | 8. Fair business |
| | 9. Monitoring |

We believe that compliance with *the BPAG* and implementation of CSR will enable our business partners, Seven & i Holdings and our operating companies to increase respective enterprise value.

Development of Practice Instructions on the Application of the BPAG at operating company level

Toward full application of *the BPAG* within the year ending February 2008, our operating companies are developing their respective instructions to ensure their business partners comply with *the BPAG*.

In this connection, the operating companies

are setting up education programs for sourcing personnel to elicit understanding and compliance with *the BPAG* by their business partners. Furthermore, we are planning to develop group-wide rules, standards and monitoring programs, based on which our operating companies will individually define which suppliers, supplied items, locations (countries and regions) and contacts should be applied to *the BPAG*.

Discussion on a Business Partner Help Line (tentative) toward a sound application of the BPAG

We believe that *the Seven & i Holdings Business Partner Action Guidelines* will serve as a basis to increase enterprise value of both of our business partners and our group, based on mutual understanding of the underlying philosophy.

In order to elicit voluntary compliance with *the BPAG*, we will deliver a thorough explanation to gain buy-in from our business partners. For appropriate operation of *the BPAG*, we are also preparing a Business Partner Help Line (named tentatively), a contact point for consultation of overall trading practices and/or for reporting of trading misconduct.

Environmental Management Sub-Committee

At its first meeting in November 2006, the Sub-Committee reviewed environmental activities by the operating companies, and agreed that working groups should be set up to discuss selected priority environmental issues. The Waste Management Working Group, the Logistics Working Group and the Containers and Packaging Working Group were established and held their first sessions in January, February and March 2007, respectively, to discuss measures to deal with legal requirements and to reduce environmental burdens.

Results of the review

Selection of group-wide priority areas—waste management, containers and packaging, and logistics and launch of the three working groups

Companies of the Seven & i Holdings Group operate in various business categories—convenience stores, general merchandise stores, department stores, food supermarkets and restaurants—with different sizes of business, and produce their environmental data with different scopes and boundaries under different methodologies. However, there are a number of common goals and objectives in their environmental initiatives. Therefore, sharing experiences, success stories and lessons learned with other group companies will upgrade the overall environmental activities of the Group.

To this end, the Sub-Committee launched working groups on three top priorities—food waste, containers and packaging, and logistics. These three areas were selected in that there is strong and growing public demand for vigorous actions by retailers and restaurant operators and that related laws were or will be revised.

Next steps

Waste Management Working Group

Group-wide promotion of recycling of food waste, modeled on advanced initiatives at Seven-Eleven

The Working Group focused its discussion themes on food waste, including its effective disposal and recycling, to respond to the Amended Food Waste Recycling Law approved by the Cabinet in March 2007.

The Working Group recognized that there is great variety in types, separation methods and volumes of food wastes generated by our stores and offices, but it concluded that the Group would be able to achieve higher recycling rates if food wastes from different operating companies in the same local areas can be collected efficiently and to be recycled as compost or livestock feed. Therefore, we are working closely with local farmers and livestock farmers to create an effective mechanism for food recycling, modeled on the recycling loop system (p.39) that Seven-Eleven Japan has already in place in some areas.

Container and Packaging Working Group

Promotion of reduced consumption of shopping bags and food containers to meet and exceed relative industry reduction goals

The Amended Container and Packaging Recycling Law, effective in April 2007, requires businesses who consume more-than-a-specified volume of packaging material, such as shopping bags and food containers, to report to the Japanese government on their annual consumption of the applicable material, and specific measures and targets to reduce the consumption.

Our approach to packaging reduction is that each operating company should achieve targets set by their industry bodies, rather than establishing a group-wide reduction target. This policy reflects the fact that there is a great diversity in store formats and products within the Group.

On the other hand, the Working Group has been intensifying reduction activity across the Group by sharing the updates of each company's efforts, including pilot programs on paid-for shopping bags by Ito-Yokado and York-Benimaru (commenced in June 1, 2007), and feedback from customers.

Logistics Working Group

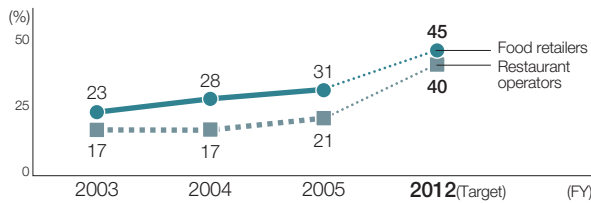
Promotion of collaborative efforts with delivery service operators to streamline our logistic systems and improve energy efficiency of the Group by 1% or more each year

The Amended Law on Rational Use of Energy, effective in April 2006, requires that in addition to commercial carriers, businesses who annually transport their own cargo for 30 million ton-km or more develop energy saving programs and report their annual energy consumption.

The Working Group concluded that none of our operating companies are subject to this amended law, because of the nature of their trading contracts or their annual transportation distance records below the specified levels. Nevertheless, recognizing that improvement of logistics efficiency and reduction of environmental impact is an important social responsibility for a group with a nationwide store network, Seven & i Holdings is working together with its business partners and their carriers to keep track of relevant data, such as fuel consumption, CO₂ emissions, travel distance and loading rates, and to improve the Group's energy efficiency by at least 1% annually in terms of per unit energy consumption.

Strengthening of our food waste recycling programs toward a recycling society

Recycling rate of recyclable food resources in the food industry



Source: the Ministry of Agriculture, Forestry and Fisheries of Japan



Group-wide initiatives to reduce food waste and to intensify the recycling of food waste to create compost or livestock feed

While modern economies underpinned by mass production, mass consumption and mass disposal has improved our living standards, they have also produced negative by-products, including lack of waste disposal capacities, depletion of natural resources and degradation of the global environment. To address these problems, the Basic Law for Establishing the Recycling-Based Society, and the Food Waste Recycling Law came into effect in January and May 2001, respectively. Furthermore, the Amended Food Waste Recycling Law was approved by the Cabinet in March 2007.

Seven & i Holdings and its operating companies are committed to addressing these problems by not only satisfying these aforementioned legislative requirements but also raising the bar of our food waste reduction activities. In light of Japan's food self-sufficiency ratio of only 40%, we are also improving the quality of our recycling programs. Our goal is to contribute to successful development of Japan's agricultural and livestock industries, through the establishment of a recycling system to make compost and livestock feed from food waste.

Toward this goal, the Waste Management Working Group under the Environmental Management Sub-Committee is studying how we should develop and operate a "recycling loop (p.39)" system. By promoting this and other initiatives, we will continue playing an important role in creating a recycling society.

Seven-Eleven

Collection and recycling of expired food products through its original Eco-Distribution system

Seven-Eleven has started recycling and composting of expired food products in the central Tokyo area since March 2003. This practice, using the original Eco-Distribution system that centrally disposes the collected store waste, has been extended to cover 1,618 stores by August 2007. Some of the stores even close a recycling loop by procuring agricultural or livestock produce grown with recycled livestock feed or compost.

Ito-Yokado

Financial support for recycling activities by disposal vendors to expand our food recycling programs

To facilitate recycling of food waste, Ito-Yokado launched the Food Waste Recycling Financial Support Program (p.56) in FY 2002. The program covers a part of recycling costs for contract waste management companies recycling of food waste in proportion to the volume of waste disposed.

Millennium Retailing

Installation of compost machines in the store to reduce food waste generation

Four outlets of Seibu department stores have installed compost machines to make compost from raw refuse from staff cafeterias, restaurants and food floors. The resulting compost is provided to neighboring farmers, and the produce grown by them will be put on the shelves of Seibu department stores.

York-Benimaru

Recycling of food waste to make poultry feed for the private-label eggs, *Kenyo-Ran*

York-Benimaru recycles inedible parts of fish, accounting for 20% of the overall food waste, to create poultry feed and provide it to contract egg farms. Eggs produced by the contract poultry operators are sold at all York-Benimaru stores under the private-label brand, *Kenyo-Ran*.

Denny's (currently Seven & i Food Systems)

Recycling of food waste (accounting for 42% of all waste generated), using Seven-Eleven's Eco-Distribution system

Denny's has been recycling and composting raw refuse under the shared Eco-Distribution system with Seven-Eleven, starting with 20 stores in Tokyo and 2 stores in Aizu-Wakamatsu, Fukushima in FY 2003.

Information Management Sub-Committee

The Sub-Committee held its first meeting in February 2007 to review each operating company's information management and security measures and to discuss how to create a system environment that optimizes information sharing and exploitation within the Group.

Results of the review

Intensified security measures at the company level required to rev up information sharing and use. The Sub-Committee reviewed each operating company's information management and security measures to discuss future initiatives to facilitate intra-group information sharing and exploitation.

As a result, it concluded that group-wide efforts are needed to reinforce the prevention of information leakage and unauthorized access and that existing policies and rules at operating companies should be reexamined against *the Seven & i Holdings Information Security Policy*. The Sub-Committee also agreed that it will monitor operating companies' information management and security programs on an ongoing basis.

Next steps

Improvement of IT general controls for greater effectiveness and efficiency in information management systems

To facilitate group-wide information sharing and exploitation, the Sub-Committee will focus on "IT general controls," under which the information management practices of operating companies are centrally controlled to improve their effectiveness and efficiency. Specifically, the following six key steps will be taken:

1. Strengthening of IT management
Developing system plans under the guidelines for information system development, in line with management strategy
2. Program development
Developing relevant programs in accordance with *the Guidelines for Program Development Processes*
3. Program change
Establishing a set of unified procedures for program change
4. Computer management
Developing a *Manual for Contingency Planning and Disaster Recovery* in the event of a system failure or emergency and conducting related drills on a regular basis
5. Access control
Executing rigorous user identification and password control in line with the information security policy and other relevant rules
6. Outsourcing management
Monitoring and modifying existing sourcing criteria and structures on an ongoing basis

Social Contribution Sub-Committee

The Sub-Committee held its first meeting in February 2006 to review each operating company's societal activities and underlying objectives. Based on the findings during the first gathering, the Sub-Committee developed the basic policy on and the action guidelines for social contribution activities by Seven & i Holdings in its second meeting in November 2006, with additional members from new entrants to the Group, Millennium Retailing and York-Benimaru.

Results of the review

Discussion on "right things to do" to develop group-wide basic policy

In consideration of "what activities should be implemented as a responsible corporation to contribute to societal and cultural development?" the Social Contribution Sub-Committee assessed societal and cultural activities individually performed by operating companies in terms of the relevancy to their business and the contributions to solving societal issues.

As a result, the Sub-Committee concluded that the Group's approach to societal and cultural activities should be defined in the forms of basic policy and action guidelines. It also agreed that a basic policy would be developed under the following principles:

Principles of the basic policy

1. Following the spirit of *the Seven & i Holding Corporate Action Guidelines*
2. Looking at domestic and global issues, rather than existing programs
3. Addressing issues of long-term impact, rather than transient ones
4. Leading to activities which make the most of the seven principle business domains of the Group
5. Defining priority areas
6. Monitoring and modifying relevant criteria and structures on an ongoing basis

After taking inventory of and prioritizing domestic and global issues based on the principles above, *the Seven & i Holdings Basic Policy on Social and Cultural Contribution, and Social and Cultural Contribution Action Guidelines* were formulated in June 2007. These are available on the website of Seven & i Holdings.

Next steps

Implementation of new initiatives in line with the basic policy and the action guidelines

The Sub-Committee will work to upgrade societal and cultural activities of the Group, departing from company-specific initiatives to develop consistent programs governed by the group-wide policy and guidelines. It will also develop unique and innovative societal and cultural programs under the new policy.

Furthermore, it aims at expanding the Group's contribution areas, such as introduction of fair trade products, to help the international community address global issues.

Basic Policy on Social and Cultural Contribution

In the spirit of *the Corporate Action Guidelines*, Seven & i Holdings and its operating companies and affiliates will build and maintain harmonious relationships with local and international communities through collaboration and cooperation. By doing so, we intend to make positive contributions to a peaceful and prosperous living environment as a member of local and international communities based on the recognition that contributing to the society and cultural development is an important social responsibility.

Social and Cultural Contribution Action Guidelines

Seven & i Holdings and its operating companies and affiliates will determine priority areas and policies for social and cultural contribution activities in accordance with *the Basic Policy on Social and Cultural Contribution*, aiming to make positive contributions to solving societal issues and creating a sustainable society.

Priority areas

1. Support for children and young people who will create future society
2. Support in creating safe and secure local communities in which everybody live at ease
3. Conservation of local and global environment
4. Preservation and development of culture and art, and promotion of sport
5. Eradication of poverty throughout the world
6. International cooperation and exchange
7. Disaster relief

Implementation criteria for social and cultural contribution activities

Our social and cultural contribution programs will be determined based on the following criteria:

1. Serving social and public interests and anticipating broad public approval
2. Relevant to our business activities
3. Relevant to international issues

Activity forms

Our social and cultural contribution activities will be performed in the following forms:

1. Original Seven & i Holdings programs

2. Financial support, such as donation and financial contributions
3. Support of employees' volunteer activities
4. Collaboration with and financial support for non-profit or non-governmental organizations

Review and update

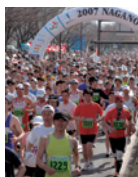
Seven & i Holdings will actively communicate our social and cultural contributions internally and externally.

At the same time, we will monitor the performance and efficiency of such activities on a regular basis for continual improvement, in order to keep abreast with changing society.

Highlight of social contributions by Seven & i Holdings

The ninth Nagano Olympic Commemorative Nagano Marathon

Seven & i Holdings is a special sponsor of this annual marathon event, which aims at contributing to the development of sport and culture in the local community. Participants include both top-level Japanese and international athletes, and recreational runners, competing together in a single race.



Date: April 15, 2007
Participants: 7,002 runners

Donation to the victims of Java Earthquake

In the wake of 2006 Java Earthquake, we operated an in-store fund-raising campaign, calling on our customers to make a donation to the victims, and delivered the collected fund to the Japanese Red Cross Society. This is one of the latest examples of how we responded to provide prompt support for those who suffered from serious disasters.



Donation during FY 2006

Target	Number of participating stores	Donation period	Total donations
Java Earthquake	12,281 stores	May 30-June 11, 2006	¥60,015,260
Torrential rain damage in Japan	12,346 stores	July 26-August 6, 2006	¥27,661,286

Our group-wide commitment to the safety and reliability of our products

In recent years, consumers have been interested in and concerned about a broader range of elements in products, from safety and reliability of food products—such as Bovine Spongiform Encephalopathy (BSE), avian influenza, residual pesticides and food allergens—to those of apparel and household products, including health problems caused by formaldehyde and other heavy metals, and accidents due to substandard products.

In response, Seven & i Holdings and its operating companies not only ensure full compliance with all relevant laws and regulations, but also have established internal quality standards that are more stringent than regulatory requirements. With a combination of compliance with regulatory and internal standards, and thorough quality inspections at product procurement and ongoing in-store monitoring, we will provide safe and reliable products to our customers.

Policies of Seven & i Holdings

● Residual pesticides

With regard to national brand products, we confirm legal compliance and product safety with respective manufacturers of the products. For in-house products, such as lunch box meals, we perform internal inspection programs.

● Food allergens

When procuring, we check food products against respective ingredient fact sheets to verify that reportable ingredients are displayed on the label.

● Food additives

We do not approve of the use of food additives unless their safety is scientifically verified and they are approved by the Ministry of Health, Labor and Welfare of Japan.

● Hygienic control

We ensure that all store back rooms and sales floors are under hygienic conditions and that sell-by dates of our merchandise are strictly monitored. We also require our suppliers to conduct hygienic control on their factories and periodically pay monitoring visits.

● Apparel and household products

When sourcing, we verify the compliance of applicable laws and industry standards of the products, by reviewing relevant documents, such as quality statements and inspection reports (on material, needle contamination, durability, etc) which are provided by the suppliers. For some products on which no applicable industry standards are in place, our operating companies ensure the same high quality levels by developing and executing their strict internal standards.



Key performance by operating companies

Seven-Eleven

- Discontinuation of the use of any artificial colors and preservatives in its Daily Product items, such as lunch boxes, sandwiches, burgers and filled bread, and side dishes.
- Reduction of trans-fatty acids in our original brand breads, *Yakitata-Chokuso-Bin*, since March 2006
- Discontinuation of the use of phosphate in hams and sausages for sandwiches since March 2007
(For more details, please see p.32.)

Ito-Yokado

- Sales of Christmas cakes without dairy products, eggs or flour on a limited basis since 2004. In 2006, puddings, sponge cakes with whipped cream and other new products were added to this product line.
(For more details, please see p.47.)
- Restrictions on formaldehyde have expanded to cover original brand apparel products
- Establishment of internal standards on total heavy metal content of accessories and toys to strengthen quality control on these products.

Millennium Retailing

- Establishment and implementation of internal quality standards on apparel products, in terms of color-permanence, durability, wash-fastness, sewing quality and other elements.
- Monthly third-party inspection on products on the shelves of its large-scale stores
(For more details, please see p.62.)

York-Benimaru

- Under the cooperation with suppliers, tracking and management of background information of food products (e.g. locations of origin and cultivation conditions)
- Sales of original brand of fresh produce, *Mukkun*, grown with a soil improvement agent, *Mukudai*, which minimizes the use of chemical fertilizers or pesticides.
(For more details, please see p.77.)

Denny's (currently Seven & i Food Systems)

- Purchase and use of food ingredients which have cleared inspections under the strict internal quality standards only
- Strengthening of store hygiene control systems and employee education programs, by utilizing the management systems for which Quality Control Office obtained ISO 9001 certification in 2006.
(For more details, please see p.88.)

Advancement of employee diversity in our workplace

Seven & i Holdings and its operating companies are collectively working to create a workplace where each and every employee of our group can work comfortably and excitedly.

As workplace inclusion (regardless of gender, age, nationality, etc.) is increasingly becoming important, especially considering the declining birthrate and aging population in Japan, we recognize, respect and foster employee diversity so that all our employees are able to do their job with a sense of fulfillment and rewarding.

Policies of Seven & i Holdings

● Advancement of female workers in the workplace

We will create a workplace where women can realize their full potential. We will actively promote increased female representation in managerial positions. As of May 31, 2007, women accounted for 7.1% of the directors and officers (i.e., internal and external directors, auditors and executive officers) at Seven & i Holdings and its five major operating companies.

● Employment of the elderly

Each operating company will develop a re-employment program, tailored to their business activities.

● Support for employees' childbirth, child-rearing and nursing-care

We have developed the "Re-Challenge Plan" program applied to the entire Group to support employees who have young children or family members who need nursing-care.

● Fair treatment of part-time employees

We ensure fair evaluation and treatment of part-time employees under the same appraisal systems as full-time employees.

● Employment of people with disabilities

Seven & i Holdings and its operating companies are striving to create a workplace that enables people with disabilities realize their full potential. For people with severe disabilities, we have established and operate a qualified special subsidiary, K.K. Terre Verte. As of June 1, 2007, people with disabilities represented 2.09% of the workforce of Seven & i Holding Group*.

* The Group includes Seven & i Holdings, Terre Verte, Seven-Eleven, Ito-Yokado and Seven & i Food Systems



Key performance by operating companies

Seven-Eleven

- People with disabilities are working in wide-ranging positions, including accounting, headquarters administration and sales (For more details, please see p.38.)
- As of February 28, 2007, about 160 members, or 8%, of leadership positions (e.g. franchisee advisors, store developers) were women, including two director and officers.

Ito-Yokado

- As of February 28, 2007, about 800 members, or 17%, of managerial positions in the headquarters and stores were women, including three executives (director, auditor, executive officer).
- As of June 1, 2007, about 600 people with disabilities were employed. (For more details, please see p.53.)

Millennium Retailing

- As of May 31, 2007, about 250 women were in managerial positions, including one director.
- Promoting a "family-care friendly" workplace that allows employees to easily take leave for childbirth, child-rearing and nursing-care. All employees were provided with a guidebook on taking such leave or working while taking care of family members. (For more details, please see p.69.)

York-Benimaru

- As of July 2007, females represented about 30% of managerial positions of the company; 550 women (including two store managers) at its stores and 7 members at the headquarters.
- During the year ended February 2007, 38 employees took leave or worked shorter hours to take care of their family under the group-wide program, Re-Challenge Plan. (For more details, please see p.81.)

Denny's (currently Seven & i Food Systems)

- Creation of two new promotion systems, under which part-time workers are eligible to become store manager based on their abilities, and high-performing quasi-regular employees can be promoted to regular employees.
- As of February 28, 2007, about 460 members, or 30%, of managerial positions were women, including executive officer, store managers and general managers. (For more details, please see p.95.)

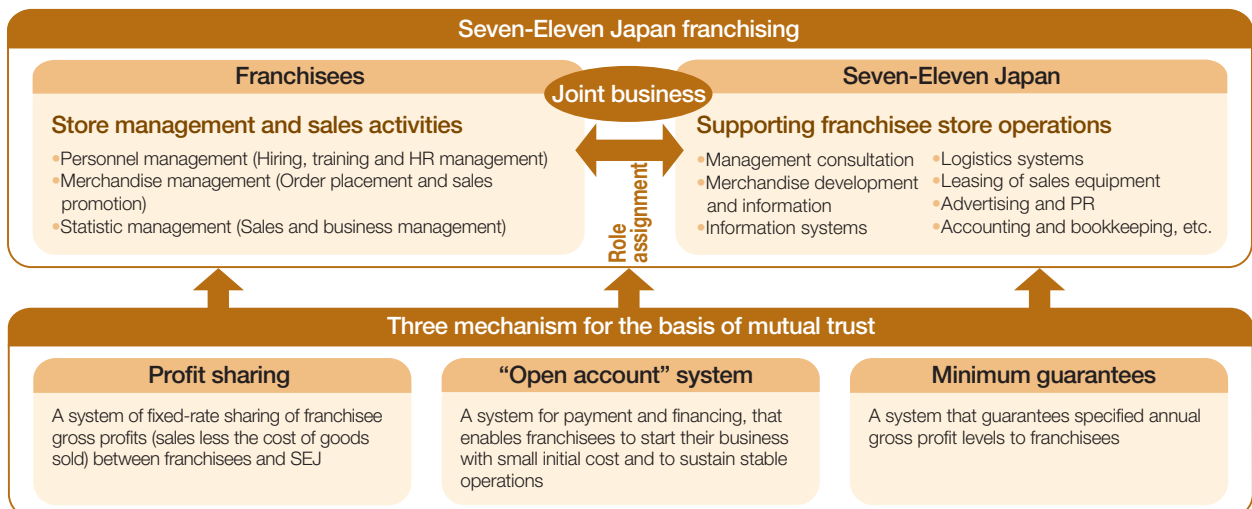


Overview of Seven-Eleven Japan

Seven-Eleven Japan has been developing distinct franchise systems, aiming at bringing innovation and dynamism to small and medium sized retail stores, and achieving coexistence and co-prosperity with franchisees.

Seven-Eleven Japan (“SEJ”) opened its first franchise convenience store in the 1970s, when the retail industry was experiencing a sea change—the shift from business-driven to consumer-driven marketplace. Our founding mission was to create a modernized management system which ensures that customers can buy what they want when they want it, and to help existing small and medium retailers respond to market changes and grow further.

Since then, we have been developing distinct franchise systems under the basic philosophies, “bringing innovation and dynamism to small and medium retail stores” and “coexistence and co-prosperity with franchisees.” Key features of the systems include store operation using IT systems and merchandise development incorporating customer needs. SEJ has a network of 11,848 stores nationwide (as of August 31, 2007).

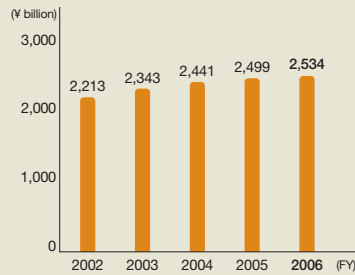


Corporate Profile (as of February 28, 2007)

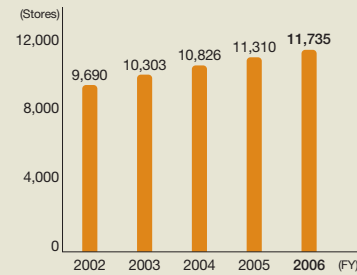
Establishment: November 20, 1973
Headquarters: 8-8, Nibancho, Chiyoda-ku, Tokyo 102-8455, Japan
Nature of Business: Operation of franchise convenience store chain in Japan
Paid-in capital: ¥17.2 billion

Total sales: ¥2,533.5 billion
Number of employees: 4,963
Number of stores: 11,735

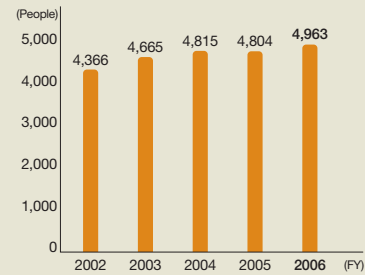
Total sales



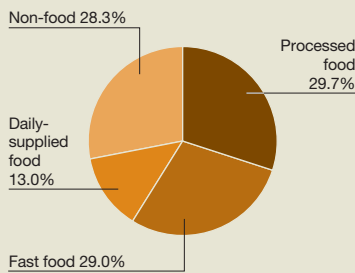
Number of stores



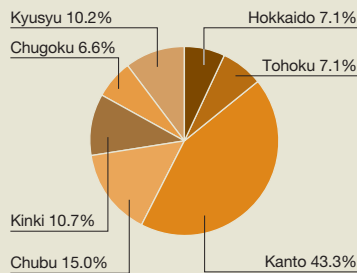
Number of employees



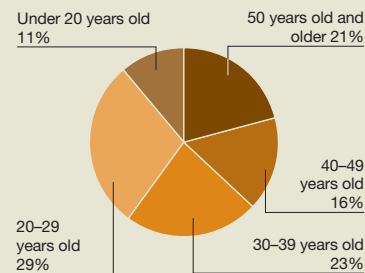
Sales by product category



Stores by region



Customers by age



Our CSR focus

- Supporting franchisees in stable business operation and implementation of their CSR
- Cooperating with local communities where our stores operate in crime prevention, and emergency and accident response
- Improving energy efficiency of store equipments and promoting recycling and proper waste disposal

Responsibilities as the franchiser of a nationwide network of 11,848 convenience stores

Operation of Seven-Eleven stores is a joint business between SEJ and our franchisees. We at SEJ recognize that as the franchiser, we are responsible to our franchisee for providing support in successful business operation and implementation of their own CSR as business operators.

SEJ is the largest retail chain in Japan, with 11,848 stores across the nation (as of August 2007). As the

market leader, our stores are working to develop harmonious relationships with, and to make positive contributions to the communities where we operate. We are also focusing on recycling and proper disposal of waste and expired products that are generated on a daily basis.

Furthermore, SEJ is working to minimize energy consumption in our 24-hours-a-day, seven-days-a-week business, by improving efficiency in store signs, lighting, sales equipment and other facilities.

Toward a recycling society, producing product ingredients with the use of compost and livestock feed made from our food waste

As a retailer offering various food products, such as rice balls, lunch boxes and prepared dishes, SEJ has been promoting recycling of food wastes and developing effective systems for this purpose.

In this connection, Toshiro Yamaguchi, president and COO of SEJ had a meeting with Professor Sunao Kawai of Waseda University, to discuss recycling and application of food waste. Professor Kawai has profound knowledge of environmental issues and was a key architect of Waseda Research Park that is designed to become an open base for research and education with cooperation among business, government, academia and local communities.

Promotion of food waste recycling, while reducing environmental burden generated from our business

Kawai (K): Over 30 years have passed since Seven-Eleven Japan opened its first store and I think it's fair to say that convenience stores have become embedded into our daily lives.

Yamaguchi (Y): We are grateful that SEJ has grown to welcome an average of 12 million customers every day in our 11,848 stores throughout Japan as of August 31, 2007.

K: Impressive numbers. We are witnessing a clear ongoing societal change from quantity-focus to quality-focus. Responding to such a change, how is SEJ working on the quality of business? In other words, while pursuing business expansion, how are you addressing environmental issues and responding to expectations and requests from customers, communities, and broader society?

Y: What matters most to us is the safety and reliability of our products. To deliver safe, reliable products with unquestionable quality, we have the highest quality control systems in place on the cycle from material procurement to manufacturing, distribution and sales at our stores. Together

with franchisees, SEJ is also working to reduce the environmental impact of our store operations by recycling waste, streamlining logistics and using less energy for store equipment. We are also promoting the Safety Station activities, where our round-the-clock stores serve as contact points in the case of crimes, accidents, sudden illnesses and other emergencies, and help prevent juvenile delinquency.

K: Your stores are positioned as a base for safety and security in the local communities.

Y: Exactly. Another focal area in recent years has been recycling of food waste, spurred by the enforcement of Food Waste Recycling Law. As 42% of our overall sales come from what we call "Daily Products" or "*nakashoku* (middle food)*" product category, including rice balls, lunch boxes, noodles and side dishes, we generate various food waste every day, such as inedible or unused ingredients and products passed their "sell-by" dates. To use this waste effectively, SEJ is developing recycling systems of food waste to make livestock feed and compost for agricultural application.

**Nakashoku* (middle food)

This refers to take-home prepared food, as opposed to *gaishoku* (eating-out at restaurants, fast food stores, etc) and *uchishoku* (home-made meal).





Professor Sunao Kawai

Dean of the School of Fundamental Science and Engineering, Waseda University

Building a closed recycling loop, where SEJ sources fresh produce and meat produced with the use of compost and livestock feed made from our food waste

K: Building an effective scheme is the key to success in effective use of food waste. What specific measures are you taking to achieve this?

Y: In 2002, we started producing livestock feed out of food waste under the Kyushu Food Plant Recycle Business Corporate Association, which was jointly organized by SEJ and local factories, waste disposal companies and hog producers. The quality, nutritious feed has been well-received by hog producers in that it is priced lower than commercial feed and that its ingredients, such as bread crumble and vegetable stubs from our factories, are all safe and high quality, meeting our internal quality standards (p.32).

K: And hogs raised with such feed produce safe, quality pork, don't they?

Y: Yes. The pork has gained good reputation for its quality and taste. Our efforts were recognized externally and in 2006, SEJ received the 15th Nisshoku Environmental and Resource Cooperation Award, from Japan Food Journal.

K: I am aware that SEJ has well-established systems from manufacturing through distribution and sales. How about recycling of expired products?

Y: Since March 2003, expired products at our stores in central Tokyo have been collected through our Eco-Distribution system (p.39) and composted at the factories of Agri Gaia System in Yachimata City, Chiba. In addition, a pilot production of recycled feed from our food waste has been underway at Agri Gaia System's Recycle Feed Center in Sakura City, Chiba, since May 2007.

K: Something previously disposed of as food waste is now transformed to animal feed or compost, in other words, a conversion from an environmental burden to beneficial material for food production.

Y: We are moving on to the next level to develop closed recycling loop systems (p.39) by not only providing feed or compost to farmers but procuring agricultural or livestock products from them. In some regions, we are building

a network of farmers and livestock breeders who agree to use our compost and feed. At the same time, we are developing new products that use the ingredients grown with such compost or feed.

Forward-looking recycling, not as a burdensome obligation, but to create additional values

K: I understand that SEJ intends to make the most of food waste generated in the course of manufacturing and sales processes as "value-added material" to produce quality feed and compost, rather than to dispose of it as "waste." I've also found it a very interesting idea to make food products using such safe, reliable agricultural and livestock products. Everybody understands the importance of recycling, but doing it effectively is difficult. Merely composting food waste will not solve problems. It has to be accompanied by a circle of material flow, underpinned by trust between people and organizations involved. It may sound a daunting task but once it succeeds, it will surely generate substantial value.

Y: I agree. We believe that our approach to recycling efforts should be "forward-looking," aiming at creating new values, rather than a reactive, "we-recycle-because-we-have-to" approach.



Toshiro Yamaguchi

President and COO

K: In the Honjo Campus of Waseda University in Saitama, we often hold dialogue sessions with a wide-range of people, including farmers in the neighboring areas. Topics raised during the sessions include Japan's food self-sufficiency ratio below 40%, and increase of abandoned farmlands, measures to increase the value of livestock products, and environmental conservation. Addressing these issues needs to start with creating mechanisms toward the goals, so tangible benefits will not be generated overnight. Given this, the SEJ initiatives you told me about today are encouraging. I look forward to the future development of these innovative projects to address food, agricultural and environmental issues.

Y: Our journey has just started. Together with our franchisees, contract farmers, waste disposal companies and people from academia, including yourself, we at SEJ will continuously make our earnest efforts to create a sustainable, recycling society.



Responsibilities to Franchisees

For coexistence and co-prosperity with franchisees

Comprehensive support for store management from planning to post-opening phases

SEJ has grown to become a network of 11,848 stores nationwide (as of August 31, 2007). The franchise chain is founded on our fundamental philosophy of coexistence and co-prosperity with our franchisees. For SEJ, the franchisees are equal business partners, who jointly pursue success in our convenience store business. Under a set of clearly defined responsibilities, our franchisees are dedicated to sales activities and the management and operation of their stores, while SEJ—whose principle responsibility is to assist the franchisees in their store management—supports our partners in operating stable business and improving profitability.

Offering Full-range of supporting programs for franchisees

Deployment of special counselors, RFC and OFC

At SEJ, our special counselors, Recruit Field Counselors (RFCs) and Operation Field Counselors (OFCs) are available nationwide to support prospective or new franchisees in embarking on their new business with confidence.

RFCs support in preparation for store opening. They carry out preparatory market research in proposed locations, covering a total of 135 categories, including household numbers, population density and competition, to provide detailed analysis and projection of business conditions at prospective stores. In addition, RFCs provide advice on financial planning and store operation.

After opening of stores, OFCs support franchise owners in increasing sales. They visit stores at least twice a week to advise on a wide range of store business, including product assortment, sales and display techniques, and to conduct quantitative business analysis. We also hold Product Exhibitions for franchisees twice a year to introduce new products and ideas for sales promotion and store arrangement.

In addition, the SEJ management meets and shares information with franchise owners at Owners Forums in each region to gain a firsthand understanding of the status of the franchisees, and to communicate SEJ's management policies to the chain.

The Owner Consultation Office to respond to franchisees' concerns

To reinforce support by OFCs through their management counseling, the Owner Consultation Office was established in 1979 within our headquarters to respond to a broad range of issues our franchise owners may encounter. The Office staff usually visit about five stores a day to meet with the owners. Issues brought up during the meetings are reported directly to the top management, who then tell relevant departments to take corrective actions, if needed.

Franchisees are also able to deliver their recommendation for improvement in store operation to SEJ through the "recommendation letter" system.

Mutual aid compensation program for franchisees to support their stable store business

SEJ has a mutual aid compensation program in place since 1980 to support the financial stability of franchisee staff and sustainable long-term store operation.

This program is designed to compensate franchise owners for the damages from emergencies; to provide medical expense support and condolence money for full-time employees; and to cover occupational injuries during work or commuting for franchisee staff. The size of our nationwide franchise chain gives the program the status of group insurance, which allows franchisees to join the program with low-priced premiums.

Earthquake insurance to compensate for merchandise damage

Even though Japan is a quake-prone country, there were no commercial insurance products that cover damage to merchandise by earthquakes. In response, SEJ and Mitsui Sumitomo Insurance developed an original insurance program to meet this purpose in December 2006.

SEJ has encouraged our franchise owners to join this program as a preparation for emergencies. A total of 2,442 franchisees are policy holders of this insurance package. We have also developed a program to cover damages by long black-outs with regard to products that require temperature control. By August 2007, our 10,396 stores, or about 90% of the franchisees have bought this new insurance program.



Leaflet on earthquake insurance for merchandise damage

Placing part-time job information on the website to support franchisees in recruiting activities

Analysis of the traffic of our website revealed that a great number of people visited our website to search for part-time job openings in SEJ stores. As this finding was aligned with requests from our franchisees to post help-wanted information on part-timer positions, we created a new part-timer recruiting section on our website, together with a related banner on the top page from October 2005.

By August 2007, some 3,000 stores have placed job ads on our website. We have received positive feedback from them. Franchisee owners told us that they were delightedly surprised at the number of applicants, especially given previous tepid response, if any, to their ads on recruiting magazines.



Official website of SEJ
(The image is as of August 2007)

Flyer Preparation Tool to support franchisees in marketing activities

SEJ has developed the Flyer Preparation Tool in May 2006 when we updated the Sixth-Generation Total Information System that centrally manages the data with regard to ordering and sales at stores. The Tool, available at the enterprise information system, allows our franchisees to generate fliers easily and quickly.

Previously, the franchisees provided information on new products and services using their own flyers with hand-written text and photos. The new tool has shortened the time required for flyer preparation and allows franchisee staff to focus on sales activities.

For promotion of CSR activities by franchisees

Sharing policies, measures and systems to make our entire chain socially responsible

We believe that as equal business partners, our franchisees and SEJ should aim at mutual prosperity by growing together and fulfilling social responsibilities together. SEJ therefore focuses on educational programs for franchisees, designed to ensure the entire chain is fully aware of CSR-related policies, measures and systems, as well as ethical business behavior.

Compliance awareness activities

SEJ launched the Corporate Ethics Committee in March 2004. This Committee provides guidance to both SEJ employees and our franchisees for compliance with rules and regulations. In addition, it provides compliance-related information through our online correspondence, “Seven-Eleven Japan Guidance” and our in-house magazine, “Seven-Eleven Family.”

During FY 2006, we supported our franchises in refocusing on their no-tolerance to drinking/smoking by minors and to drunk-driving, by reviewing in-store displays, advising on age verification practices, and assisting in creation of posters against drinking and driving.

For safety and fair employment for part-time employees

We have created the “Part-Timer Training Guidebook,” listing all applicable laws and regulations and points of concern with regard to the hiring and training of employees at franchisees. All new franchise owners receive this guidebook at the initial training session for future reference.

To ensure all workers, including part-timers, work in a safe and secure environment, we have intensified safety measures at stores, making it mandatory to assign more than one employee at stores late at night, to keep dye-balls and protective shields near the cash register. SEJ staff regularly visits stores during late-night hours to confirm that all these safety measures are in place.



Responsibilities to Customers

For product quality and safety

Pursuit of product safety and reliability in the entire processes, including product development

To meet customers' demand for safe and reliable products, SEJ implements rigorous quality control over the entire processes from material sourcing to manufacturing, distribution and sales of products. Our multi-faceted approach includes development of original products free from preservatives and artificial colors, use of safety-conscious packaging and containers and proper product labeling.

Reduced use of food additives in our Daily Products

Use of food additives in Japan is strictly controlled by stringent legislation, such as the Food Sanitation Law. Therefore, all food additives used in processed and other foods are scientifically tested and approved by the Ministry of Health, Labor and Welfare.

Nevertheless, many consumers remain concerned about the health implication of food additives. To respond to such customers' concerns, SEJ has worked to reduce food additives in our "Daily Products," including lunch boxes and side dishes, manufactured at our dedicated factories. In October 2001, we discontinued use of any artificial colors and preservatives in lunch boxes, side dishes, burgers, sandwiches, filled bread, and prepared noodles. In March 2007, we banned the use of phosphate previously use in hams and sausages for sandwiches.

Our efforts are not limited to food additives. We have reduced trans-fatty acids in our original brand breads, *Yakitate-Chokuso-Bin*, from an average of 0.6 g to 0.2 g per serving (about 55 g) since March 2006.

These measures have received great reactions from our customers, leading to their increased confidence in our products. With inputs from experts in food additives, we will further reduce the use of food additives in a wider range of products to meet customers' expectations.

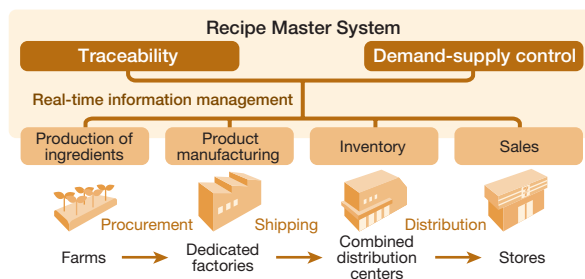


Examples of our Daily Products with less food additives

Data management on food ingredients and packaging and containers

At SEJ, all data on production, procurement, use and sale of ingredients and packaging and containers of our Daily Products is centrally managed on the web-based "Recipe Master System."

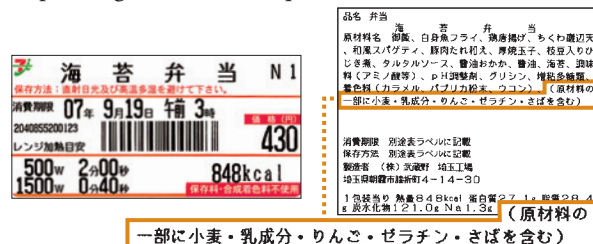
Featuring two functions of traceability and demand-supply control, the system records and maintains real-time information on which ingredient is used in what amounts, for what product, at which factory, and when the product using the ingredients is sold. This enables prompt response to any product issue by immediately identifying stores that carry the product concerned and removing the items from their shelves. The system also allows effective control of supplies of food ingredients and packaging to each factory based on its product supply-demand analysis, resulting in proper inventory control and waste reduction.



Accurate, easy-to-understand labeling with nutrition and allergen information

To help customers' informed shopping decisions, we display information on prices, production sites, best-before dates and others on the product labels in an accurate, easy-to-understand manner as required by the Seven-Eleven Labeling Guidelines, as well as in compliance with relevant laws (e.g. the JAS Law and the Act against Unjustifiable Premiums and Misleading Representation).

As many of our customers are concerned about food allergens, SEJ voluntarily discloses additional allergen information, together with required items, on the labels on our Daily Products. Nutrition facts are also displayed, responding to customer requests.



Allergen information on product label

To make our stores friendlier to all customers

Improvement of store facilities and services to increase customers' convenience

As convenience stores have become a part of daily living in local communities, customers from all walks of life enjoy shopping at our stores every day. To create stores that are easy-to-access and easy-to-browse-and-shop, and offer a comfortable shopping experience to every customer, SEJ has been promoting "Universal Design" stores. We have also expanded our out-of-store services, such as meal delivery and house call visits.

Development and improvement of store facilities to achieve great accessibility, shopper-friendly display and pleasant shopping experience

At SEJ, we are promoting store development and innovation to ensure that customers can easily access, easily find products and spend pleasant time in our stores.

Stepping up these efforts, we have incorporated Universal Design approach to our store planning since FY 2004, so as to make it easy for everyone to enjoy shopping at SEJ stores, irrespective of age, disability, gender or physical characteristics.

Under this approach, doors at store entrances have been increasingly replaced with automatic doors for greater accessibility. A greater number of store aisles have been expanded to 1.2-1.6 m or wider to enable people in wheel-chairs to travel easily and to check and pick products on the lowest shelves without difficulties. Restrooms are also being expanded to become wheel-accessible with handrails installed.

We will continue working with franchisees to increase the number of Universal Design stores in our chain.



Toilet with handrails installed



Wheel-accessible restroom sign

Enlarged price display and newly introduced shopping carts for elder customers

Elderly customers are becoming a larger customer base of our stores, reflecting societal changes, such as declining birthrate, an aging population and changing lifestyles. SEJ is improving our services to better cater to senior customers.

Price stickers on products have been enlarged to a size of 42 x 22 mm, from 30 x 15 mm, printed in double letter size. This new price tag format has been introduced in stages since June 2007, initially at stores in Tokyo and Kansai areas and eventually at all our stores by October 2007.

Shopping carts have been made available at a growing number of stores since December 2006 to increase convenience to our customers, especially elder or pregnant people (at 1,031 stores in February 2007).



Shopping carts at stores

Reinforcing out-of-store services, such as house call visits and product delivery

Staff members of Seven-Eleven stores visit homes and offices in neighboring areas to take orders and receive requests and feedback. This currently chain-wide practice started with voluntary initiatives by some franchisees. SEJ incorporate comments and demand from customers into our product assortment and service offering for further improvement.

Meal delivery service by Seven Meal Service has also been available at all our stores since July 2007. Customers can order meals of choice from the Seven Meal catalog via telephone, fax or the Internet, which will be delivered at home on the next day (or received at stores). This service has been well-received among customers having difficulties in going shopping or preparing meals.



Responsibilities to Business Partners

For fair trade practices

Ensuring fair trading practices without any illicit private profit

SEJ has established the Fair Trade Subcommittee to ensure that every trading practice is conducted in compliance with relevant legislation, rules and business ethics. Our trading practices are governed by the section of “Relationships with our Business Partner” in our Employee Code of Conduct, requiring that all employees at SEJ be engaged in trading practice in a fair and legally compliant manner and that they maintain equal relationships with trading counterparts, ruling out any private profit. Various measures, including study group meetings for employees who have direct business contact with suppliers, are in place to ensure fair business practices.

Study sessions on fair trading practices for sourcing and distribution personnel

At SEJ, the Merchandising Department, responsible for the management of all products sold at our stores, has more opportunities to contact with our business partners than any other department. This department meets with some 800 suppliers each year to source around 10,000 items. The Distribution Management Department, responsible for the management and coordination of delivery companies who transport products from combined distribution centers to stores, also has substantial trading relationships.

For staff members at Merchandising and Distribution Management Departments, SEJ holds periodic study sessions to reinforce fair and proper trading activities and prevent any wrongdoing.

Regulatory compliance was a continual key focus of the study sessions during FY 2006, especially in connection with provisions on fair trading under the Anti-Monopoly Act and other applicable legislation, such as the Subcontracting Act and the Regulations on Unfair Trading by Large-Scale Retail Businesses. The participants learned about common violation cases that may occur in the course of trading practice, standards on product labeling, and other fair trading matters.

These activities helped SEJ achieve full legal compliance during FY 2006; there were no cases of violation of legislation on fair trading practice, nor was SEJ subject to guidance from the Fair Trade Commission.

Fair contract systems to prevent unreasonable product returns or discount demands

Returning products to a supplier without a prior consent or demanding price discount after purchase without justifiable reason is prohibited under the law.

At SEJ, we never return unsold goods to suppliers (except sale-or-return products, such as magazines) unless the product has defects, because our contract with suppliers includes a no-return policy on purchased products. We also ensure that all purchase prices are decided as a result of negotiations with suppliers. Merchandise information and its purchase price cannot be registered without quoted figures from suppliers to prevent abusive conduct by sourcing personnel.

TOPICS

Reinforced personal information security measures at operating systems of our business partners

To ensure that all personal information related to our customers is properly maintained, we have intensified our information security measures to cover the information management at our suppliers.

During FY 2006, SEJ focused on the improvement of suppliers' security measures, based on the action plans developed by the Information Management Sub-Committee of Seven & i Holdings (p.22). We had our combined distribution centers (a total of 62 sites nationwide) install data protection software to ensure no personal data of our customers, such as names, addresses and phone numbers, is leaked, stolen or misplaced.

Our data security efforts will be continued and intensified in FY 2007. Systems at the headquarters will be revised so that employees will not be able to access personal information when they compile survey results or conduct trial operations of new computer systems.

For coexistence and co-prosperity with business partners

Stronger business ties for mutual business expansion

At SEJ, we share information on latest business trends and practices, such as hot selling products and efficient logistic systems, with our business partners for mutual business success. Covering a wide range of areas, including environmental conservation and legal compliance, such shared information also helps promotion of CSR activities at business partners.

Teaming up with business partners to develop new products

SEJ is working with Japanese and international manufacturers and suppliers to develop and offer high-quality original products. Such “merchandising teams,” led by SEJ merchandizing personnel, consist of manufacturers, material producers, container suppliers and SEJ.

One of the notable achievements by the teams is the joint development of original mineral water, *Karadani-Uruou-Alkali-Tennensui*, with KFG Co., Ltd. in April 1996. Since then, this pure natural water—from granite 300 meters below the ground at Kanagi, Shimane—has enjoyed great popularity for over 10 years, because the excellence of quality, which does not require heating or sterilizing treatment.

Another success is *Gokujo-no-Hitokuchi*, a series of original confectionaries jointly developed by SEJ and a leading Belgian chocolate manufacturer, Barry Callebaut, in September 2005. These original products have attracted a number of customers because of high-end taste and quality of specialty stores, made from selected ingredients that match Japanese taste, offered at reasonable prices.

These products were recognized externally too. The aforementioned original mineral water (two items) and confectionaries (four items) were awarded Grand Gold Medals at the 46th Monde Selection in May 2007, an international quality selection that evaluates food products based on a combination of analysis of sensory characteristic and ingredients.



Original products awarded Monde Selection Grand Gold Medals

Shift to paperless accounting slips in conjunction with a full renewal of IT systems

At SEJ, we have central information management systems in place, connecting the headquarters, stores, and business partners, which enable efficient management of sales, sourcing and ordering by each store. The comprehensive systems were fully renewed in October 2005. Under the new systems, accounting slips and ledgers are displayed and downloaded on the website, and thus no longer needed to be printed out.

This paperless accounting system reduced a total of 220 million sheets, or some ¥1.4 billion worth of paper consumption at business partners, stores and the headquarters of SEJ combined during FY 2006, resulting in a substantial reduction in paper-related costs for our business partners.

Joint initiatives with logistics companies to ensure safer and greener distributions

Aiming at safe and environmentally sound distribution operation, the Safe Operation Committee was launched in October 2006 by our outsourcing distribution companies throughout Japan who operate respective combined distribution centers to deliver products to SEJ stores. At the Committee, representatives of each distribution center meet regularly to share information and experience, such as actual traffic accidents during operation and their causes, training programs for drivers, and measures to prevent accidents.

In addition, SEJ has collaborative working groups to support business partners' initiatives: Working Groups on Traffic Accident Report Data Base and on New Vehicle-Installed System. The former collects, accumulates and analyzes data on traffic accidents in collaboration with distribution centers; and the latter studies most effective use of vehicle-installed equipment. In April 2006, new equipment was installed in all vehicles distributing SEJ products, which electronically records the driving patterns of each driver. The obtained data is used to provide tailor-made safety caution to each driver before or after the operation, and ultimately to achieve accident-free distributing operations. These initiatives have led to a substantial decrease in the number of traffic accidents in distributing our products to date during FY 2007. We will continue working with our business partners to deliver our products in an even safer and more environmentally conscious manner.



Responsibilities to Local Communities

To help create safe and secure communities

Playing a bigger role as a base of safety and security for local communities

As a member of local communities, each SEJ store has long been participating in various local activities, such as cleaning and promotional campaigns of their respective shopping areas. Since 2002, our stores have also been performing “Safety Station Activities,” under which SEJ stores function as contact points for criminal prevention, accident and disaster response, and nursing care. With the 24/7 business hours, our stores are playing important roles in these activities, promoted by Japan Franchise Association (JFA).

Active participation in Safety Station Activities

In 2002, the National Police Agency issued a request to JFA—to which all convenience store chains belong—for assistance in nurturing a sound educational environment for young people and creating safe and secure communities. In response, JFA launched Safety Station Activities, aiming to create a nationwide network of local emergency contact points where the member convenience stores, which open 24/7, serve as local contact points for criminal prevention, accident and disaster response, and nursing care. After JFA’s pilot programs in 2003, these activities have been carried out throughout Japan since October 2005.

With two major objectives—criminal prevention and nurturing sound juvenile development—the Activities have been taking various steps to make the community safe and sound. Making emergency calls to report accidents, sudden illness and other urgent situation is among key priorities. During FY 2006, SEJ continued working to keep our franchisees informed about crime prevention and local security measures, mainly through seminars held in conjunction with biannual Product Exhibitions and our in-house magazine, Seven-Eleven Family.

All SEJ stores are striving to improve their function as a base of safety and security for their respective local communities. For example, in addition to responding to rescue requests from women and children who rush in the store, and making calls to report emergencies or criminal incidents, they initiated a program to watch local students going between home and school, and urging any child found in town late at night to go home.

JFA monitors annual activities by participating convenience stores, and recognizes participants with excellent performance. In FY 2006, 78 SEJ stores were

rewarded (out of 204 stores in total).

SEJ will continuously focus on Safety Station Activities as a basic feature of our store operations, and thus make positive contributions to maintaining safety and security of local communities.

TOPICS

An example case of recognition by JFA Store provided protective custody for a lost boy

A boy of around 10 years old came to the store alone. Apparently having no personal belongings or accompanying family members, the store manager reported to the police and learned that his family had asked the police to search for him. The boy was returned to his parents’ custody within the day. His family members came to the store in person on a later day to express their gratitude.

(Sin-Yoshida-Nakamachi Store, Kanagawa)

Disaster preparedness arrangements with local governments

Embedded into daily lives of local people, convenience stores play even greater roles when a disaster occurs. At SEJ, we have developed action guidelines for emergency response, including safety confirmation and damage assessment, and recovery support for affected stores and their surrounding areas. We have also entered agreements with 49 local governments (as of July 31, 2007) on disaster relief efforts, under which SEJ will deliver requested relief supplies to disaster-hit areas. To ensure smooth delivery of aid material, our delivery trucks—that normally transport products from combined distribution centers to SEJ stores—are equipped with digital radio systems. Furthermore, helicopters will be made available to deliver emergency supplies even if traffic is disrupted, in accordance with agreement with helicopter operating companies.

Disaster donations during FY 2006

Target	Total donations
• Java Earthquake	¥50,365,419
• Torrential rain damage in Japan	¥23,616,543
• Typhoon No.13 (limited areas)	¥2,854,991

Giving back to communities

Promoting wide-ranging programs for societal advancement of local communities

SEJ implements various support programs for local communities. For example, in our hands-on program for local children, SEJ provides students with opportunities to experience store operations. We also support environmental groups working for protecting and conserving the environment throughout Japan, through the Seven Eleven Midorino Kikin (green fund) with in-store donations from customers and from the company.

Offering simulated working experience through Student City program

SEJ provides children with opportunities to learn about how people are connected with society, how economic systems work, what money is about, and what work is about, by volunteering at Student City, a hands-on working program for children organized by a US-based non-profit organization of Junior Achievement.

In this program, a “town” is created in an elementary school in Shinagawa district, Tokyo. Participating students act as both customers and workers at the bank, convenience store, sport shop, city hall or other facilities in the town. SEJ has opened a mock store in the town. During FY 2006, a total of 1,876 students learned about customer service and other store operations.

For the program, we have also prepared a store operation manual for children, titled “About store job—how to create a store that delights customers,” for the distribution to participants.



Our mock store in Student City

Establishing a nature school in Oita by Seven Eleven Midorino Kikin

Seven Eleven Midorino Kikin was established in 1993 to achieve collective social contributions by SEJ and its franchisees. Based on donations from customers and SEJ, this fund supports environmental groups in Japan who strive to protect and conserve the environment. In FY 2006, the fund received ¥333,341,098 from customers who donated at our stores and ¥96,035,814 from SEJ.

In 2003, on the tenth anniversary of the fund, a project for opening a “nature school” was launched with a goal to protect and conserve precious nature and ecosystems in Japan and to provide environmental education and training. In April 2007, Kokonoe Furusato Nature School was finally opened in Kokonoe-cho, Oita. The mission of the school is “learning from nature about coexistence and co-prosperity with natural environment and local communities.”

This nature school is working closely with environmental groups and governmental organizations in local Aso-Kuju area in Kyushu region, and in other areas throughout Japan, to protect and conserve precious nature and ecosystems in Japan. It is also working together with local residents to grow organic rice in fallow rice fields, restore depleted forests, and conserve farm forests and farmlands. The school aims that such conservation activities will improve the local natural environment so that it will be able to become even a habitat for endangered Japanese crested ibises.

The school also aspires to become a forum for lifelong learning and people development where children of future generations, local residents, and visitors can experience, learn and appreciate the importance and power of the nature.



Rice planting at Kokonoe Furusato Nature School



Responsibilities to Employees

Respect for diversity

Developing HR systems that enable various working styles

Regular employees at SEJ are mainly engaged in headquarters functions or positions, including OFCs who support franchisees in store management (p.30); merchandise and logistics divisions that are responsible for business negotiations with business partners; and accounting, finance, human resources and other operational functions. In recent years, however, increasing numbers of employees have been interested in taking up new types of work to utilize their full potential. Our response has been to revise our HR systems so as to enable our employees to work in various styles in accordance with their preference and abilities.

Offering broader employment opportunities for people with disabilities: sales staff positions at our wholly-own stores

SEJ has long been striving to create a workplace where people with disabilities can work comfortably. We have aggressively sought to employ people with disabilities mainly in accounting (taking care of franchisees' bookkeeping) and administrative (supporting OFCs through wide-ranging services) positions. In addition, we expanded this policy to include sales positions, responsible for customer service, sales and inventory ordering at our non-franchise stores since 2006. People with disabilities now have broader and greater employment opportunities.

At the same time, we created a new section to recruit individuals with disabilities on the recruit page of our website. Commentary from existing staff members with disabilities was included in the newly established section so that the content will be informative to prospective employees. As a result, as of July 2007, 69 employees with disabilities were pursuing their administrative and sales careers at SEJ.

Supporting employees in starting their own business through the Shift to Franchise Owner Support Plan

From September 2005, SEJ employees with 10 or longer years of service have become eligible to apply for the Shift to Franchise Owner Support Plan. This program provides financial support to SEJ employees who intend to depart SEJ to start their own franchisee business as an owner of a SEJ store. Successful applicants will be granted a special additional allowance based on the age of departure,

together with regular termination benefit calculated under the internal policy. Selection procedures for this program are not different from those for regular franchise owners.

To date, this program has produced six franchise owners.

To maintain and promote employees' well-being

Intensifying preventative programs for the key objectives: health and safety

To create a comfortable and pleasant workplace, SEJ has been promoting employee wellness programs and safety measures on an ongoing basis, based on input from the Safety and Health Committee who meets each month to discuss possible measures to further improve our working environment.

Ensuring all employees take an annual checkup and prevent health problems

SEJ has been focusing on maintenance and advancement of employee wellness, encouraging all employees to take an annual checkup and providing medical guidance to manage metabolic syndrome and other lifestyle-related diseases, which have been increasing recently. If the findings of the checkup call for reexamination, the individuals will be urged to visit a hospital and be monitored by our company doctor.

In addition, since FY 2006, we have retained a psychiatrist to provide detailed support to our employees in their mental health management.

Training sessions for the prevention of work-related traffic accidents

At SEJ, prevention of traffic accidents at work is the most important concern in tackling occupational accidents. This is due to the fact that most of our OFCs, accounting for some 30% of the regular employees at SEJ, visit franchisees by corporate car.

This has led us to hold annual training sessions on safe driving for OFCs, in cooperation with the local police. We also have zero tolerance to drink driving, which is increasingly becoming a public concern, ensuing OFCs and all other SEJ employees at the headquarters and our own stores will not drive or let others drive under the influence.



Responsibilities to the Environment

Waste reduction

Building closed-loop recycling systems of wood waste

SEJ developed its original Eco-Distribution System in 1994 to ensure appropriate disposal and recycling of waste from store operations. Using this system, we are also working to create a closed-loop recycling system where food waste, such as expired products, is recycled to make compost or livestock feed, which then will be delivered to contract farmers, from who SEJ will source food ingredients.

Operation of original Eco-Distribution System that centralizes waste collection and disposal

Across the chain of SEJ stores, waste collection and disposal is conducted in a uniform manner through our Eco-Distribution System so as to ensure proper waste treatment and higher recycling rates. Under this system, developed in 1994, local waste disposal companies designated by SEJ centrally dispose of waste collected from our stores in their respective areas. As of February 2007, the system was in operation in 31 prefectures, although in some areas it was not available due to the lack of relevant permissions by municipal governments for commercial waste management vendors to collect and transport waste.

The majority of our franchises use this system, even though participation in the program is voluntary due to its cost sharing requirement. As of February 28, 2007, a total of 8,063 stores, or 85.8% of the 9,393 stores in suggested areas participated.

TOPICS

Winning the 15th Nisshoku Environmental and Resource Cooperation Award

SEJ has been actively promoting recycling of food waste. In Kyushu region, SEJ makes livestock feed from food waste generated in the course of manufacturing of our Daily Products, in collaboration with the operators of SEJ's dedicated factories, waste disposal companies, and hog producers. We also conduct joint studies with University of Miyazaki on feed formulation and hygiene control methodologies.

These activities were highly evaluated and SEJ received the 15th Nisshoku Environmental and Resource Cooperation Award in October 25, 2006. This award, organized by Japan Food Journal and sponsored by the Ministries of Agriculture and Environment, recognizes companies, organizations and products that made great contributions to conserving the global environment and protecting resources.

Expanding network of closed recycling loop system

At SEJ, effective use of food waste, generated from our stores and factories manufacturing our Daily Products, was high on our agenda even before the enforcement of the Food Waste Recycling Law in May 2001. After thorough consideration, we initiated making compost from food waste collected in the central Tokyo area in March 2003, using our Eco-Distribution system.

During the five years since then, a growing number of farmers have used the resulting compost. We have received a lot of positive feedback, typically commenting that "the compost is of great help in producing quality agricultural products." Our contract farmers who grow vegetables for our Daily Products have also begun using the compost. Spinach grown with this "eco-compost" is used in some of our "Kanto-san Spinach *Gomaae* [boiled spinach with sesame sauce]," available at stores in Tokyo metropolitan area since October 2006. In June 2007, SEJ has started to market original carrot juice and tomato juice, using carrots and tomatoes grown with such compost, through its meal delivery service, Seven Meal Service.

These closed recycling loop systems are recommended in the Amended Food Waste Recycling Law, effective in June 2007. We will continue expanding a network for closed-loop recycling with contract farmers, waste disposal companies, and other relevant parties.



Kanto-san Spinach Gomaae

Flow of recycling loop



Global warming prevention

Reduced CO₂ emissions in the course of store operations and distribution

To reduce energy consumption in our 24-hours-a-day, seven-days-a-week operations and develop fixtures and equipment best suited to convenience stores, SEJ have worked with manufacturers of store facilities and other business partners to develop original store equipment, such as display refrigerators and lighting fixtures. We are also focusing on the further improvement of energy efficiency in existing facilities and equipment.

Greater energy efficiency in the use of lighting fixtures in the stores

Lighting fixtures are indispensable store equipment to sustain 24-hours-a-day, seven-days-a-week operations of SEJ. About 23% of electricity consumption at each store is used to keep the store bright. To achieve a lower electricity use, SEJ uses Hf fluorescent lamps, and “continuously adjusting lighting equipment,” which automatically adjusts light levels of three-segmented sales floors, depending on the intensity of the natural lighting exposure in the store that varies depending on seasons, weather conditions and time hours.

Furthermore, our new and remodeled stores have installed high-power lighting fixtures and ceramic floor tiles that effectively reflect the light from the ceiling, since March 2007. A combination of these new fixtures has allowed an effective lighting arrangement, resulting in fewer fluorescent lamps used in our store from 85 to 63. This means an approximately 2,750 kWh (about 1t-CO₂) reduction in our annual electricity consumption per store.

Switch to induction-heating *oden* warmers to reduce energy consumption

Our 9,000 stores have replaced their heat-conduction *oden* warmers with induction-heating (IH) ones since August 2007. By shifting to the IH method that allows more flexible temperature control, we can now offer our *oden* products in better conditions, while achieving greater energy efficiency. Electricity use per store is expected to be reduced by about 1,650 kWh (about 0.6t-CO₂). The remaining 3,000 stores will be switching to the IH heaters in stages.

Ensuring efficient driving behavior to reduce CO₂ emissions by distribution vehicles

Environmental impact of logistics operations depends on not only the number of vehicles used but also vehicle maintenance and driving conditions. With this recognition, SEJ, together with operators of our combined distribution centers, has developed internal rules that the age of service and travel distance of our distribution vehicles should not exceed 6 years and 500,000 km, respectively, and that the vehicles should be maintained and inspected each month. We manage 4,005 vehicles (as of February 28, 2007) under these rules.

To reinforce safe distribution operations with lower environmental impact, our distribution vehicles transporting products from combined distribution centers to SEJ stores has had new terminals installed since April 2006. Data gathered via the equipment—such as travel distance, maximum speed, engine-idling duration, driving patterns (including sudden starting, acceleration or deceleration)—is graphically displayed and then analyzed to use for individual guidance to drivers and for possible revision of driving routes.

As a result, greater fuel efficiency has been achieved due to drivers’ heightened awareness of their driving behavior, realizing that their safe drive contributes to the environment.

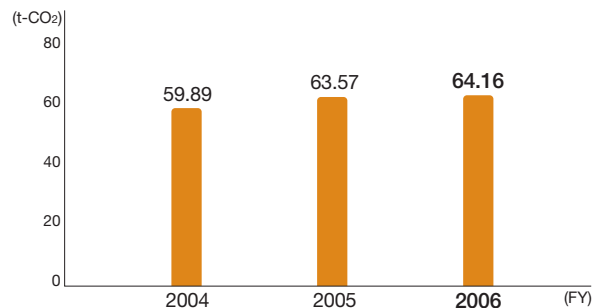


In-vehicle terminal equipment (main unit)



Six-buttoned device, recording departure and return from/to distribution centers

CO₂ emissions per store



Reduced use of packaging material

Substantial reduction in packaging consumption by making shopping bags thinner and using different material

SEJ has been working to improve our shopping bags and other packaging material, balancing effective use of the earth's finite resources with customers' convenience. Our shopping bags have become 71.9% thinner over the FY 1999 level. Total weight of consumed bags was reduced by 26.7%. We have also asked for customers' understanding and support for reduction of the use of shopping bags and disposable chopsticks.

Shift to greener material for the use of disposable chopsticks and sales promotion material

In November 2006, SEJ started changing the material of our complimentary disposable chopsticks to bamboo from white birch grown in China, from the perspective of environmental concerns over forest resources in the neighboring country. While white birches require some decades to become large enough to be processed for chopsticks, fast-growing bamboo needs just a few years until processing. Another advantage of bamboo is that there is a repetitive cycle of growing-logging-processing and no replanting is necessary, because harvesting bamboo does not involve uprooting. All SEJ stores will have switched to bamboo chopsticks by February 2008. We will also continue our practice of asking customers at the check-out if they need chopsticks or shopping bags.

We have also added green changes to our POP displays which promote new products and notice of sales campaigns. From September 2006, POP displays for breads, snacks and confectionaries, household goods and other room-temperature products, as well as ice cream, started using paper, rather than polypropylene. Paper POP displays are not available for certain products that require temperature control, including lunch boxes and fresh desserts, because temperature change causes surface sweating.

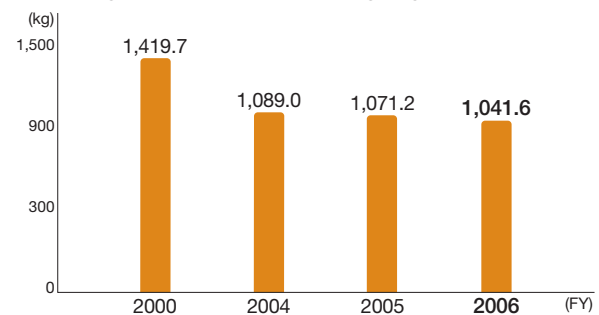
Reduced weight of shopping bags to 73.3% of the FY 2000 levels

To reduce resource consumption and waste generation, we started using thinner shopping bags in 1999. Since then, we have conducted repetitive durability tests and reduced thickness of the shopping bags in stages.

By February 2007, each SEJ shopping bags has become 71.9% thinner from the FY 1999 level, and total weight of shopping bags used per store was reduced by 26.7% from the FY 2000 level.

As a next step, we are aiming to achieve the industry target on the reduction in shopping bag use. JFA targets a 35% reduction in the total weight of consumed shopping bags per store over the FY 2000 levels by FY 2010. To achieve this goal, SEJ and other convenience chains with JFA membership are operating a campaign to call on customers to use fewer shopping bags. For example, our store staff asks customers buying small items if we should put the products in a shopping bag.

Total weight of consumed shopping bags per store



Poster for the reduced shopping bag campaign



Overview of Ito-Yokado

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

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

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

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

Three formats of Ito-Yokado stores

Comprehensive Shopping Centers

Mall-styled stores featuring various retailing and amusement facilities



General Merchandizing Stores

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



Neighborhood Shopping Centers

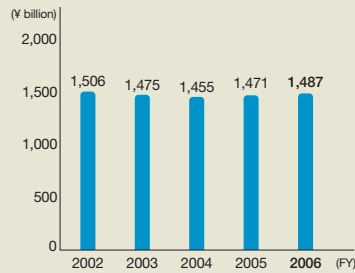
Food supermarkets and specialty stores to meet consumer needs in smaller commercial areas



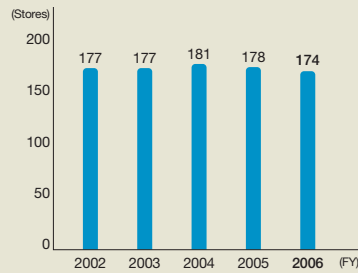
Corporate Profile (as of February 28, 2007)

Establishment: April 1, 1958	Total sales: ¥1,487.4 billion
Headquarters: 8-8, Nibancho, Chiyoda-ku, Tokyo 102-8450, Japan	Number of employees: 44,299
Nature of Business: Operation of superstores selling food, apparel and household products	Number of stores: 174
Paid-in capital: ¥40.0 billion	

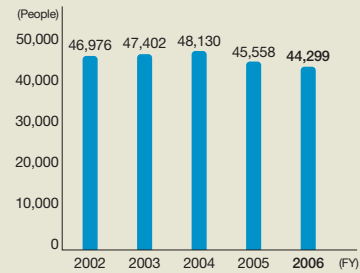
Total sales



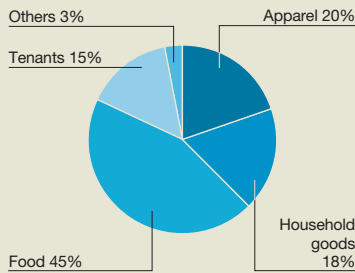
Number of stores



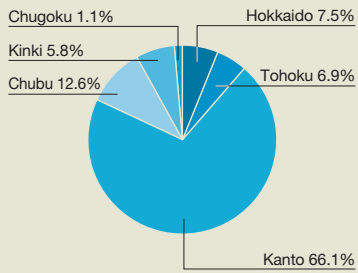
Number of employees



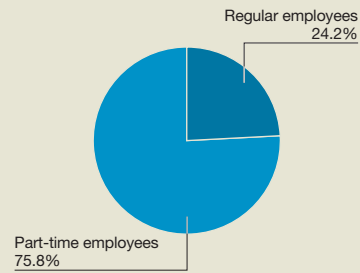
Sales by product category



Stores by region



Employees by type



Our CSR focus

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

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

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

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

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

Toward creating safe and comfortable stores for each and every customer

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

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

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

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

* Heart Building Law:

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

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

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

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

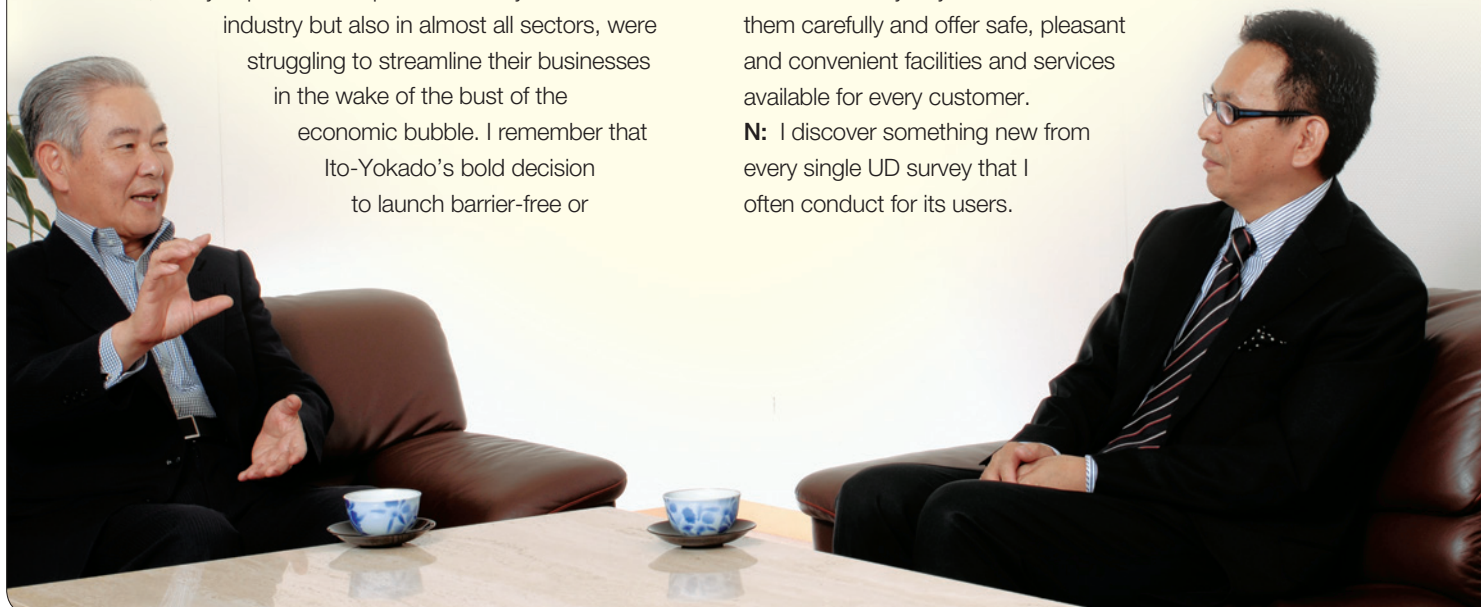
N: And a typical example of that “something” is attentiveness to all customers, which led to your UD implementation.

Pursuit of safety and convenience solely from customer perspectives

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

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

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



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

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

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



Atsushi Kamei
President and COO

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

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

N: Can you elaborate on this?

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



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

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

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

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

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

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

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

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



Responsibilities to Customers

To offer safe and reliable products

Reinforcing quality control procedures and expanding health-conscious product lineups

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

Review of product safety approach and improvement of relevant internal standards

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

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

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

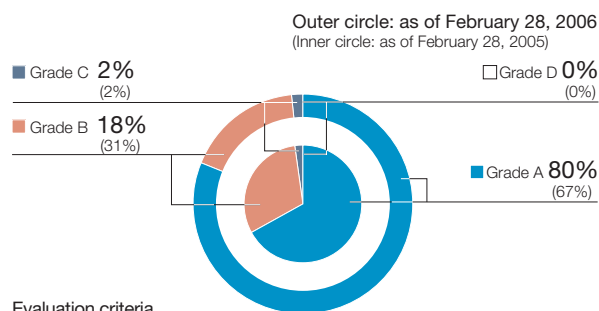
Policing by “Freshness Checking Patrols” on behalf of customers

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



Checking of in-store products by a Freshness Checking Patrol

Store performance ratings under the labeling reviews



Evaluation criteria

- Grade A There are proper labeling practices and strong awareness among employees
- Grade B Improvement is needed in labeling practices and in some employees' knowledge
- Grade C Improvement in labeling practices and employee education are necessary
- Grade D Immediate corrective actions and overhaul of the store systems are necessary

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

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

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



Prepared foods section

Cakes for a tasty bite for children with food allergies

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

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

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



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

To make our stores friendlier to all customers

Creating comfortable stores for every customer

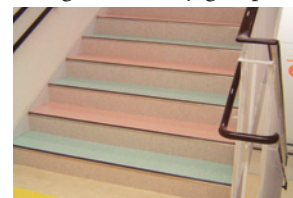
Ito-Yokado welcomes various customers in our stores every day, including families with babies and children, and elderly people. As a part of our efforts to provide a safe and comfortable shopping experience to all customers, we have incorporated UD principles into our store facilities, and have created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

Expanding our Universal Design incorporated stores

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

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

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



Easy-to-perceive, contrasted steps



Handrails at two height levels



Continuous improvement of Baby Rooms based on feedback from customers

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

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

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

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



Picture book corner with relaxing seats



Height and weight measuring equipment to check children's development



Spacious, stroller-accessible restrooms for kids

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

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

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



SBS-preventative ceiling tiles

Making Automated External Defibrillators (AEDs) available at more stores

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

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

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



Employee first-aid training



Responsibilities to Business Partners

For fair trade practices

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

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

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

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

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

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

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

Recording a “Meeting Memo” for proper trading practices

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

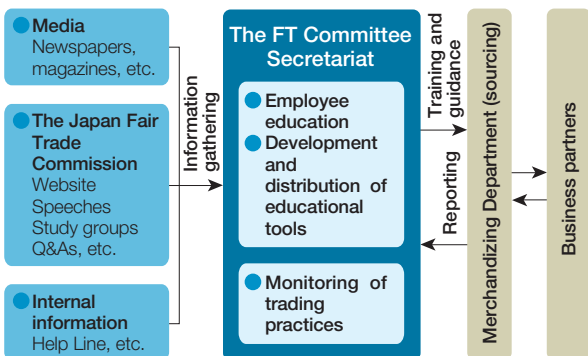
To prevent undue personnel dispatch, any of our stores which intend to request its suppliers to send their staff must fill out a request form to obtain approval from the FT Committee Secretariat in advance. We also provide a daily allowance and travel expense, and accommodation, if necessary, to certain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

Updating training programs for sourcing personnel to respond to regulatory changes

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

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

Fair business monitoring procedures by the FT Committee Secretariat





Responsibilities to Local Communities

Support for parents in local communities

Offering various programs for children's healthy development

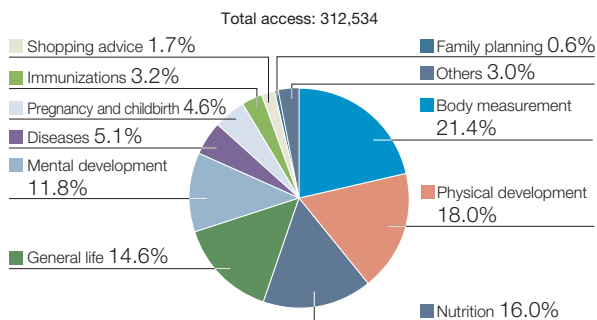
A growing number of parents feel they don't have someone nearby to ask for parenting advice, reflecting social changes, such as the increase in the percentage of nuclear families and declining birthrate. Ito-Yokado, aspiring to become a "basis for daily lives of local communities," provides various support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

Parenting support at Maternity and Children's Education Centers

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

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

Topics at Maternity and Children's Education Centers



Nutrition education programs to promote wholesome diet in communities

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

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

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

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



Food quizzes developed in cooperation with Benesse Corporation



A food education event with a clay work artist/entertainer



Nutrition education display at food sections

Discover good books in Children's Libraries

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

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

Responsibilities to communities in new operational locations

Developing safety and emergency measures that incorporate local opinion

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

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

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

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

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

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



Pedestrian overpass connecting the station and our store



Storefront traffic access area at Ario Yao

Disaster relief agreements with 61 local governments and organizations

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

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

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



Responsibilities to Employees

Respect for diversity

Creating a HR system that accommodates all employees

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

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

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

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

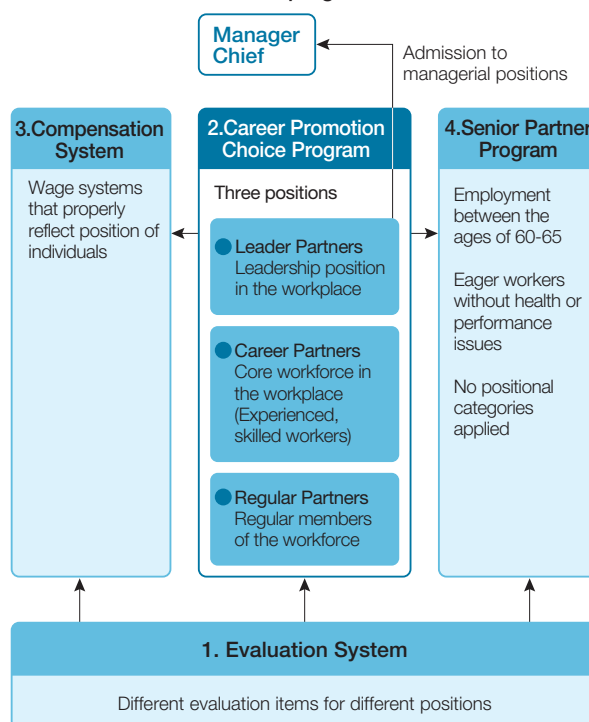
The Career Promotion Choice Program is the central component of the new HR arrangement for part-timers. Under the new system, part-time employees assume one of three positions — “Regular,” “Career” or “Leader” —

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

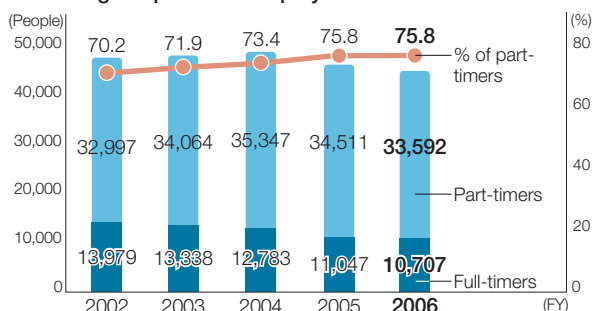
Under the new systems, our part-timers include 881 Leader Partners and 2,319 Career Partners (as of March 1, 2007). We held a training session for all Leader Partners in June 2007. To facilitate subsequent on-the-job training at the sales floor, we also developed and distributed the “Leader Partners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

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

Overall structure of new HR programs



Percentage of part-time employees in the total workforce



Active dialogues with the labor union to create a better workplace

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

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

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

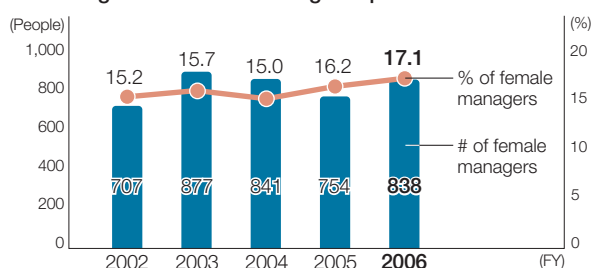
Advancement of female workers in the workplace and greater representation in managerial positions

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

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

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

Percentage of women in managerial positions



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

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

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



Users of the Re-Challenge Plan

(People)

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

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

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

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

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

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



Support for building employees' capacity

In-house license accreditation program to keep employees motivated

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

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

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

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

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

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

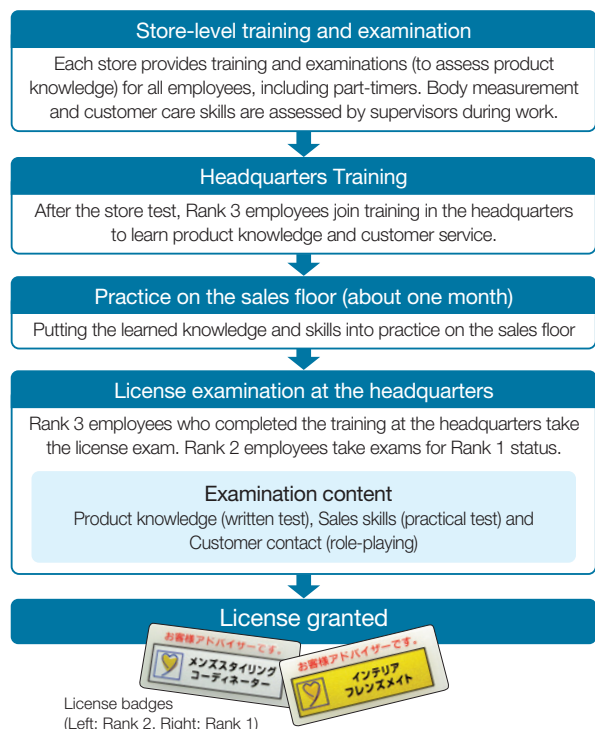
training programs. This event helps reinforce part-time employees' motivation for excellent performance.

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

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

*New licenses effective in the first half of 2007

Accreditation process in the Friends Mate program



License examination for Interior Friends Mate



License examination for Men's Styling Coordinator



Global warming prevention

Improvement of store facilities to reduce energy use

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

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

To reduce the energy use for air-conditioning, stores of Ario Kawaguchi, Ario Kameari and Ario Yao, opened in or after November 2005, have installed “ice thermal storage” air-conditioners which use ice made during off-peak night hours. During that time shift, lower percentage of electricity is generated from fossil fuel. As a result, these devices emit 5% less CO₂ per year than the air conditioners installed in other stores.

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

Together with these ice thermal storage system and light-adjusting facilities, we also intend to use other natural energy sources in the facilities of our new stores.

We will consider adopting new type of equipment, such as air-conditioners using well water, depending on the environment of each planned store.



Ice thermal storage system using nocturnal ice-making



Continuously adjusting lighting facilities fine-tuning light levels

Accelerated installation of energy-efficient facilities to reduce CO₂ emissions

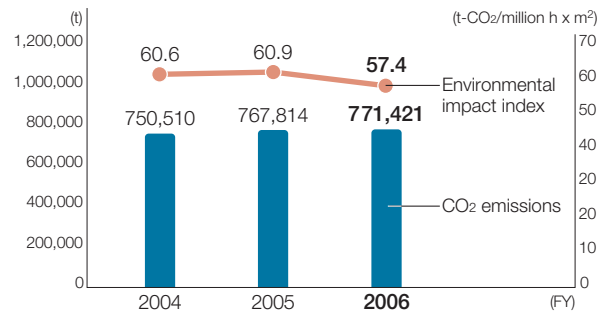
Ito-Yokado installed heat pump water heaters in Yokodai Store (Kanagawa) and Kofu-Showa Store (Yamanashi) in August 2006. These devices are air-sourced water heaters, applying the principle that when air is compressed, its temperature will rise, and vice versa. They can convert electrical energy to three times more heat energy, which also means a substantial saving of electricity use for heating facilities. In our follow-up review, it was confirmed that annual CO₂ emissions by Kofu-Showa Store can be reduced by 190 tonnes.

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

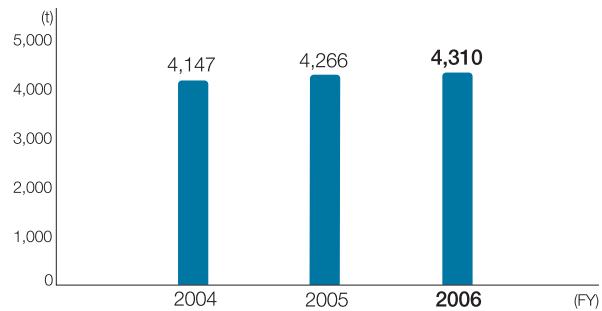
As a result, despite the opening of large stores and the extension of store opening hours, in FY 2006, Ito-Yokado saw only a 0.5% increase in total CO₂ emissions, or a 6% decrease in CO₂ emissions per basic unit (operating hours x total floor areas), from the previous year.

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

CO₂ emissions and environmental impact index



CO₂ emissions per store



Waste reduction

Reduction of food waste through efficient use and recycling

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

Reducing waste oil by implementing three rules for cooking oil usage

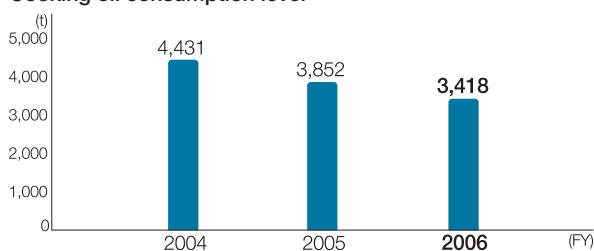
In Ito-Yokado stores, we cook croquettes, tempura and other deep fried food at the in-store kitchen in the food section, so that customers can pick fresh-from-the-fryer food items. To waste less oil after use, we developed internal rules for the use of cooking oil in making prepared food products, in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

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

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

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

Cooking oil consumption level



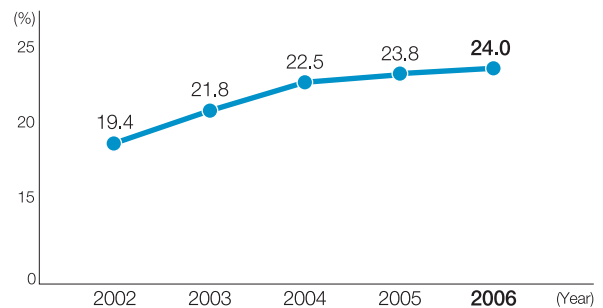
Improved recycling rates through the Food Waste Recycling Financial Support Program

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

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

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

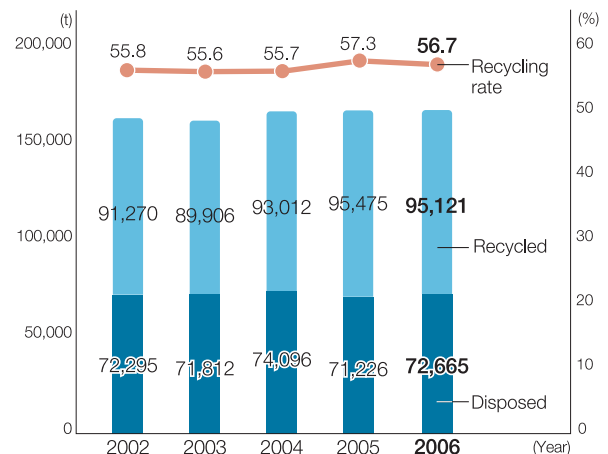
Food waste recycling rate



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

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

Food waste disposed, food recycled, and recycling rate



Reduced use of packaging material

Working together with customers to practice simpler packaging

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

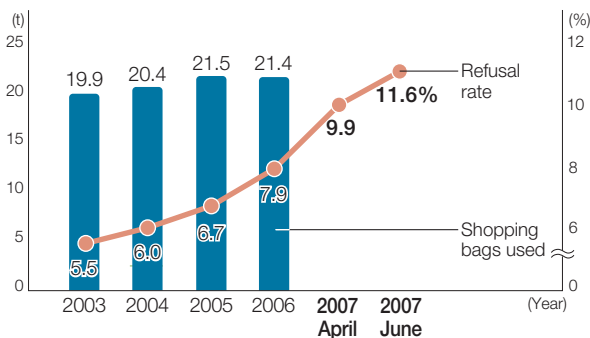
Pilot program for paid-for plastic bags in Wakabadai Store

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

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

After the first three months, some 82% of customers declined to use plastic bags, while only 13% customers did so before the program*. This is equivalent to the reduction of 590,000 shopping bags, 36 tonnes of CO₂ emissions, or 54 drums (200 L) of petroleum.

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



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

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

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

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

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

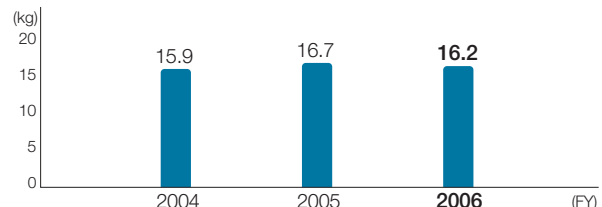
As a result, total consumption of food trays during FY 2006 decreased 7% from the previous year, or a 3% reduction per 10,000 items. In addition, 76.5% of our food trays are recyclable.

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

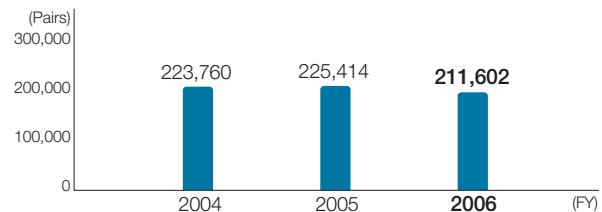


Original large-sized reusable shopping bag

Consumption of food trays per 10,000 product items



Consumption of disposable chopsticks per store





Overview of Millennium Retailing

Millennium Retailing Group strives to build and retain customers' loyalty by offering an excellent selection of quality products tailored to various customers' needs.

Millennium Retailing Group was created in June 2003 as a result of the integration of Millennium Retailing, Inc. (formerly, Sogo, Inc.), Sogo Co., Ltd., and the Seibu Department Stores, Ltd. Within this new department store group, Millennium Retailing functions as the headquarters of the entire group, while Sogo and Seibu Department Stores, operating companies, are engaged in department

store business.

As a one-stop consumer goods retailer group who delivers delight and satisfaction to customers, Millennium Retailing Group offers meticulous customer service with a wide assortment of quality merchandise that builds and retains brand loyalty of Sogo and Seibu, and caters to local and store-specific characteristics.

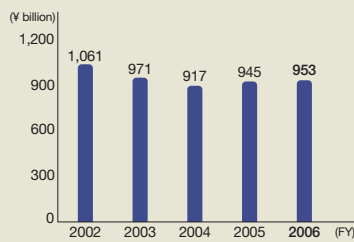


Corporate Profile (as of February 28, 2007)

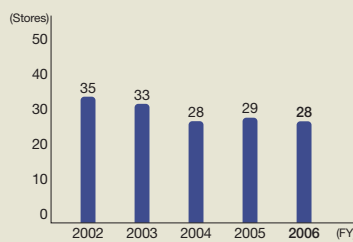
Establishment: July 1952 (as the founding entity of former Sogo, Inc. The current group was established in June 2003)
Headquarters: 1-30, 2-chome, Kudan-Minami, Chiyoda-ku, Tokyo 102-0074, Japan
Nature of Business: Supervision of, and auxiliary activities pertaining to, the operating companies, including department stores.
Paid-in capital: ¥37.733 billion

Total sales: ¥10.1 billion (Sogo: ¥494.3 billion; Seibu Department Stores: ¥459.0 billion)
Number of employees: 415 (Sogo: 4,646; Seibu Department Stores: 4,407)
Number of stores: Sogo: 12; Seibu Department Stores: 16

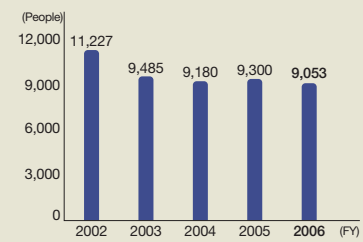
Total sales



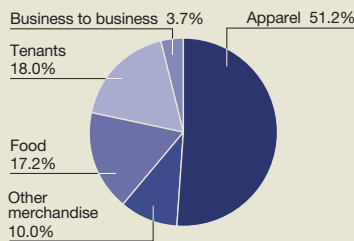
Number of stores



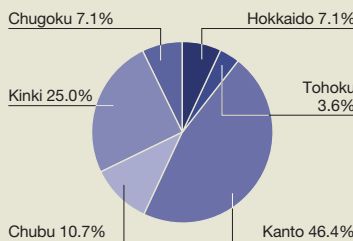
Number of employees



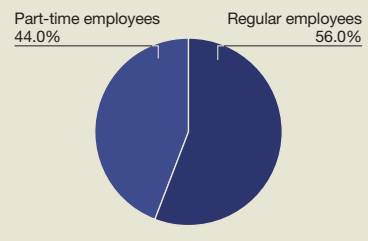
Sales by product category



Stores by region



Employees by type



Note: The graphs above represent aggregate figures of Sogo and Seibu.

Our CSR focus

- Executing rigorous control on product quality and labeling control at every sales floor
- Functioning as safe, comfortable urban community infrastructure
- Protecting personal information of customers, obtained through membership cards or in the course of sales activities
- Creating a caring workplace for all employees, including those outsourced from business partners

Responsibilities as a department store group that offers quality products and services

Sogo and Seibu Department Stores offer a wide range of department-store-quality products, from apparel to home design products and food. The most important responsibility for us is to ensure that each and every product on our shelves has the quality and value that our customers expect.

Department stores can be characterized by their locations near train stations, a number of customers from distant areas, and roles as urban public facilities. With these natures in mind, Sogo and Seibu Department Stores strive to create store facilities

and offer customers services in such a manner that ensures not only safety and amenity of all visitors but also safety and convenience of those who pass through our premises.

Proper management and rigorous control of personal data which is primarily obtained from customers' membership cards, to prevent leakage or theft; and creation of a workplace that is considerate to all employees, including outsourced workers of our business partners; are also among our key priorities.

To continuously thrive as a trusted and cherished department store group

The department store sector is facing a major turning point, due to the emergence of new, diversified retailing formats and the availability of wider choices to customers. The sector as a whole is now required to step back and think about the purposes, social responsibilities and future directions of department stores.

To discuss these issues, Kazuyoshi Sano, president of Millennium Retailing had a meeting with Mr. Akira Nishimura, an economic commentator and leading expert in marketing.

Differentiating from other retailers by offering department-stores-specific customer delight and satisfaction

Nishimura (N): The department store industry is in the midst of a watershed period. In this day and age, what do you think is the rationale for the existence of department stores?

Sano (S): As today's customers have much greater shopping choices, I believe it is critical for department stores like us to offer unique, unmatched customer delight and satisfaction on an ongoing basis, if we wish to remain as a shopping destination of choice. For this very reason, not just selling goods, but suggesting ideas of quality lifestyles which best suit to each customer, and offering quality merchandise and services that support such lifestyles, are becoming more important than ever.

N: To reinforce capabilities of proposing such lifestyle ideas, it is vital to have staff with excellent expertise on your sales floor.

S: Indeed. That's why our group has the "Star Club" certification program in place. Whether full-time, part-time or outsourced employees, employees who demonstrate excellent

performance, in other words, those who have outstanding sales and customer service skills and build a great reputation among customers, have become certified members of the Star Club. This program helps motivate and nurture employees to become those who have in-depth product knowledge, great proposal skills and hospitality.

To offer carefully tailored services for elder customers and customers with disabilities

N: In this aging society, caring for elder customers is important. Caring for customers with disabilities is also important. These are part of the social responsibilities department stores need to fulfill.

S: I agree. We at department stores are expected to serve each and every customer in a courteous and personal manner. This is what department store services are about. In our group, a growing number of customer service staff members and others have acquired certification of "Heart-Full Advisors" (an accreditation program by Total Wellness Promotion Foundation, a government affiliate organization).



N: That is a program that certifies people who have acquired necessary knowledge and skills to provide assistance to, and communicate with elderly people and people with disabilities, isn't it?

S: Correct. More than 1,000 employees of our group have obtained the certifications during this fiscal year and use their enhanced skills and knowledge when they serve and help customers. Some of our stores offer "porter service" which have our store staff carry customers' luggage to the parking lot, the nearest station or to other designated place, if requested.

N: I see. With such thoughtful services, you strive to deliver a safe and comfortable shopping experience. I've also learned somewhere that Millennium Retailing Group invests in the training of guide dogs.



Kazuyoshi Sano
President

S: That support program started in 2003, when Sogo decided to express their gratitude to society in some tangible ways. Seibu Department Stores joined in 2004. The two department store chains have established a fund, through which charitable contributions made by customers and employees and at in-store fund-raising campaigns are provided to guide dog organizations. Our department stores also organize the "Meet Guide Dogs Campaign" twice a year with local guide dog schools, aiming to increase public understanding of guide dogs. Each campaign attracts a number of participants who watch the demonstration of guide dog training, experience walking with an eye mask on, and interact with actual guide dogs. In Japan, public perception or understanding of guide dogs is far from sufficient. Our group is willing to continue positive contributions to this area.

N: Your program is helpful not only to raise and train guide dogs, but also to improve understanding of people with disabilities by your employees, customers and local communities.

Emphasis on the importance of store security and information security

N: Some of your stores in urban areas, for instance, the Seibu Ikebukuro Store, are directly connected to train station facilities, which makes the stores in substance



Akira Nishimura
Economic commentator

function as part of urban infrastructure, moving beyond its original role as the facilities of a private business. What do you think of safety and amenities of your stores that have such a public nature?

S: In the recognition of such a role as "public facilities," the pursuit of safety, amenities and emergency preparedness is an important theme of our group. Some older stores have complicated structures, as a result of a series of remodeling and expansion. Because of this, their aisles are often narrow and store layouts are confusing. We are planning to refurbish the buildings, relocate the fixtures and equipment, or improve floor guides and displays of these stores. We are also working to become fully prepared for emergencies. We completed the installation of Automated External Defibrillators (AEDs) in all stores in November 2006. And an increasing number of our employees have taken AED training programs, organized by local fire stations.

N: In addition to the security of store facilities, security of information handled on a day-to-day business is another important social responsibility. This issue can be even more relevant to department stores which manage and access a variety of customer information through membership cards and other means.

S: I agree. Protection of customers' personal data is one of the top priorities of our business. We have defined prohibited actions with regard to the treatment of customers' personal information. We rigorously manage information security on a daily basis under these rules, and educate our employees to observe these rules.

N: There may not be such a thing as "absolute safety" in information management. Nevertheless, it is important to take necessary measures steadily and persistently, without cutting corners, to live up to customer expectations.

S: We will continue our assiduous efforts not limited to security issues, but in various other aspects of our store business, including products, customer service, store facilities and community contributions. We aspire to become a department store group that is trusted and loved by as many customers as possible.



Responsibilities to Customers

To ensure credibility and safety of our products

Executing rigorous quality control on all merchandise from apparel to food

Department stores offer a wide range of products, from apparel, home design products, to food. Millennium Retailing implements rigorous quality control on these various types of products under its internal standards, and has regular product inspections by a third-party organization. To reinforce quality management in terms of labeling, all stores of the Group and their business partners share information on how to prevent mislabeling of best-before-date information and other labeling defects.

Rigorous quality control of our apparel products, focusing on durability, functionality and stylishness

Sogo and Seibu Department Stores have a wide selection of apparel products for women, men and children, which (including those sold by tenants) take up more than one third of the all products available on the store shelves. We strictly inspect all these products, in terms of color-permanence, durability and wash-fastness. We have also set up sewing quality standards by apparel category, such as suits, business shirts or sweaters.

To reinforce these internal efforts, our large-scale stores receive monthly independent inspections by BML Food Science Solutions, Inc. ("BML"). Each month, independent inspectors visit stores and examine merchandise displayed on the store shelves to check if there is any inconsistency between products and their labels, or any defects in the products' appearance or sewing quality. Findings of the independent inspection are reported to the MD Division in the headquarters, which then requires relevant personnel or business partners to take immediate actions to rectify any issues identified.



Rigorous inspection of women's clothing and other apparel products

Internal and external inspections to deliver safe and reliable food products

In the wake of a number of food scandals in Japan, such as deceptive labeling on product origin and excessive levels of residual pesticides, securing food safety and quality has become an important issue for department stores.

Millennium Retailing established the Hygiene Control Standards in June 2003, with the objectives of intensifying compliance management, preventing food accidents and implementing proper labeling. Under these standards demanding higher hygiene levels than applicable regulations require, the food sections of our stores strictly monitor the temperature of refrigerators and showcases in the food floors and kitchens, and examine the labeling of food products.

In order to verify the proper conduct of internal inspections, food sections of all stores are examined by the aforementioned external organization, BML, on a quarterly basis. If any noncompliance is found, appropriate measures are taken, including education and training to employees and additional inspections and instruction to relevant tenants, business partners and manufacturers.

We also operate the Food Hygiene Campaign twice a year for all employees working in food sections and restaurants of our stores. This internal awareness raising campaign aims to remind each participant of the importance of their self-motivated hygiene management practice, such as hand-washing, disinfection and management of their own health, which collectively lead to good hygiene of the stores.

To raise the bar of our hygienic practice levels, we are planning to reorganize our quality control team during FY 2007, which will take a leadership role in the improvement of training programs and quality control methodologies.



Quality Control Manuals and Store Hygiene Self-Check Lists



Hygiene inspection in kitchens

Creating a safe and comfortable store

Incorporating Universal Design (“UD”) ideas in both store facilities and customer service

Offering a wide-range of products, from apparel to home design products and food, department stores welcome a wide-range of customers. To provide a safe and comfortable shopping experience to each and every customer, Millennium Retailing has adopted UD approaches in both store buildings and customer service. Growing numbers of our stores are becoming compliant with the Heart Building Law, while increasing numbers of store concierges and qualified Heart-Full Advisors are available on the floor to help customers shop more easily.

Developing store facilities that consider user-friendliness for all customers

As the Heart Building Law* came into effect in February 1995, Seibu Department Stores decided to install facilities and equipment that is easy-to-use by the elderly and people with disabilities in the Higashi-Totsuka Store, which was then in a planning phase and eventually opened in October 1999. Since then, such UD elements have been incorporated into existing stores of the Group over time. Full-scale remodeling of the Yurakucho Store in September 2006 and the Shibuya Store in March 2007 was conducted under the new standard specifications for stores facilities. The two stores feature barrier-free sales floors, wheel-accessible and multi-functional restrooms, and elevators exclusively for wheelchair users.

As many of our stores were built prior to the enactment of the Heart Building Law, we are planning to retrofit other existing stores with UD facilities at the time of remodeling.



A multi-function restroom with UD consideration (Sogo Shinsaibashi Store)



Installation of ramps for customers in wheelchair (Seibu Fukui Store)

***Heart Building Law:**
The shorter form of the Act on the Promotion of Constructing Specified Buildings Enabling Smooth Use by the Elderly and People with Disabilities, etc.

Making a greater number of certified “Heart-Full Advisors” available in stores

Incorporation of UD principles into an increasing number of store facilities has gradually instilled into our employees and their customer service sensitivities to elderly customers and customers with disabilities.

To provide even better service to these customers, Seibu Department Stores and Sogo started promoting the acquisition of Heart-Full Advisors certifications (accredited by the Total Wellness Promotion Foundation) by information desk clerks and store “concierges” in 2001 and 2003, respectively. In FY 2006, 121 Seibu employees and 98 Sogo employees became certified advisors, totaling over 500 Heart-Full Advisors at both Seibu and Sogo. As a result, the two companies received recognition from the Total Wellness Promotion Foundation.

To date, 80% of our information desk clerks and store concierges have already obtained this certification. In FY 2007, therefore, the participants of this program are being extended to 216 employees, mainly in managerial or sales positions, who are aiming to become certified Heart-Full Advisors.



Training for Heart-Full Advisor certification

Completed installation of AEDs in all stores

In Japan, approximately 20,000 to 30,000 people suffer cardiac arrest outside of hospitals each year, and the number of the victims is growing year by year. For the immediate use at the time of such emergency, Automated External Defibrillators (AEDs) are increasingly becoming available at public places and facilities.

Millennium Retailing has completed installing AEDs in all stores, primarily at their disaster control centers and information desks in November 2006. We also have our employees responsible for taking care of customer suffering sudden sickness, and sales clerks on the floors take AED training courses, organized by local fire stations.

By June 2007, a total of 2,800 employees have received AED training, an increase of 600 employees from 2006. We will continue increasing the employees with proper knowledge and training of AEDs, so as to take appropriate actions in case of emergency.



AEDs available at all stores



Protection of personal information

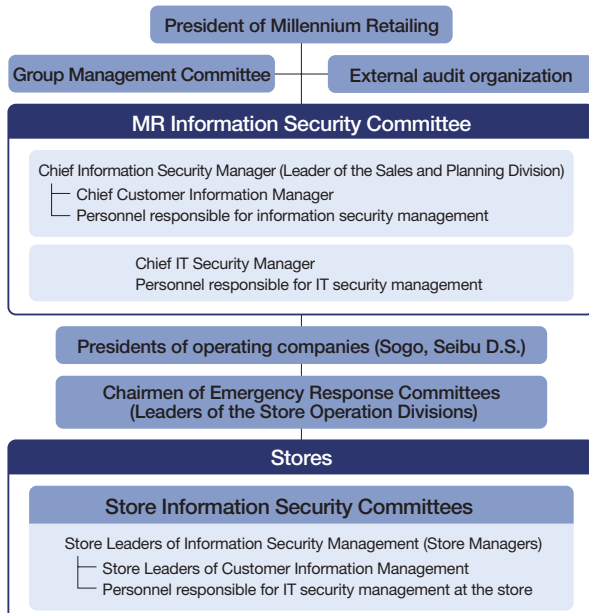
Reinforce security measures to prevent information theft and leakage

As many of our customers use their membership cards and credit cards, each of our floors handles a large volume of customers' personal information. Therefore, information security is among the top priorities for Millennium Retailing Group. To prevent leakage, theft and misplacement of personal data, we have established seven prohibited actions. Observing these rules, we implement strict personal information management in our day-to-day operations and focus on related employee education.

Aiming to achieve zero information accidents at all stores, under the leadership of the Information Security Committee

Information security measures at Millennium Retailing Group have been implemented with three major objectives: protection from unauthorized accesses, appropriate information handling, and developing systems with easily accessible stored information. To reinforce these activities to prevent customers' information from being leaked, stolen, or misplaced, Millennium Retailing launched the MR Information Security Committee within the holding company and the Store Information Security Committees in each store in April 2005, together with designating personnel responsible for customer information management in each floor.

Chart of information security structure



At the MR Information Security Committee, its cross-divisional members discuss and decide group-wide policies and measures to protect personal information, and inform these decisions to operating companies. The Store Information Security Committees are responsible for checking the related management and monitoring at store level, and reporting any identified issues or challenges to the MR Information Security Committee. The Chief Customer Information Manager and the Store Leaders of Customer Information Management are engaged in supervision, guidance provision and leading improvement activities.

In FY 2006, we intensified management of computers that our business partners bring to our stores, by marking these PCs with special stickers, strictly requiring prior applications for bringing in their own computers, and reinforcing reconciliation of the number of PCs requested with those labeled with the stickers. We have also strengthened the management of electronic recording media, in response to new exceptions (related to inventory data) to the prohibition on the use of portable recording media (e.g., CD-Rs and floppy discs).

Implementation of new information leak prevention systems and other improved information security initiatives

Earlier in FY 2007, all computers owned by Millennium Retailing, Sogo and Seibu Department Stores were re-programmed so that any material printed by the corporate computers has employee ID numbers, and printing date and time. In addition, we started to use security-enhanced computers that refuse to connect to external data storage media, such as USB flash drives, to ensure the protection of confidential information.

To further reinforce the security of customer data containing bank account information, special storage boxes exclusively for documents containing customer information were placed at reception desks for membership card registry in August 2007. Installation of the boxes helps prevent misplacement or leakage of customer data by indicating physical locations, and reminding of the importance of proper management, of such important information.



Millennium Card Counter (Sogo Yokohama Store)



Responsibilities to Business Partners

For fair trade practices

Ensuring fair trading practices through improved systems and education

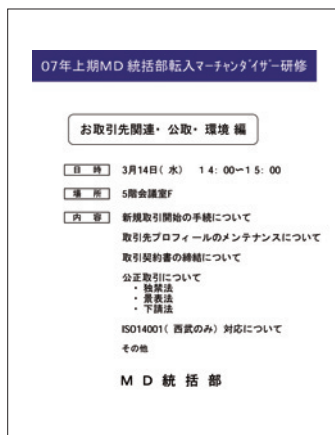
To ensure fair trading practices, Millennium Retailing established the Fair Trade Promotion Committee in June 2003. The Committee is dedicated to fostering increased awareness of fair business among employees by formulating relevant internal rules, and communicating about upcoming regulatory changes and resulting new rules. It also participates in committees and seminars by Japan Department Stores Association, to gather necessary information, and organize explanatory meetings and other forums to listen to business partners at the time of store remodeling or other occasions.

Launch of individual training programs for new merchandisers

Millennium Retailing developed the Voluntary Standards on Fair Trading Practices in February 2003, with the objectives of ensuring all members of the Group have appropriate knowledge of fair trading and act accordingly. All employees can access the text of the Standards via our intranet.

We have also started training programs for new merchandisers since FY 2007, as people in this position interact with business partners more than any other personnel. Participants learn about procedures for starting new transactions and for signing required contracts, and receive precautions to maintain fair business relationships. During the classroom training, the new merchandisers receive a related handout that summarizes the key points of the lectures.

The training also covers the Voluntary Standards on Fair Trading Practices, the text of which is available on the corporate intranet. When the Standards are updated on the occasion of regulatory change, the corresponding parts of the programs also change accordingly.



Handout for new merchandiser training

Concluding contracts for all new relationships to ensure fairness of trading practice across the Group

Millennium Retailing integrated merchandising divisions of Sogo and Seibu Department Stores when the Group started in June 2003, aiming to maintain fair and appropriate relationships, and achieve mutual benefit, with business partners. Any new transactions cannot be executed without entering into required contracts in the uniform format. These documents are reviewed by legal staff of Millennium Retailing to ensure their fairness and legal legitimacy.

As of February 28, 2007, Sogo and Seibu Department Stores were under contracts with 1,505 and 1,690 business partners, respectively.

The current focus is the management of existing legal agreements. We are specifically considering which document formats and systems are most appropriate to manage subsequent changes in terms and conditions of the contracts.

Holding explanatory meetings for business partners on the occasions of store remodeling

When a group store is remodeled, Millennium Retailing holds an explanatory meeting primarily for merchandise suppliers.

On July 26, 2007, such a meeting was held to explain about planned extensive remodeling of the Seibu Tokorozawa Store in the following September. With participation of more than 300 business partners, we provided outlines of the remodeling and then took the opportunity to elicit various comments and requests from them.

Having these forums for dialogues helps us identify issues and room for improvement of our store operations. We will work for even more harmonious store operations by offering a greater number of occasions to communicate with our business partners.



Inviting business partners to the explanatory meeting on the remodeling of the Seibu Tokorozawa Store



Providing outlines of the remodeled store by the store manager, Hitoshi Saito



Responsibilities to Local Communities

Giving back to communities

Expressing our gratitude in the form of various community contribution programs

As a gesture of gratitude to society, Millennium Retailing started a supportive program for guide dog organizations in Japan in 2003. In this program, our stores operate fund-raising campaigns and semi-annual awareness-raising events. As we are “a corporate group that makes positive contributions to communities,” each store carries out its community-based social contribution programs.

Support for guide dog development projects, through our donations and in-store awareness-raising campaigns

To translate our gratitude to society into concrete actions, Millennium Retailing Group started a supportive initiative for guide dog organizations across the nation in 2003 when Sogo completed a court-led rehabilitation program. Our support consists of the following four elements: 1) fund raising campaigns in stores; 2) the Millennium Fund, jointly established by the company and the union; 3) “Bow-wow One Coin Club” for internal fund-raising; and 4) “Meet Guide Dogs Campaign” in stores.

In FY 2006, a total of ¥20 million was donated to nine guide dog organizations through the Millennium Fund. Another ¥22.07 million contributed by our customers in stores was provided to seven guide dog organizations. Our stores operated Meet Guide Dogs Campaigns in spring and fall, in which customers gained a better understanding of the importance of guide dogs, through simulated visual impairment experiences and guide dog training demonstration.

These activities by Sogo and Seibu Department Stores were recognized by a leading newspaper publisher, the Asahi Shimbun Company, with its Third Asahi Corporate Citizen Award in October 2006.

Applying what we have learned and experienced in these initiatives, we would like to further improve our services for customers with disabilities, such as shopping assistance service.



Simulated experience during the Meet Guide Dog Campaign

Community-based contribution programs by each store

All Sogo and Seibu stores are promoting their respective community-based contribution campaigns, responding to comments and requests from local communities.

Major community contribution programs by Sogo



The Fourth Kanagawa Yokohama Children Art Award (Yokohama Store)



Offering one-day hands-on work experience to local elementary students (Chiba Store)



Cleaning around Hiroshima Peace Memorial (Hiroshima Store)



Participation in *Seijin-no-Mori* afforestation program along the Arakawa River by Kawaguchi City (Kawaguchi Store)

Major community contribution programs by Seibu Department Stores



Volunteering in assistant service in Asahiya Zoo (Asahikawa Store)



Participation in Akita Eco & Recycling Festival (Akita Store)



Cooperation for Okazaki City Environmental Fair (Okazaki Store)



Participation in the flowerbeds creation in Tsukuba-center Plaza (Tsukuba Store)

Supporting educational and cultural programs in local communities

Supporting educational and cultural programs toward an advanced society

As a department store group that supports brilliant lives of local people, Millennium Retailing is doing more than just offering products and services. We actively support the educational and cultural advancement of local communities through organizing various programs in our stores and our cultural facilities.

Strengthening ties with local communities through educational store tours and work experience programs

Sogo and Seibu Department Stores support work experience programs by local elementary, junior high, and high schools. In these programs, elementary school students join store tours, meeting and asking questions to sales staff, and watching how products are shipped in our backrooms. Junior high and high school students experience sales assistance and gift-wrapping service. In FY 2006, 193 sessions were held in our stores across Japan, and a total of 2,492 students watched or experienced our department store business.

We also receive a growing number of requests from governmental organizations and businesses, to provide opportunities to learn “department store hospitality” by their staff members. Therefore we are considering possible expansion of our programs to cover wider participants.

Teaching the importance of environmental conservation in our “Acorn Campaign”

To let local children learn the importance of environmental conservation, the Seibu Ikebukuro Store has operated a green education program, titled “Nurturing Future Forests with Children—Let’s grow acorns for lovely bears.”

In the program, children receive acorns in the store and grow them to become some 50 cm-tall seedlings, which then are planted by Creative Conservation Club, an environmental NPO.

Employees at Millennium Retailing also volunteer in this tree-planting. Acorns are distributed at the Kids Floor of the Ikebukuro Store every other month.



Acorn Campaign

Offering cultural and art events which make lives of local communities a little more colorful

Sogo Museum of Art features a broad range of programs and exhibitions, from Japanese and international collections, various cultural programs, to exhibitions of children’s works, such as Kanagawa Yokohama Children Art Award. Sogo Theater primarily offers classical music concerts, theater performance, and junior artist development programs. Yatsugatake Kogen Music Hall holds salon concerts by prestigious classical, jazz, and other music players, as well as *kyogen* and other traditional Japanese play performance.

In FY 2006, Sogo Museum of Art attracted 254,000 visitors for 12 programs. Sogo Theater had 57,000 spectators for 295 rounds of performances. Yatsugatake Kogen Music Hall was visited by 3,400 audiences for 19 events.

Going forward, Sogo Museum of Art is planning to increase collaboration with local organizations, such as the boards of education of Kanagawa Prefecture and Yokohama City.

Sogo Theater will continuously keep the door wide open for local performing arts. To this end, the Theater will be working closely with Osaka City and Osaka Cultural Association.



Sogo Theater



Sogo Museum of Art



Yatsugatake Kogen Music Hall



Responsibilities to Employees

To maintain and promote employees' well-being

Creating a healthy and comfortable workplace

Millennium Retailing is working on various employee wellness programs to create a workplace where our group employees in Sogo and Seibu Department Stores can stay in good health and work comfortably. Key focal areas include: 1) facilities improvement, such as renovation of employee facilities, 2) prevention of occupational accidents, 3) management of physical and mental health care, and 4) collaboration with our mutual aid association and our corporate health care insurance society.

Company doctor's advisory and other supportive programs to support employee's wellness

Millennium Retailing conducts annual checkups every spring for all employees, including part-timers, who work at Sogo and Seibu Department Stores. For those whose health issues are identified in the checkup, we urge them to seek medical advice from our company physicians or nurses, and visit a hospital for a reexamination.

In FY 2006, 99.9% of the employees received these checkups, the same rate as in the previous year. These high rates are a result of our efforts to avoid schedule conflict of employees. At each store, HR personnel work with the corporate physicians and nurses to arrange the checkup schedules for store employees, accommodating the availability of each individual.

Our employees can also access a health consultation service via phone or the Internet. This service, "The Family Health Consultation Dial," is a part of our health care insurance society's employee wellness program, offering counseling and advice by experts in various areas available 24/7. To support mental health management, face-to-face or telephone counseling service by clinical psychotherapists is also available.

In FY 2007, Millennium Retailing is aiming to achieve a 100% annual checkup participation rate, while it is working with our health care insurance society to encourage eligible employees to take comprehensive checkups. We are also working to provide an even better health care program for employees, connecting various elements, such as advisory and medical services by our company physicians/nurses, support at workplace by supervisors and the Occupational Safety and Health Committees, external professional services, and health management by employee themselves.

Prevention of occupational accidents by the store-level Occupational Safety and Health Committees

To create a comfortable workplace, each Sogo and Seibu store holds monthly meeting of its Occupational Safety and Health Committee to analyze the causes of accidents and discuss which measures should be taken to prevent them from happening again.

In FY 2006, the Committees mainly discussed the causes of work-related accidents in the previous year, and issues and improvement areas with regard to store environment. Their recommendations were shared at section leaders' meetings and other occasions, and communicated to all employees through floor managers. As a result, we saw a substantial decline in the number of accidents during moving store furniture and fixtures in FY 2006, which was the top reason a year earlier.

Work injuries happening outside of stores have been increasing—20% of all occupational injuries of the Group in FY 2006 happened during commuting—and thus we are taking steps to enhance safety outside of workplace.

Improving store facilities and buildings for a safer and more comfortable workplace

Sogo and Seibu Department Stores focus on continuous improvement of store buildings and facilities to meet customer expectations. For employees, remodeling of store facilities also means remodeling of employee facilities.

The Sogo Yokohama Store had a drastic makeover of the employee cafeteria. It now features a "Gram One" pay-by-weight (1g=¥1) buffet, a famous curry and rice restaurant from Shinjuku, Tokyo, a Sushi corner, and a noodle corner, serving Japanese (*udon*, *soba*), Western (*pasta*), and Chinese (*ramen*) noodles. As the cafeteria is designed to make the most of the ocean view location, employees can enjoy meals in a scenic place and refresh themselves.

The cafeteria was covered by several magazines, as these exceptional meal plans and facilities have attracted public and media attention.



"Gram One (1g=¥1)" buffet cafeteria



Employee cafeteria with a view of the ocean

Creating a motivating workplace

Various programs in place to build motivation in the workplace

To help build motivation of store employees, Millennium Retailing has an employee certification program and a contract-based employment system for talented part-timers. To help achieve a better work-life-balance, we also have supportive programs for employees' maternity, parenting and family nursing care.

The "Star Club" certification program to recognize sales staff with outstanding sales and customer skills

Our Star Club program is to recognize highly-skilled employees (including part-timers and temp agency staff) working sales floors of Sogo and Seibu Department Stores. Originally, it was started in 1998 at Seibu.

Every six months, high performing sales staff are selected based on their sales figures. Among those on the short list, only employees who enjoy great customer confidence and can serve as role models for other employees become certified as Star Club members. The name badges of certified members are marked with a symbolic "star" sign (in red for Sogo, blue for Seibu).

In FY 2006, a total of 1,875 members joined in the Star Club. Attendees of the certification ceremony included top management of our business partners, who congratulated the new members for their performance in the frontline of sales arena and expressed their expectations for continued excellent service.

Through the Star Club, we would like to keep our employees motivated for acquiring greater sales and customer service skills and techniques.



"Stars" on name badges, a proof of the Star Club membership

Promoting more women to store-level managerial positions

Under the policy of "equitable personnel treatment based on performance and merit," Millennium Retailing has been taking aggressive steps to hire and promote female employees.

As of the end of FY 2006, women accounted for 26.4% of sub-section leaders, 3.6% of section leaders, and 6.6% of division leaders at all stores of Sogo and Seibu combined.

Recognizing that female representation in senior positions needs further improvement, we intend to improve our parenting support programs, introduce community-based working styles, and take many other steps to make our workplace even more female-friendly.

Our "annual program for quasi-regular employees" to attract and retain talented workers

Millennium Retailing has the "Licensed Regular Employee" program in place for wage-based sales staff and leaders on the cosmetics floors and other sections. Qualified individuals can receive a quasi-regular employee benefit package.

This incentive program aims to motivate staff with great sales skills or leadership to maintain aspiring attitude toward work, offering bonus payment, pay raise, and promotion based on the performance evaluation. In July 2007, we had 720 Licensed Regular Employees in our stores.

Internal guidebooks to facilitate greater utilization of employee programs

Sogo and Seibu Department Stores have developed their "Guidebooks for Maternity, Parenting, and Nursing Care Leave and Shorter-Hours," as a part of efforts to create a workplace where staff can take leave for giving birth, parenting, or taking care of sick or aged family members. All employees, including part-timers, have received these booklets, describing how to use applicable leave or short-hour programs and apply for related benefits.



Guidebooks for Maternity, Parenting, and Nursing Care Leave and Shorter-Hours



Responsibilities to the Environment

Global warming prevention

Implementing a two-pronged energy efficiency approach: employees' action and facilities improvement

The majority of energy consumption at Sogo and Seibu Department Stores comes from electricity use. Millennium Retailing is therefore focusing on the reduction of electricity consumption through energy-saving behavior of our staff and improvement of energy efficiency of store facilities. Our stores also hold environmental seminars and educational events for customers and local residents, to promote their understanding of and action for environmental conservation. To nurture public awareness toward the importance of global warming prevention, we are regular and active participants in "Light-Down Campaign" by the Ministry of the Environment, and "Uchimizu Project" by Japan Water Forum.

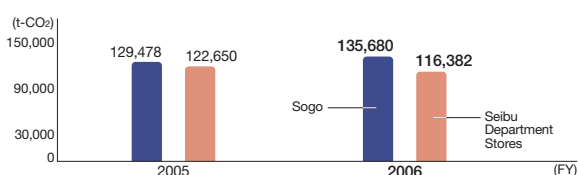
Ensuring energy-efficient store operations at all Sogo and Seibu stores

Each store of Sogo and Seibu Department Stores has an electricity consumption target. To meet the store-specific target, each sales floor promotes "energy-efficient operations," in which higher energy efficiency is targeted by individual employee's awareness and action, including 1) turning on lights only for necessary sections of offices and warehouses, and making sure to turn them off when the rooms/warehouses are not in use; 2) avoiding excess use of lights in backrooms by only lighting to necessary locations; and 3) promoting the "2up-3down Campaign" that encourages using stairs rather than elevators as much as possible.

With some adverse factors, such as opening stores and large scale remodeling projects, Sogo consumed 270,809 MWh of electricity in FY 2006, a 7.7% increase from the previous year, and Seibu Department Stores used 262,542 MWh, a 4.4% reduction.

In FY 2007, we are continuously striving to achieve our reduction target per basic unit (operating hours and operating floors). Together with continued practice of our energy-efficient store operations, we are considering possible installation of energy-efficient equipment, such as air-conditioning systems utilizing outside air.

CO₂ emissions



Note: Increase in Sogo's consumption is due to reopening of the Shinsaibashi Store in Sep. 2005.

Environmental education

Environmental training courses taken by all employees including tenant workers (Seibu Department Stores)

Seibu Department Stores believes that the environmental burden of store operations cannot be reduced without enhanced employee's awareness. At Seibu, therefore, all new staff, including part-timers, staff agent employees, and tenant workers, take an environmental education program. In addition, all existing employees, whether at stores or the headquarters, are required to take "Environmental e-Learning" programs each year, and business partners and store tenants are requested to take similar, but simpler versions.

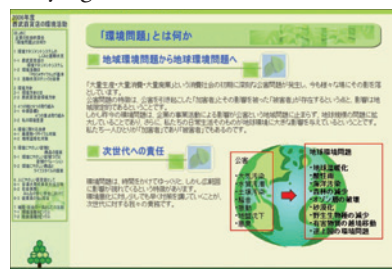
Helping increase employee awareness through e-learning and other training programs

Seibu Department Stores, a certified ISO 14001 organization, launched "Environmental e-Learning" programs in October 2002, designed to increase each employee's right knowledge and attitude, and to help integrate such acquired knowledge into their daily operations. Topics covered during a given year are determined based primarily on thematic focus of the year and the results of a survey of previous participants. Students of the program need to repeat the course until they score full marks in the final test.

In FY 2006, all employees of Seibu (2,772 members) took the e-learning course—which had a theme of "intensifying green communication with customers"—to learn the importance of not only saving energy and resource in stores, but also increasing customers' environmental awareness by making the most of the characteristics of our consumer-facing store business.

Since February 2004, a simpler version of environmental e-learning program has been implemented for business partners, tenants, and outsourced workers.

Since our stores constantly have new workers, especially at the time of brand or tenant replacement, we will be carrying out various environmental education programs.



Latest e-learning course, focusing on "green communication with customers"

Collaboration with customers

Offering “Ecology Bags” and “Environmentally Friendly Products”

Millennium Retailing believes that offering ideas of environmentally sound lifestyles to customers who shop with us is our responsibility as a leading retail group who interacts with customers every day. With this belief, Sogo and Seibu Department Stores have started selling original Ecology Bags since June 2000 and May 2007, respectively. We also offer a selection of Environmentally Friendly Products which we select and source under our own criteria.

Active promotion of Ecology Bags, with continuous improvement of their functions and designs

Customers can purchase our original reusable “Ecology Bags” in the handbag sections and the food sections of Seibu stores from June 2000, and in the food section of Sogo stores from May 2007.

These eco-friendly bags have a reduced environmental impact because of the use of recycled polyester from old PET bottles. They are also user-friendly and stylish with customers preferences incorporated into design details, such as inner pockets, shoulder strap lengths, and depth of the bags.

Responding to customer requests for insulated cooler bags for their train ride from our store to home, we added insulated cooler bags in September 2002 (in May 2007 in Sogo), and insulated rolling cooler bags in September 2005, to our Ecology Bag offerings.

Sogo and Seibu stores are also implementing Smart Wrapping campaign, an initiative by Japan Department Stores Association promoting appropriate levels of wrapping required for specific purposes.

We will be targeting further reduction of our packaging consumption mainly by promoting greater perception and use of Ecology Bags.



Our insulated rolling cooler bag



Original Ecology Bags

Offering “Environmentally Friendly Products” that meet our selection criteria

In April 1999, when obtaining the ISO 14001 certification, Seibu Department Stores decided to help our customers reduce the environmental impact of their daily living, and rolled-out its Environmentally Friendly Products selection under its own standard.

In selection procedures, potential products are identified in accordance with the internal Criteria for the Selection of Environmentally Friendly Products by merchandisers of MD Division. Then these identified items are reviewed at an internal meeting. Products approved by the meeting are examined by an external organization which provides quality control service for Millennium Retailing. After going through all these processes, our Environmentally Friendly Products can make their debut on store shelves.

To date, most of these green products are in household goods and food categories. As a next step, we would like to phase in Environmentally Friendly Products in our fashion offerings.

Criteria for Selection of Environmentally Friendly Products

1. Products having low environmental impact in their raw material and production processes
2. Products made from recycled materials
3. Products which are recyclable
4. Products which are energy and resource efficient
5. Products that promote environmental conservation
6. Products that display environmental impact information
7. Products manufactured by environmentally conscious corporations



Environmentally Friendly Product, “Shokugen Tanbou” organic green tea and soy sauce



Environmentally Friendly Product, organic cotton baby clothing



Overview of York-Benimaru

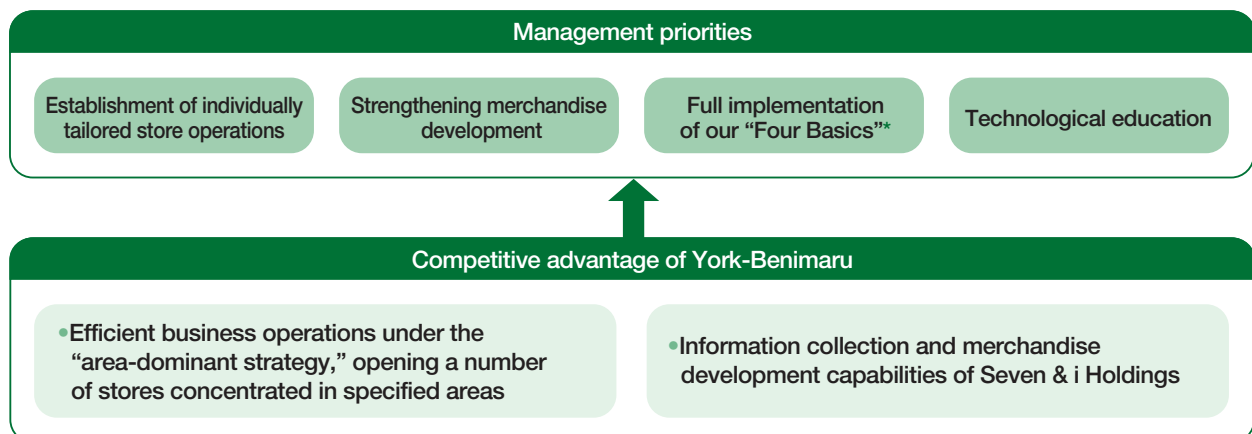
York-Benimaru operates supermarkets having strong local ties and promotes “local production for local consumption” together with local farmers.

York-Benimaru operates a network of supermarkets that offer fresh produce and grocery in Fukushima, Miyagi, Yamagata, Tochigi and Ibaraki prefectures. By executing “area-dominant strategy,” under which store openings are concentrated in specific areas, York-Benimaru has gained a high-profile in communities where we operate and been able to manage logistics efficiently.

Based on our motto, “for customers’ more joyful,

prosperous and convenient daily living,” our stores strive to deliver fresh and delicious food products, offer superb customer service and implement strict hygiene control. We have also worked with local farmers to promote “local production for local consumption.”

We will continue working to increase store loyalty by leveraging the information gathering and merchandise development capabilities of Seven & i Holdings.



*Four Basics

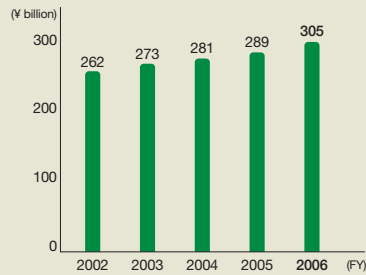
Friendly service, cleanliness, pursuit of freshness and taste, and stock availability

Corporate Profile (as of February 28, 2007)

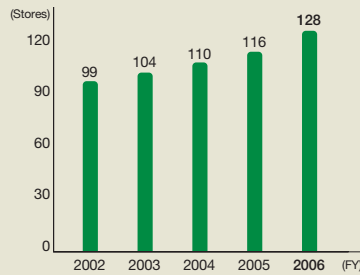
Establishment: June 12 1947
Headquarters: 18-2, 2-chome, Asahi, Koriyama-shi, Fukushima, 963-8543, Japan
Nature of Business: Superstore business selling food products (as main category), apparel and household goods

Total sales: ¥304.8 billion
Number of employees: 11,328
Number of stores: 128

Total sales



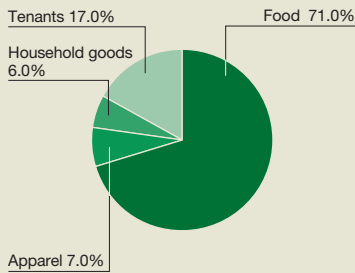
Number of stores



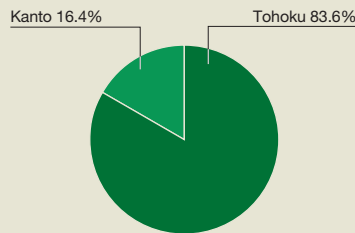
Number of employees



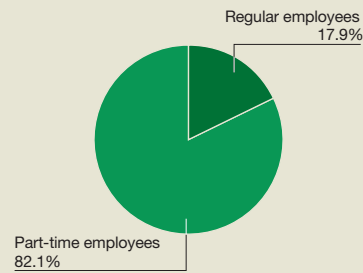
Sales by product category



Stores by region



Employees by type



Our CSR focus

- Pursuing food safety and reliability as a supermarket chain that supports daily diet of local people
- Developing products of good market value with local farmers, and thus increasing vibrancy of local communities and agriculture
- Supporting healthy development of children who will lead the future of local communities
- Enhancing our HR systems for local people who work with us as part-timers

Responsibilities as a community-based food supermarket chain

The majority of York-Benimaru customers are people living in the neighboring areas, who shop with us to buy food ingredients for their family meals. We recognize that meeting the needs of these customers by offering safe and reliable product assortment, and implementing most rigorous quality control to protect the health of customers and their families is, while basic, our most important responsibility as a food supermarket chain.

Prosperity in local communities is essential for sustainable growth of York-Benimaru, a community-based supermarket operator. We therefore have been

promoting local production for local consumption by developing products of high market value in active cooperation with local farmers, regional producers and business partners.

York-Benimaru is also convinced that successful store operations require support from local people who were born, grew up and live in the communities. For this reason, we are working to develop an appropriate HR system for those who live in the neighborhood and also work in our stores as part-timers. We are also actively involved in supportive and educational programs for local children who will lead the future of their communities.

Working with local producers to offer fresh, safe and reliable vegetables of choice

York-Benimaru delivers fresh, safe and reliable produce, harvested in local areas, to local consumers through our product assortment driven by our “local-production-for-local-consumption” policy. In this regard, we invited our contract farmers who produce the “*Mukkun-no-Oyasai*” brand vegetables (p.77), a major line of our locally produced products, to discuss the meaning of local production for local consumption and to express their expectations for York-Benimaru.

To offer not only fresh but also safe and reliable vegetables

Ohtaka (O): As a growing numbers of supermarkets carry locally produced vegetables, the idea of local production for local consumption has been attracting a lot of attention. Some restaurants and fast food stores have also started publicizing their use of local vegetables. But locally harvested vegetables are not necessarily synonymous with safe and reliable ones, are they?

Hashimoto (H): Locally produced vegetables are surely fresh, but not always safe and reliable. In this regard, I can proudly say that our vegetables are safe and reliable. We comply with the Positive List System*1 and other regulations on residual pesticides, and maintain detailed records of pesticide use history. Besides, our products meet the quality standards of York-Benimaru, which are more stringent than legal or regulatory requirements.

O: Thank you. A combination of such persistent efforts by farmers—“producers”—and strict quality management by us—“sellers”—makes locally produced vegetables quality products with freshness, safety and reliability. Of course, another quality, good taste, is also important.

Kouno (K): Since we started working with York-Benimaru, our awareness of the quality of our crops has dramatically improved. In the beginning, we struggled to attain the quality and volume levels required by your

sourcing representatives. Then at your request, we started using a fish-derived soil improvement agent, *Mukudai*, and organic compost. A couple of years later, our production started to stabilize both in terms of quality and quantity, and we have become more confident about the taste of our products.

O: *Mukudai* is said to increase soil nutrition and thus make the soil less susceptible to disease and insect damage, and more healthy and fertile. Does your hands-on experience agree with this?

Yoshida (Y): Yes. *Mukudai* has solved the dilemma I faced. My honest feeling as a producer was that chemical fertilizers were necessary for stable, mass production of vegetables. But at the same time, I knew relying too much on chemical fertilizers may cause adverse effects of continuous cropping*2 and runs counter to increasing consumers needs for organic farming. But using *Mukudai* has enabled me to reduce fertilizer usage and produce

*1 Positive List System

A system effective on May 29, 2006, to regulate residual chemicals in food, prohibiting in principle any levels of residual agricultural pesticides, veterinary pharmaceuticals contained in food (agricultural, livestock and fishery products, including processed items) and specifying the names and maximum limits of permissible residual chemicals.

*2 Adverse effects of continuous cropping

Damages to crops, such as poor growth and illness, caused by repetitive replanting of the same type of crops in the same soil



a greater volume of crops. It has also improved the taste of my products by highlighting their natural tastes and removing bitter properties. Many mothers said to me, “My kids say your vegetables are yummy.”

Other benefits of local production for local consumption: energizing local economies and reducing environmental impacts

O: Another reason why we focus on local produce, such as “*Mukkun-no-Oyasai*”, vegetables grown with *Mukudai*, and “Products with the Place of Origin Visible” is that we would like to give back to communities in which we operate by supporting farmers there. Can I hear your candid opinion about to what extent our local-production-for-local-consumption campaigns have been helpful to increase vibrancy in local agriculture?

K: Very helpful. As your buyers give us advice about what kinds of products are expected by customers and what products sell well, we feel very assured and confident in our business.

Thanks to the campaigns and advice, my group has been able to achieve reasonable profit levels, despite the facts that we can grow vegetables for only half the year because the farmlands are located at high altitude and that most our members are aged—68 years old on average.

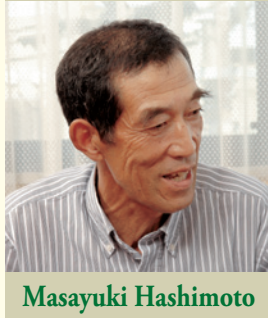
Y: Your program is also helpful in motivating us to grow good vegetables and continue in the agriculture business. I am surrounded by a number of aged colleagues who happily say, “I go to the York-Benimaru store every day to see vegetables that I grew” (laugh). Such pleasure will lead us to recognize pride and responsibility as agricultural growers.

O: For our customers, making the farmers who grew their products visible is connected to the products’ safety and reliability. For farmers, being able to see consumers’ happy faces keeps them motivated, I suppose.

Farmers in Fukushima Pref., growing *Mukkun-no-Oyasai* vegetables



Tetsuya Kouno



Masayuki Hashimoto



Seiji Yoshida

H: Selling reasonable volumes of our product within the local areas has allowed us to reduce transportation costs, which were a big burden before. This is another important advantage.

O: Stores of York-Benimaru are concentrated in Fukushima, Miyagi, Yamagata, Tochigi and Ibaraki prefectures. Such store location arrangements enable us to manage logistics efficiently, giving us a cost advantage. So does locally grown produce. In addition, promotion of locally grown products leads to reduction of environmental impacts, such as CO₂ emissions, because buying local food does not entail long distance transportation.



Zenko Ohtaka
President and COO

Building collaborative relationships and addressing various issues together

O: In closing, could I hear your expectations for York-Benimaru?

Y: It’s not an expectation exactly but I would like you to think together with us about how to deal with a bumper crop and a bad crop.

K: We do have a fresh memory of the excessive production of cabbages in December 2006. The prices of cabbages were plummeted due to the glut, and thousands of tonnes of cabbages were dumped. Our *Mukkun-no-Oyasai* cabbages were also priced much lower. It was really tough.

O: It really was. While vegetable production cannot be immune to price fluctuations, we must diligently seek solutions to secure farmers’ profit in the time of a bumper crop or a bad crop.

H: We growers are responsible for producing vegetables of choice. In return, we hope retailers, like York-Benimaru, will try even harder to find a way to make vegetables that we grow with a lot of care to be enjoyed by a greater number of customers.

Y: We really appreciate the staff of York-Benimaru, who visit our farms often, carefully listen to us and provide farming or merchandise planning advice. We would be even happier if we would be able to share ideas on sales approaches with them, as we are very interested in how our vegetables should be sold to end-customers.

O: I see. Let us work together to build such a relationship that growers like yourselves and retailers like us exchange ideas and comments with each other, to increase customers satisfaction.



Responsibilities to Customers

To ensure product safety and quality

Ensuring product traceability and developing reliable products

Amid growing public concerns over the safety of imported goods, products—especially perishables—which are clear about their origins and producers have been in higher demand. In response, we at York-Benimaru are developing traceability systems, which enable us to keep track of entire processes from production to processing, distribution and sales, and disclosing relevant product information on our website and product labels. To increase customers' confidence in food products, we are expanding our fruit and vegetable offerings that are grown with minimal use of chemical fertilizers and pesticides.

Offering information on product origins and producers on our website

On the corporate website of York-Benimaru, we have set up a section of “Origin-Visible Products at York-Benimaru” to provide selected fresh food items' information, such as place of origin, characteristics, production processes and producers. Further details can be accessed through the links to producers' websites, where available. Viewers can also trace the production history of a product they bought, simply by entering the production number printed on the product labels. Shoppers of our beef products can also check the cattle type and date of birth by entering individual identification numbers shown on the product label.

During FY 2006, the section had a monthly average of 1,016 hits. To maintain and increase the traffic level, we will continue to make timely updates and further improve the site content.



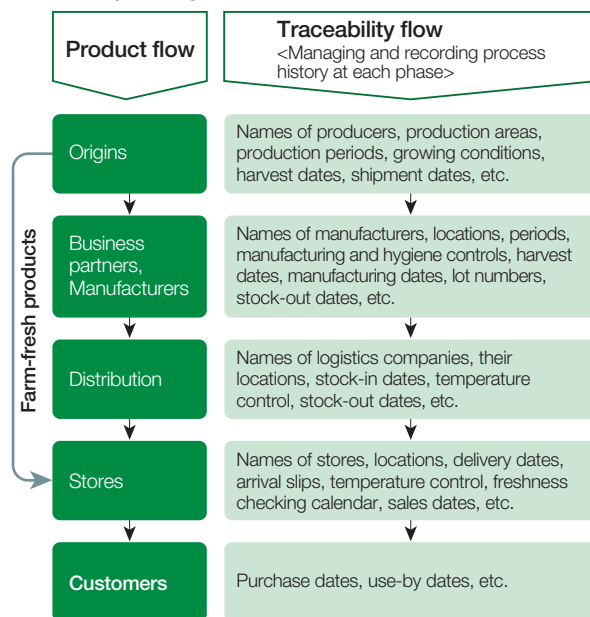
“Origin-Visible Products at York-Benimaru” website

Disclosing product information, such as producer names and agricultural environment, on sales floors

York-Benimaru is earnestly working to ensure product traceability. In cooperation with our business partners, including producers, we collect and manage product origins, cultivation environment and other relevant information. In our store, we place explanatory panels that articulate product names (e.g. “*Kuroge-Wagyu* Japanese beef, *Date-Dori* chicken, and *Katsu-Fime* red sea bream caught off Ehime Pref.), origins and characteristics near the products so that customers can obtain background information before purchase. For vegetables, names of growers are also displayed.

We will be making a greater number of our products fully traceable to ensure customers' shopping with confidence.

Traceability management at York-Benimaru



Kuroge-Wagyu Japanese beef section



Product labels include the URL to check production history

Continual improvement of product labeling through inspections from customers' standpoint

Product labeling is an important reference source for customers' product choices. It has been attracting greater customers' attention in the wake of frequent labeling frauds in recent years.

York-Benimaru launched the Labeling Improvement Project in May 2002, to ensure accurate product information delivery to our customers. Led by the team members consisting of the sales division director and the managerial members of relevant departments, we have been striving to ensure easy-to-understand, accurate product labeling.

We will continue to review and improve our labeling practices, and develop a system that supports the optimal labeling.



Inspection at the sales floor



Origin information is displayed even about unpackaged products

Expanding items of "Mukkun Series," fresh produce grown without agrochemicals to the extent possible

Wising to deliver reliable food to customers, York-Benimaru offers "Mukkun Series" fruit and vegetables grown with only minimal use of chemical fertilizers and pesticides. Some 30 *Mukkun* items, such as burdock, potatoes and bananas, are available in our stores.

Mukkun products are grown with a soil improvement agent called *Mukudai*. This soil enhancer is considered to help improve the balance of soil constituents and materialize potential fertility of the soil, resulting in good growth and yield, and little disease or insect damage.

Mukkun products were rolled out in FY 2003 by the Food Business Division and the Produce Department. As the initial launch gained great popularity from customers, we have been bolstering the supply of *Mukkun* products since FY 2005, offering a greater number of items in

larger quantities. We have also established the *Mukkun* Series certification systems in place for products that meet required standards on cultivation history, pesticides and chemical substance levels, and so on.

In FY 2006, *Mukkun* Series expanded in areas other than fruit and vegetables, both in terms of the number of items and the supply volume. *Mukkun* fruit and vegetables also grew to take up 6.2% of our overall sales in fruit and vegetables within the year. We are aiming at a target of 8.9% in FY 2007.



Section of *Mukkun* vegetables

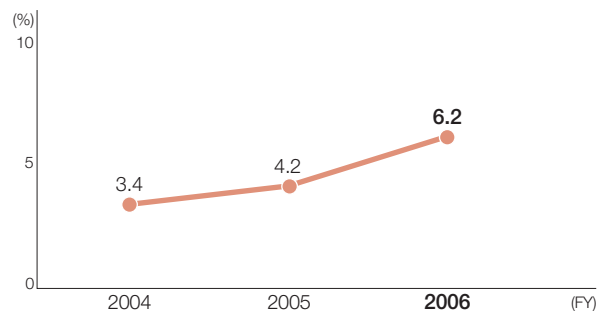


Section of prepared food using *Mukkun* vegetables



Label for *Mukkun-no-Oyasai* vegetables

Percentage of *Mukkun* products





Rigorous hygiene control

Maintaining store cleanliness and conducting thorough sanitation inspections

Our confidence in the merchandise we offer to customers is underpinned by excellent product quality and strict hygiene control both on sales floors and in backrooms. Therefore, we at York-Benimaru are all committed to the maintenance of clean store environments.

Hygiene Control Rules are set up by floor section to maintain cleanliness and tidiness of our stores

To ensure all employees understand and share the importance of hygiene control, each floor section of York-Benimaru stores has its Hygiene Control Rules which reflect section-specific characteristics. By following these rules, our store staff clean and tidy up their respective floors every day to maintain overall cleanliness and tidiness of stores.



Backroom maintaining merchandise

Thorough sanitation inspections of cooking and processing staff to prevent food poisoning

To keep York-Benimaru stores food poisoning free, all staff members of our fresh produce departments are required to take stool tests each month. In addition, employees who prepare food must fill out "Health Condition Self-Assessment Sheets" before they start the day, to prevent food poisoning viruses from being carried into processing areas. Food processing employees who are considered ill by their supervisors are not allowed to prepare food on that day.

Products cooked or processed within our store facilities are subject to monthly sampling inspections. During summer season, during which food is susceptible to poisoning, we tighten our virus detection process by undertaking hand checks of cooking and food processing staff on a random basis.



Inspecting hands and fingers of food processing personnel

Creating a safe and comfortable store

Prevention of in-store accidents and response to customers' voices

York-Benimaru strives to create safe and comfortable shopping experiences for customers. To this end, we are focusing on safety management of our stores, development of mechanisms to solicit active feedback from customers and incorporate it into our store operations, and improvement of overall customer service skills.

Preventative measures taken by all stores to eliminate accident risks from store facilities

If an accident occurs in a York-Benimaru store, our Store Operation Department or General Affairs Department takes care of the accident in response to a report from the store. But given growing public concerns over food products and diversifying causes of in-store accidents, the store manager and other management staff in the store have been increasingly expected to play greater roles in appropriately responding to the accident occurrence and accurately answering customers' related inquiries.

The headquarters of York-Benimaru thus begun collecting information and conducting case study analyses each month from October 2006, with regard to the nature of accidents which occurred during the month, how they were addressed, and what kind of problem solving procedures were taken. The collected information has been shared with all store management to draw their attention and ultimately prevent similar accidents.

Despite these measures, several car accidents happened in our parking lots from March to May 2007, caused by equipment defects.

In response, we instructed all stores to inspect their store facilities, and detect and rectify risk potentials in June 2007. The results of self-inspections and rectifying plans were documented to be distributed to all stores. In addition to increasing store-level precautionary awareness through such documents, we have intensified our crisis management systems implemented under the leadership of store managers. As a result, only nine accidents occurred during June and July 2007, a decrease of seven cases from the same period last year.

Aiming at zero accidents caused by facilities defects, our facilities design team and all York-Benimaru stores will continue to share relevant information and work closely to improve safety aspects of our store facilities.

Active solicitation of customer feedback for even better store operations

York-Benimaru has established the Customer Service Department to receive feedback, requests, complaints, and inquires from customers. What we learn through the toll-free calls from customers is communicated to all divisions in the headquarters and all our stores, so as to be incorporated into our merchandise development, product assortment, and floor arrangement, as well as service and store facilities improvement.

We have also set up “Customers’ Voice” feedback boxes in all stores to listen to customers’ daily observations on our stores. Our store staff read and discuss comments received and reply to these customers’ voices.

Taking our customer services to higher levels through the “Friendly Service” program

York-Benimaru believes that in order to please and satisfy customers who visit our stores, every member of the stores must be bright, cheerful and motivated, as well as considerate and customer-oriented. Based on this belief, the Friendly Service program has been in place since 1999, aiming at continual improvement of our customer services.

We initially targeted to achieve One-Star level, mastering basic manners in customer service, such as appropriate greeting and wording, and smiling.

About 95% or 11,000 store employees had achieved One-Star level by FY2006. We received 841 comments from customers who praised our services, up from 805 in the previous year.

Moving one step ahead, we are targeting Two-Stars practice level in FY 2007. To lead by example, our managerial members are taking the initiative to demonstrate appropriate and professional behavior in various occasions, including at the time of restocking the shelves, responding to complaints, and performing food sampling demos.



Almost all store staff have achieved One-Star level

Coexistence and co-prosperity with business partners

Collaborating with farmers and the JA agricultural cooperatives to grow premium brand vegetables

Toward mutual growth and development, York-Benimaru has been communicating and collaborating closely with business partners, including local farmers, the JA agricultural cooperatives and other suppliers to build good working relationships.

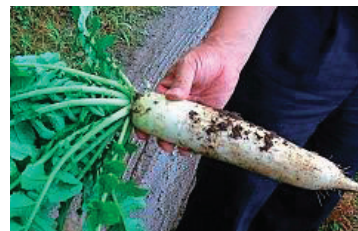
Support for local farmers who grow regional brand vegetables

Plummeting production of *Nunobiki Daikon* radishes was a major problem for farmers in Koriyama, Fukushima. Yields of this well-known regional brand vegetable had been declining sharply, due to aging growers and the crop injury and poor growth caused by continuous cropping—growing a single type of crop in the same soil over many years. Exacerbated by depressed market prices, production of *Nunobiki Daikon* in 2006 was significantly scaled back from 10 years before: the farmland acreage was reduced to one third; sales diminished to one fifth; and the number of farms who grew this brand of radishes decreased from 90 to 19.

Having heard about this plight from the JA Koriyama Konan-Nishi Branch, York-Benimaru suggested growing these radishes by adopting a new farming technique that uses *Mukudai* soil improvement agent (p.77) under contracts with us. We decided to purchase all harvested radishes in accordance with the contract, to support financial stability of local producers.

In fall 2006, experimental growing of *Nunobiki Daikon* with *Mukudai* was started, yielding good results. In FY 2007, the pilot cultivation is being undertaken by 15 farms on a larger scale. Resulting radishes are planned to be sold in our stores, mainly in the form of pickles.

Eventually, we would like to sell this quality vegetable in wider areas by utilizing the nationwide network of Seven & i Group and contribute to increasing popularity of local brand vegetables.



Nunobiki Daikon: these sweet, soft and fine textured radishes are grown in Nunobiki Plateau, located between Konan-Machi and Tenei-Mura, Fukushima.



Responsibilities to Local Communities

Supporting cultural and educational development in local communities

Nurturing young people of future generations and contributing to local development

Under the philosophy that “it is people that hold the key to the development of business and society,” we established the York-Benimaru Foundation in April 1985. Since then, the foundation has been engaged in various activities to support healthy development of future generations primarily in Fukushima prefecture, in which York-Benimaru is based.

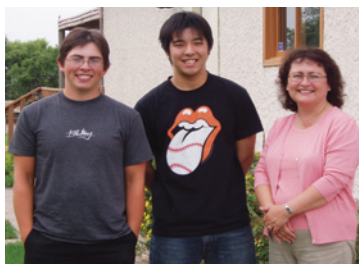
Nurturing a global mind and nutritional knowledge among young people

International exchange programs, such as high school students’ short stay in Canada

As a part of its local adolescent development programs, the York-Benimaru Foundation sends high school students in Fukushima to Manitoba Province, Canada from 1985. Each year, a group of some 20 students who are recommended by high schools in Fukushima spend four weeks in Canada—the first week is to learn language and the remaining three weeks are spent with host families, experiencing local life in Canada.

In FY 2006, 20 students participated in the program, resulting in 506 alumni in total since the inception.

Beginning in 1989, the foundation also invites children of host families in Manitoba to Japan, where



A Japanese participant and his host family (The USA-Canada International Exchange Program)



A Canadian participant and her host family (The International Exchange Program for Manitoban Students)

they then stay with their host families in Fukushima. This is another major activity of the foundation’s international exchange programs.

Organizing lectures on dietary education

In FY 2003, the York-Benimaru Foundation conducted a survey on food and health of 10,390 high school students in Fukushima. The survey revealed unhealthy eating patterns prevailing among young people—22% respondents said they sometimes skip breakfast; and many said they do not like vegetables. These results gave us a fresh reminder of the importance of food education, i.e., teaching children how to develop and maintain good health through wholesome diet.

In response, the foundation has held annual seminars on food education every February since FY 2004. Each year, about 150 home economics teachers of junior high schools and high schools in Fukushima participate in the event.

The latest lecture was delivered in February in 2007, titled “Schools can be changed by the improvement of food and lessons.” Guest speaker Mitsugu Otsuka, chairman of the board of education in Ueda City, Nagano, talked about the importance of appropriate diet in terms of the significant influence on children’s physical and mental health and development.



Lecture by Mitsugu Otsuka on proper diet



Participants listening to the lecture



Responsibilities to Employees

Hiring and promoting diversified employees

Offering various human resource programs to support female workers

Support from people who grew up and live in communities in which we are located is vital for our successful store operations. By having local people in our team who know the communities well, we are well-positioned to provide services that meet customers' needs and increase customer satisfaction. This recognition has driven York-Benimaru to develop personnel systems that accommodate various lifestyles of the local residents who work with us as part-timers. We also focus on facilitating the promotion of more women to managerial positions.

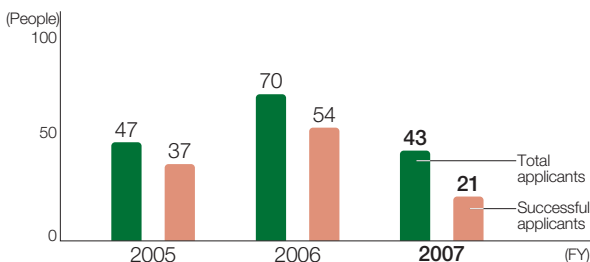
Flexible response to varied and changing lifestyles of part-timers

At York-Benimaru, there are three employment categories of store employees—1) “Partner Helper Employees” who work in specific stores to which they can commute from their homes; 2) “Expert Employees” who may be relocated within designated areas; and 3) “National Employees” who are able to work in any store throughout Japan—so that each employee can select their working style, depending on their needs and preferences. Among the three categories, National Employees are regular, full-time workers.

Since FY 1996, employees can take promotional examinations, which are conducted three times a year (Partner Helpers to Experts) or twice a year (Experts to Nationals) if their lifestyles or work preference change. In FY 2006, 54 out of 70 applicants were successfully promoted.

As part of our supportive programs to maintain and improve the motivation of employees, our part-time employees have interviews with their supervisors twice a year to discuss their work-related requests and goals. As a result of the meetings, some part-timers may be able to attend our “Management School” training program for potential managers.

Numbers of total and successful applicants for promotional examination

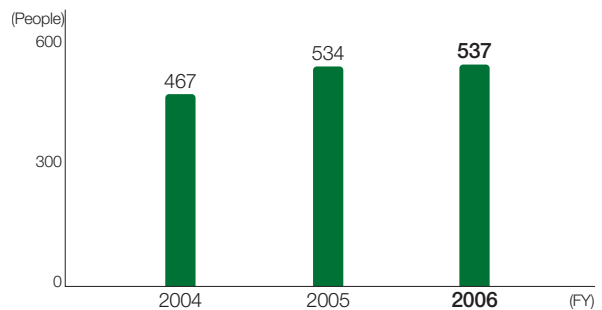


Active promotion of female workers to managerial positions

York-Benimaru has been working to increase the number of female workers in managerial positions. We hope that by having employees living in neighboring areas play active roles in store operations, we will be able to create stores that meet local needs.

Women accounted for about 30% of leadership positions at York-Benimaru as of July 2007, including two store managers, three deputy store managers, 132 general managers, 413 divisional managers, and seven sourcing representatives at the headquarters.

The number of female managerial employees



Supporting employees' parenting and nursing care under group-wide programs

At York-Benimaru, a great number of women are playing important roles, among whom many wish to work in balance with their parenting or nursing care responsibilities. To support these employees, we keep them informed about our group-wide Re-Challenge Plan programs, which include the Leave Plan that allows employees to take parental leave for up to two years and nursing care leave for up to one year, and the Shorter-Hours Plan that allows employees to reduce working hours by up to four hours.

During FY 2006, six regular employees and 32 part-time employees used these programs. These supportive plans are available for both men and women.

Users of parenting and nursing leave programs

	FY 2004	FY 2005	FY 2006
Parenting	17	46	38
Nursing care	(15)	(17)	(32)

Note: Numbers in parentheses represent part-timers



Responsibilities to the Environment

Global warming prevention

Improvement in energy-efficiency of our stores to reduce CO₂ emissions

To reduce CO₂ emissions arising from energy consumption, York-Benimaru has been working to curtail electricity, gas and heavy oil consumption. We have also been focusing on our water saving and other resource conservation initiatives and asking for customers' participation.

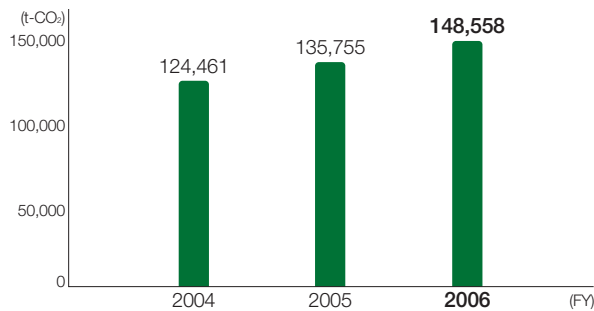
Curbing CO₂ emissions by reducing energy use

York-Benimaru strives to reduce electricity consumption in our stores by installing energy-efficient equipment, using so-called insulated "night covers" for refrigerated or freezer product display cases, and ensuring to turn off unnecessary light.

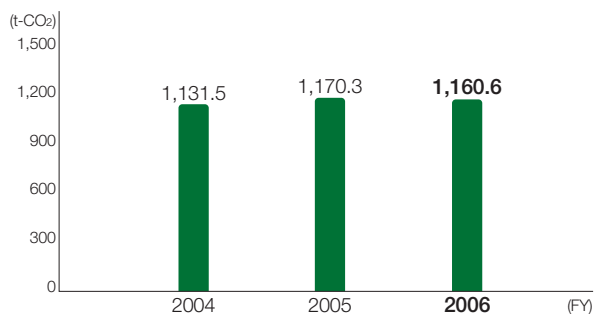
In some stores, we used heavy oil—having high environmental impact—as fuel for air-conditioning equipment, but in FY 2001 we began replacing them with new equipment that uses gas or electricity which has lower global warming potentials.

Our CO₂ emissions per store in FY 2006 were 1,160 tonnes, a 0.8% reduction from the previous year.

CO₂ emissions



CO₂ emissions per store



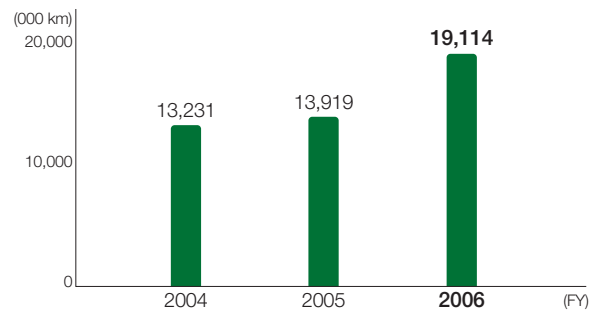
Streamlining logistics to further reduce CO₂ emissions

York-Benimaru has been working to improve the efficiency of logistics operations to reduce CO₂ emissions generated in the course of distribution.

As a part of these efforts, we established new distribution centers in Koriyama in November 2005 and in Sendai in April 2006. Having the new distribution hubs has allowed us to decrease the number of delivery trucks and the total distance required to deliver products to each store.

In FY 2006, we centralized our delivery operations. We begun delivering not only perishable food items, but frozen food (previously delivered by contract transporters) and products for subsidiaries (previously transported separately) in our own vehicles. As a result, total travel distance for our product delivery during the year increased 37.3% from a year earlier.

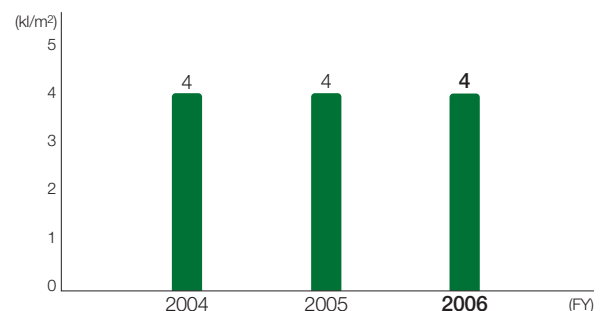
Total travel distance due to product delivery



Adopting inverter-equipped water pumps to prevent wasteful use of water resources

York-Benimaru strives to conserve finite water resources through wide-ranging efforts, from avoiding excessive use of water at restrooms to installing new equipment that helps prevent increased water usage. We have installed inverter-equipped water pumps that enable us to equalize pressure levels of water supply in advance so as to prevent unnecessary water consumption due to excessive water pressure levels.

Water consumption per floor unit



Reduction in packaging material consumption

Collaboration with customers to achieve resource-efficient containers and packaging

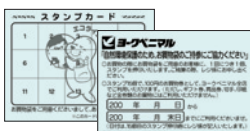
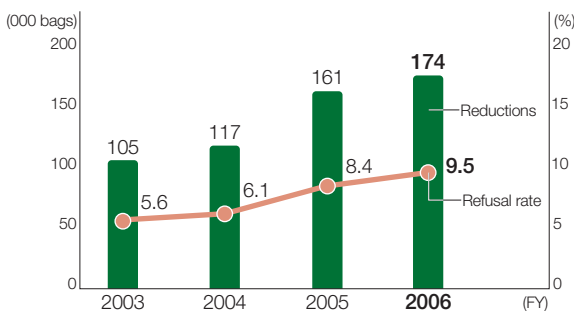
To ensure effective use of resources and help reduce household waste, we are working with our customers to reduce plastic shopping bag usage and to make our plastic bags thinner. We are also focusing on reducing food tray consumption and practicing simplified gift-wrapping.

Implementing various measures to reduce shopping bag consumption

Plastic shopping bags provided at York-Benimaru have become 10% thinner since October 1999. We also encourage customers to use their own bags, rather than store-supplied bags. In our stores, we sell “My Bag” and “My Basket” products, and raise customers’ awareness through poster displays and in-store announcements. Furthermore, aiming at effective reduction of plastic bag consumption, we conducted a pilot program for paid-for plastic bags in York-Benimaru Yamatomachi Store in Sendai, Miyagi, which recorded a relatively high shopping bag refusal rate, 12.1% in FY 2006. This experiment, selling a large size bag at five yen, was carried out for the three months from June to August 2007 under an agreement with Sendai City.

During that period, the average refusal rate reached 76.9%, exceeding the 60% initial target. Together with other elements, such as store traffic and reduction levels of shopping bags during the period, we will consider future steps, including resumption and continuation, and improvement of this paid-for shopping bag initiative.

Refusal rate (average of all stores) and number of reduced shopping bags per store



“Eco Stamp Cards” rewarding one stamp for each refusal of shopping bag. Collection of 15 stamps is converted to a 100-yen-value coupon. Through this program, 22.376 million shopping bags were saved during FY 2006.

Recycling activities

Food waste recycling at all stores

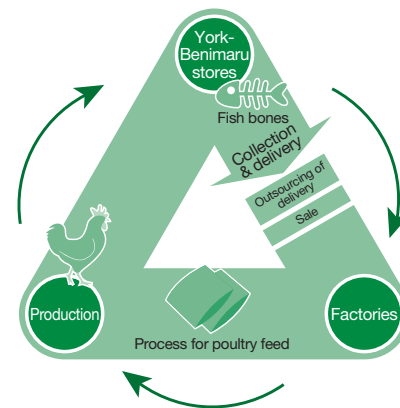
In compliance with the Food Recycling Law, we have strived to reduce and recycle food waste. We have also focused on collection and recycling of milk cartons, food trays and other containers and packaging materials.

Recycling of food waste generated from in-store processing facilities

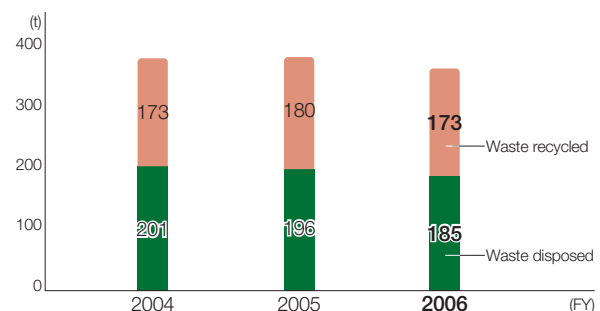
In the course of daily store operations, we generate various kinds of food waste, including inedible parts of fish, fruit and vegetables from the kitchens; employees’ leftovers; and unsold food products. We sent bony parts of fish, constituting about 20% of the overall raw refuse, to our contract vendors to make poultry feed. The resulting feed is used in our contract hen farms, which raise our private-label *Kenyo-Ran* eggs sold in all York-Benimaru stores.

In FY2004, York-Benimaru achieved a 20.1% food waste recycling rate, meeting the required rate of 20.0% or more under the Food Recycling Law (effective in May 2001). Since then, we have been constantly recycling food waste at higher than statutorily required levels.

An example of food recycling flow (inedible parts of fish)



Weight of waste disposed and recycled per store





Overview of Seven & i Food Systems

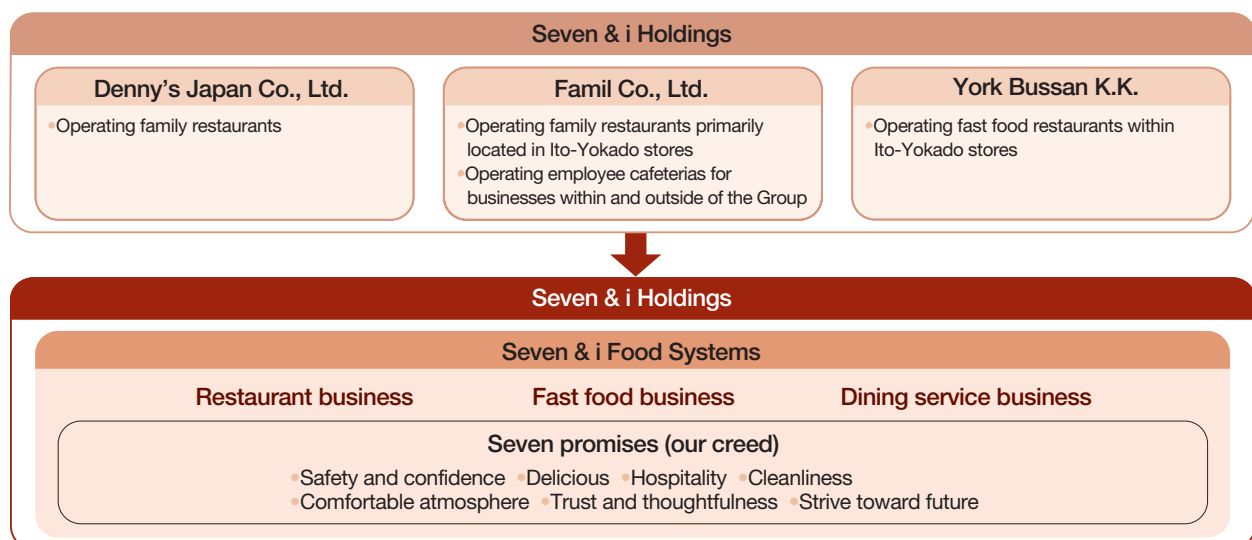
Seven & i Food Systems will continuously refine, expand and strengthen its food-service business, creating synergies among restaurant, fast food and dining service divisions.

Seven & i Food Systems is an operating company established in January 2007 to consolidate and restructure food service operations of the Seven & i Group. In the following September, three former subsidiaries—Denny’s Japan Co., Ltd.; Famil Co., Ltd.; and York Bussan K.K.—were merged into Seven & i Food Systems.

We now operate three food-service businesses: 1) restaurant business operating “Denny’s” and

“Famil” brands, 2) fast food business operating “Poppo” food courts in Ito-Yokado stores, and 3) dining service business operating cafeterias for businesses and medical institutions.

We will continuously refine, expand and strengthen our food-service business, while developing innovative store formats to meet various customer needs and creating synergies among these three operating areas.



Corporate Profile (as of February 28, 2007)

Establishment:	January 2007	Total sales:	¥121.2 billion
Headquarters:	8-8, Nibancho, Chiyoda-ku, Tokyo 102-8415, Japan	Number of employees:	17,163
Nature of Business:	Operation of restaurants, fast food and dining service businesses	Number of stores:	1,055
Paid-in capital:	¥3.0 billion		

Business outline

Restaurant business

Aiming at greater brand value through good taste, service and atmosphere
 Operation of Denny's and Famil (located in Ito-Yokado stores) restaurant chain is the primary activity of our restaurant business. We are intensifying our efforts to offer a relaxed dining experience to our guests, while keenly attentive to the basics of our operations—good in quality, service, cleanliness and atmosphere.



Fast food business

Launching one-item specialty stores
 Poppo operates fast food (such as *takoyaki* octopus balls, *imagawayaki* waffles and *ramen* soup noodle) restaurants mainly located within Ito-Yokado store facilities. Under the themes of customers' health, safety and confidence, we deliver fresh-from-kitchen fast food items made from fresh and healthy ingredients together with big smile.



Dining service business

Aggressively pursuing expansion into outside of group companies
 We aggressively seek and capture new business opportunities. In addition to employee cafeterias of group companies, we have been expanding outside of our group, such as in-house cafeterias of other corporations, schools and nursing care facilities.



Our CSR focus

- Offering safe and reliable meals and executing rigorous hygiene control in the stores
- Innovating and delivering health conscious menus and guest-friendly services
- Appropriate disposal and recycling of food waste generated by our stores

Responsibilities as a food service operator who serves meals that are cooked in store kitchens

Offering a wide variety of menu items, ranging from a cup of coffee to daily lunch and dinner sets, coupled with cordial service—this is what Seven & i Food Systems is all about.

We at Seven & i Food Systems have set up the “Seven Promises” (our creed) that reflect the aforementioned nature of our business. Safety and confidence is listed as the first promise, demonstrating that it is our top priority to deliver safe meals that our guests can enjoy with confidence. Every single day, we are earnestly focusing our efforts on quality

management of food ingredients and hygiene controls of our restaurants.

We also believe it is our responsibility as a restaurant operator to respond to increasing health consciousness among customers through improved information disclosure on caloric and nutritional facts and development of health-conscious offerings.

In our environmental activities, we strive to make positive contributions to creating a recycling society. We are particularly focusing on proper disposal, reduction and recycling of food waste generated from our restaurants as priority areas.

Aspiring to become a food-service business that supports and promotes wholesome diet of customers

As successive mislabeling scandals, including high-profile frauds by a ground beef firm and processed food products companies, have raised strong public concerns, the restaurant industry has also been under pressure to conduct all-out efforts to ensure food safety and reliability.

In this context, Akihiko Hanawa, president and COO of Seven & i Food Systems had a meeting with Mr. Tomoaki Hisatsuka, Ph.D. in agriculture and a prominent, long-time food researcher, to discuss food safety and reliability, and social responsibility of the restaurant industry.

Reemphasizing on the basics of business— offering safe and reliable products to customers

Hisatsuka (Hi): In the wake of many recent corporate scandals by food-related companies, there has been intensifying public scrutiny over food safety and reliability.

As the person who leads the restaurant business of Seven & i Group, how do you feel about it?

Hanawa (Ha): Any food-related businesses, whether manufacturers, retailers or service providers, must ensure safety of their products so that their customers enjoy food with confidence. This is the minimum and the most important social responsibility of this industry. To fulfill this responsibility, I believe that ensuring day-to-day control of product quality and freshness in a steady and persistent manner is more important than anything else. Such efforts include the establishment of traceability systems to track the entire history of products, from production of raw material to distribution, processing, preparing and sales.

Hi: You can't cut corners to secure food safety and reliability, can you?

Ha: Not at all. Until last May, I had been in China for about

10 years to support Ito-Yokado's store operations there. Although there have been growing concerns over made-in-China food products around the globe, there are, of course, a great number of conscientious producers in China, who grow safe and reliable food ingredients. In that country, Ito-Yokado continued steady efforts to be known as a retailer who is serious about food safety and reliability by gradually increasing the offering of organic fruit and vegetables grown by exclusive or designated farms, and developing traceability systems for other food products and ingredients. Through these efforts, the stores have gained strong customers' confidence and enjoyed solid growth in sales.

Children's confidence in their mothers' dishes— offering the same levels of confidence are expected for the restaurant industry

Ha: As we Seven & i Food Systems are a restaurant business, we do not offer our guests food ingredients in



their original forms. We process and cook ingredients and place them on plates to serve. Therefore, our guests cannot see at a glance how dishes are cooked, with what ingredients and by what cooking procedures. That's all the more reason to conduct uncompromising safety management for every single dish we serve, so that our guests can enjoy our meals with confidence and trust.

Hi: As you mentioned, it is rather difficult to disclose the production history, ingredients, and cooking methods and other relevant information about all items on the menu at the restaurant. In the good old days, there were fields and rice paddies near your house and you bought vegetables from farmers you knew well and cooked them at home and served for your families. These foods were undoubtedly safe and reliable. People used to buy tofu and prepared foods cooked and sold by local stores.



Akihiko Hanawa
President and COO

Ha: Indeed. Children never question whether their mothers' dishes are safe or not. They trust their mothers and eat their homemade meal without worries. That kind of absolute confidence is also expected for the restaurant industry like ourselves.

Hi: Now I see that such recognition underlies your efforts to establish traceability systems and perform rigorous quality and freshness control.

Ha: It does. With regard to the food ingredients we source, we regularly visit contract farms to see growing conditions and check the safety and legal compliance status of the residual pesticides in the plants. We also visit our food processing plants. Our stores conduct and document the ISO 9001-based hygiene control, and focus on hygiene control education for employees.

Hi: Your customer service with smile is upheld by such efforts invisible to customers to accumulate scientific evidence.

Ha: Exactly. In the course of turning the food safety we obtain through our appropriate supply chain management into the reassurance we give to our customers, we need to demonstrate excellent, individually-tailored hospitality to each customer. I believe we should holistically enhance the quality of our entire



Tomoaki Hisatsuka
President of F.B.T. Planning,
Special Visiting Professor of Gifu Women's University,
Ph.D. in Agriculture, and Certified Professional Engineer

activities from sourcing ingredients to logistics, meal preparation, and service offerings that increase customer satisfaction—in other words, building a “value chain of safety and reliability” is our mission.

Hi: Your attitude to provide “a dish of reassurance” by not only establishing systems but also performing comprehensive activities, including customer service, really resonates with me.

A new role of food-service business: making positive contributions to customers' health

Hi: The other day, I ate out at a family restaurant and appreciated the value of the served salad. Eating dozens of kinds of vegetable every day is difficult at home, but easy at a restaurant. Restaurant businesses have been doing their part to offer wide-ranging menu items, convenience, and comfortable time and atmosphere, whereas I suspect they have not been perceived as health-conscious as they used many frozen foods. But after having that salad, containing some 40 kinds of fresh vegetables, I've got a feeling that the social roles of the restaurant businesses are shifting to maintenance and improvement of public health.

Ha: I am really glad to hear that. In fact, we at Denny's use frozen vegetables only for one item, french-fries. For the other menu items, we are making special efforts to use nutritious, fresh produce.

Hi: So you are helping customers to be healthy in a quick and easy way. In other words, you are offering a new value that “the meal is healthy because it is served at a restaurant,” aren't you?

Ha: I feel a bit hesitant to go as far as to proclaim, “Because it is served at a restaurant, it is good for health,” but we will strive to gain and live up to such reputation. We would like to continuously think about our role as a food-service business, and continue to pay attention not only to food safety and reliability, but to other social concerns, such as prevention of lifestyle-related disease and dietary education.



Responsibilities to Customers

To offer safe, reliable and health-conscious products

Conducting rigorous quality control to ensure our guests' confidence in our offerings

In recent years, customers' demand for food safety has been intensifying as never before. For restaurant operators, it is imperative to ensure food safety of ingredients and strict hygiene control during cooking procedures. Even before the time when consumers started to cry out for food safety, we at Seven & i Food Systems had long been engaged in rigorous, omnidirectional control to ensure the safety and reliability of the dishes we serve. To increase our customers' confidence in our menus and make our meals help improve customers' health, we have also established store-specific internal standards, which are determined depending on store format and customer-mix.

Inspecting all ingredients based on our quality control standards

We at Seven & i Food Systems always seek fresh ingredients to serve tasty dishes, and thus continue to add new farms and manufacturers into our suppliers.

At Denny's, we used as many as 600 items during FY 2006. Before sourcing, quality of all potential ingredients was verified against the Statement of Business Terms, which specifies our quality requirements, and we purchased and used only those which cleared the verification. From FY 2007, these quality requirements are available in a database, which enables the safety of these enormously varied ingredients to be verified more quickly and accurately.

We also ensure the safety of fresh produce used by Denny's by reviewing the "Agrochemical Management Lists" that keep the record of chemical fertilizers and pesticides used. We make it a rule that we will not deal with producers who do not have such lists. Quality of processed food ingredients is strictly inspected, covering a wide range of items, including raw materials, additives, allergens, residual pesticides, processing or preparing procedures, and quality control conditions. We also visit suppliers' factories on a regular basis to monitor the quality and hygiene control performance during manufacturing and storage phases.



On-site inspection at a supplier's factory

Building traceability systems to procure safe ingredients

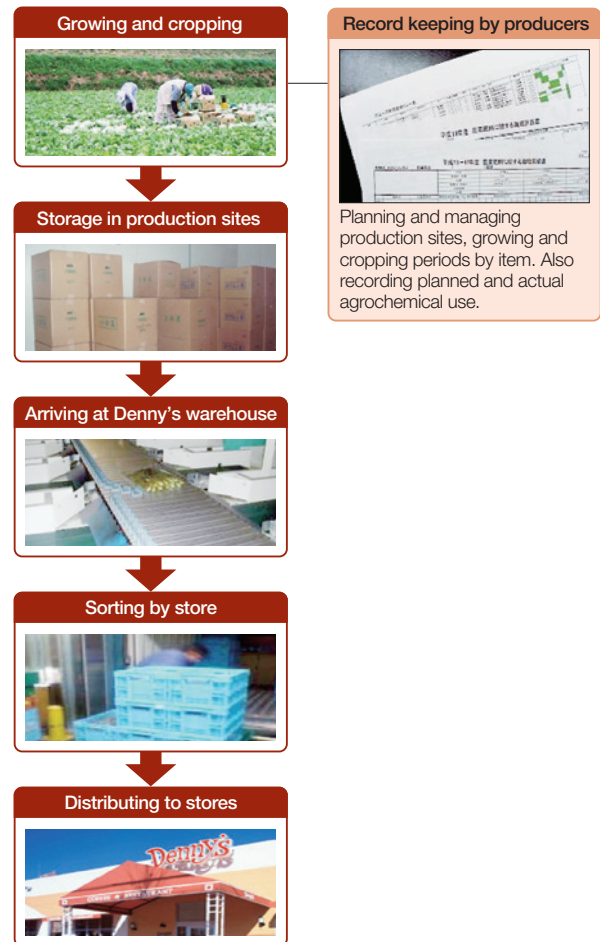
Seven & i Food Systems is meticulous about sourcing food ingredients with visible producers. To this end, we have built and developed traceability systems that accurately keep track of, and manage the place of origin, cultivation environment, and distribution channels.

Denny's ensures stable procurement of fruit and vegetables in quality and quantity, by sourcing from several areas across Japan in accordance with its "Annual Relay Sourcing Schedule." Procured produce is transported at optimal temperature to maintain its freshness.

At Poppo, we enter new sourcing contracts with farmers and production areas by harvest season so as to maintain the visibility of producers.

Traceability systems for fresh produce (Denny's)

Fruit and vegetables used by Denny's are grown in a safe and well-planned manner.



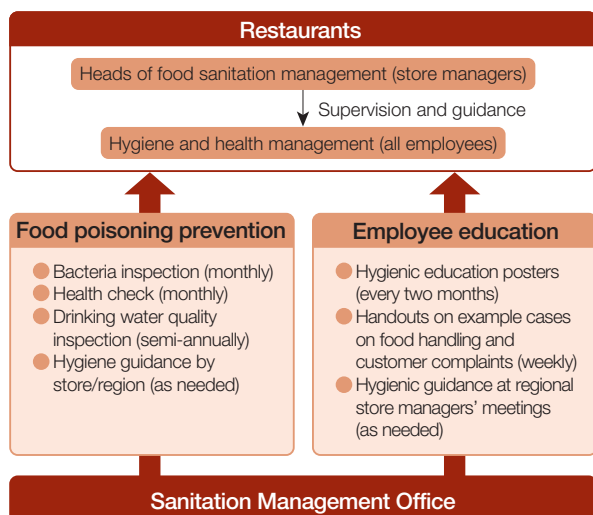
Rigorous in-store hygiene control

Denny's is working to reinforce sanitation control systems and employee education programs, by utilizing the management systems for which our Quality Control Office obtained ISO 9001 certification in 2006.

Store managers are responsible for the store-level food sanitation control, and thus manage and lead the store-level hygiene practices and education. All store employees receive a hygiene control handbook, based on which they are trained to master how to manage expiration dates, use cleaning equipment, and appropriately wash hands and groom themselves. Performance of hygiene control at each store is inspected by the headquarters' Quality Control Office on a monthly basis.

Note: The scope of ISO 9001 certification acquired by Quality Control Office is consistent with the one undertaken by Seven & i Food Systems' quality control function, which is to be launched in September 2007.

Store hygiene control structure



Famil and Poppo are also striving for store hygiene control under the leadership of the heads of food sanitation management.

To prevent food tampering, each restaurant also conducts daily inspection of its cooking equipment.

At Famil, store sanitation management is verified both internally and externally: the former is conducted by area managers during regular store visits and the latter is by an independent inspection agency. These inspections—covering 1) prepared food itself and 2) cooking equipment, facilities, and staff—are conducted without prior announcement to ensure their effectiveness.

At Poppo, each store is working on sanitation management and employee education, based on the Management Manual which describes procedures for hygiene control, ingredient tests by sampling, and best-before date management.

TOPICS

Awareness-raising activities to prevent food poisoning

Seven & i Food Systems carries out educational programs to prevent food poisoning through in-store poster displays and other measures.

Denny's has been making various improvements in its educational programs. For instance, food poisoning prevention posters have recently been changed from text-based to visual aid tool-based, to make them easier-to-understand. Poppo has developed posters, and called on all employees to ensure hand-washing at the time of entering into the store, which is a fundamental practice to prevent food poisoning.



Precautionary instruction poster featuring many visual presentations

Pioneering the offering of “Low-Allergen Plates”

Denny's pioneered the development of “Low-Allergen Plates” menu items for food allergic children in December 2002.

These menu items do not contain the “five specified food allergens”—eggs, milk, wheat, buckwheat and peanuts—which are the most common food allergens. Instead, these allergy-friendly dishes are made of the ingredients that are confirmed by independent research organizations to have a low risk of allergic reactions. To prevent mixture with regular ingredients, ingredients for these special purpose menus are stored separately; processed and cooked with the use of exclusive cooking equipment and containers in processing plants; and heated and put on dishes by one store staff to avoid possible secondary contamination.



Low-Allergen Plates for food allergic guests

Development of health-conscious menu and service programs

At Denny's, we aim to offer well-balanced dishes. To this end, our development of new menu items involves nutritional data calculation and analysis in cooperation with external verification institutions. As intake of vegetables tends to be insufficient in daily meals, we offer a wide variety of menus that use many different kinds of fresh vegetables, from salads to cooked vegetables, to soups.

In April 2007, we started making smaller-size options available for certain menus, and launched *carrotte rappes* and other vegetable menus that can be enjoyed even by children who do not like vegetables. These initiatives have gained great popularity with customers.



"The Vegetables!" plate (in half-size portion)



Carrotte rappes

At Famil, we offer a consultation service on exercise, nutrition and menu planning, to the employees of our corporate customers, for which we operate their employee cafeterias. Our advisory service, using nutritional consultation software by SOFTOM Co., Ltd., called "*Kenko Daigaku* [health university]," helps customers reduce risks of lifestyle-related disease.

For those who wish to know more, Famil's registered dietitians counsel them, asking about their dietary patterns and providing nutritional guidance and menu planning ideas.



Nutritional guidance for corporate customers



Nutritional diagnosis chart

Disclosing various information on menu

In response to customers' request for caloric and nutritional information of each menu item, Denny's started presenting energy values (calories) of all items in March 1988. Salt equivalent (sodium) values were printed on our menu from March 1996; fat and food fiber figures from March 2004, as part of our continued efforts to meet customers' nutritional information needs. We have recently focused on disclosing ingredients and cooking methods for a greater number of items on the menu, to support our guests' culinary decision-making.

1食あたりの栄養成分		エネルギー (kcal)	塩分 (g)	脂質 (g)	食物繊維 (g)
和膳	牛ロースステーキ御膳 (仕懸フライ・ごはん・みそ汁・香の物つき)	942	5.6	40.5	6.3
	牛ロースステーキ御膳 (田舎風煎魚・ごはん・みそ汁・香の物つき)	844	6.0	29.9	7.8
	牛ロースステーキ御膳 (焼き茄子とさつまいもの煮出し・ごはん・みそ汁・香の物つき)	802	5.3	27.9	6.7
	サーモンスターステーキ御膳<予り産鮮魚使用> (仕懸フライ・ごはん・みそ汁・香の物つき)	946	6.7	40.6	4.5
	サーモンスターステーキ御膳<予り産鮮魚使用> (田舎風煎魚・ごはん・みそ汁・香の物つき)	848	7.1	30.0	6.0
	サーモンスターステーキ御膳<予り産鮮魚使用> (焼き茄子とさつまいもの煮出し・ごはん・みそ汁・香の物つき)	806	6.3	28.0	4.8
	牛ロースステーキ御膳 (仕懸フライ・ごはん・みそ汁・香の物つき)	1115	5.5	56.3	5.4
	牛ロースステーキ御膳 (仕懸フライ・ごはん・みそ汁・香の物つき)				
	牛ロースステーキ御膳 (仕懸フライ・ごはん・みそ汁・香の物つき)				
	牛ロースステーキ御膳 (仕懸フライ・ごはん・みそ汁・香の物つき)				

Nutrition facts information chart



Nutritional information on menu

TOPICS

Our response to concern over trans-fatty acids

Intake of trans-fatty acids is becoming an increasing public concern in western countries. In Japan, the prevailing opinion is that the trans-fats intake of average Japanese—who have different diet styles—is below the levels that pose potential health risks, yet a growing number of customers worry about the amount of this type of fat taken into their bodies.

At Denny's, we are striving to minimize trans-fats content in the dishes we serve for our guests' wholesome balanced diet. For instance, we are shifting the side dishes served with Hamburg steaks and other entrees from French fries to fresh vegetables. In January 2007, we also requested our suppliers to phase in the use of oil with low trans-fatty acids.

To make our restaurants friendlier to all customers

To serve delightful meals with which the whole family have fun

Family restaurants are a place to share good time and conversations with your friends and family over delicious meals. We therefore strive to make our restaurants comfortable and relaxing places for all our guests, regardless of age or gender, by reinforcing facilities improvement and employee training.

“Service Ladies” to meet wide-ranging customer needs

To make all guests at Denny’s relax and enjoy their meals, our “Service Ladies” at all stores during busy weekend hours for lunch and dinner (the hours vary by store) since April 2006 take care of various requests from customers, in addition to regular customer services, such as taking orders. A total of 649 employees are engaged in this customer service position (as of May 31, 2007).



Service Lady listening to a customer’s request

Separation of smoking/non-smoking areas for non-smoking guests

At Denny’s restaurants, non-smoking guests can feel comfortable at non-smoking tables, which are separated from smoking tables by glass partitions. Installation of the partitions began in March 1995, partly spurred by societal development, such as the release of a governmental panel’s report on the Tobacco Action Plan in 1995 and the enactment of the Wellness Promotion Law in 2003.

We then started to install air purifiers in smoking sections in June 2000 and completed the installation in all Denny’s restaurants in February 2003. We continue promoting the separation of smoking and non-smoking areas by installing glass partitions in all new stores.

Incorporating Universal Design into store facilities and equipment

We started incorporating Universal Design (UD) approach into our store planning/designs for new Denny’s restaurants. In our standard store specifications, aisles are 90 cm or wider to make them wheel-chair accessible, and store floors are flat without steps. In FY 2007, we are promoting the expansion of elevator installation in our stores located upstairs. The Nishiogi-Kita store became our first restaurant that has an elevator. We have been making many other efforts to make our store facilities and service friendlier to everyone, including the creation of Braille menu with a dot height of 0.4 mm, higher than required by the Japanese Industrial Standard of 0.3 mm. (Braille menu is not available at some stores.)

Availability of UD features in restaurant facilities
(as of February 2007)

UD features	Availability
Flat floor (for customers area only)	100%
Wheelchair-accessible aisles (90 cm or wider)	100%
Ramp access to the entrance	441 stores
Handrails in restrooms	400 stores
Wheel-accessible elevator	5 stores

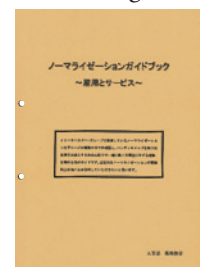


Braille menu

Including care-giving education into new employee orientation

We at Denny’s conduct “Normalization” (understanding of people with disabilities) training for employees, to make our restaurants comfortable to everyone including guests with disabilities and elderly customers. In this training program, 130 and 127 employees participated in 2006 and 2007, respectively.

Beginning from FY 2007, new employee orientation sessions are designed to include Normalization education by employees who are certified care-givers, lecturing on the difference between care-taking and care-giving, and expected attitude as care-givers, and teaching and providing simulative experience of assisting wheelchair-bound and visually impaired guests. We have also developed the Normalization Guidebook for distribution to all stores.



Normalization guidebook



Responsibilities to Business Partners

To ensure fair business and mutual prosperity

Building trust-based relationships through active dialogues

Business prosperity of a corporation cannot be achieved by its members alone; it can be achieved only with coexistence and co-prosperity of its business partners. Under this philosophy, Seven & i Food Systems goes to great lengths to ensure fair trading practices, which are the basis for trust-based relationships with business partners. We have also been engaged in active dialogues with business partners to build and maintain solid, trust-based and cooperative relationships.

For full compliance with *Denny's Corporate Action Guidelines*

Denny's Corporate Action Guidelines, formulated in July 2002, specify applicable legal and regulatory requirements and rules, and related guidance for fair trading practices. With the guidelines in place, we conduct managerial-level educational programs; ensure each of our staff become fully aware of fair working relationships with business partners; and monitor the status.

Chapter 6 Relationships with business partners (excerpt)

- (1) Always be humble in dealing with business partners
- (2) Accept no favors or gifts

Chapter 7 Fair Trading (excerpt)

- (1) Comply with rules stipulated by the Premiums and Representations Act
- (2) Comply with rules stipulated by the Anti-Monopoly Act and the Subcontracting Act



Denny's Corporate Action Guidelines

Active collaborations and dialogues with business partners

In November 2006, we convened all the business partners who supplied food ingredients of our Low-Allergen Plates and went over the quality control standards applicable to production process.

At the meeting, we reaffirmed all the quality control procedures during production phase in detail—from ingredients screening, to preventive measures against allergen inclusion, and inspection of final products—and discussed and shared information on how to secure food safety.



Responsibilities to Communities

As restaurants open to local communities

Wide-ranging contributions as a member of local communities

If each restaurant of Seven & i Food Systems is not intimately connected with people in the communities we serve, it will not be able to attract a larger numbers of guests. All our restaurants are committed to being community-rooted restaurants, and thus are engaged in community contribution activities in various areas, such as education, social work and emergency response.

Special visits to local elementary schools by request for occupational education

Some of our staff members at Denny's visited Hikawa Elementary School in Okutama-machi, Tokyo in July 2007, to provide a special occupational lesson, talking about what restaurant personnel do and sharing some store management episodes.

This special program was materialized at the request of the elementary school for our cooperation in providing an opportunity for children to think about their future jobs. The content of the program was decided after consultation with teachers there. During the program, the elementary students learned how to set the table and serve customers by using the glasses and trays that are actually used at our restaurants.

The children also learned about change in food culture in Japan, importance of wholesome diet, and how to organize nutritious, balanced meals through easy-to-understand lectures.

As a part of Denny's-specific community giving, we would like to expand this special lesson program to many other regions. We are also an active supporter of work experience programs, receiving about 290 students from 99 schools in FY 2005, and around 590 students from 201 schools in FY 2006 in our restaurants.



Participatory learning event

TOPICS

Cooperation in urban culture education as a part of the “integrated learning” school program

Denny’s was involved in a school program on urban culture at Kudan Junior High School in Chiyoda, Tokyo. This program aimed to nurture the students’ self-motivation and creative attitudes in solution finding through interaction with society. The students visited local companies, conducted research to find a solution to the received assignment, and delivered presentations on their findings and proposals.

Students from the junior high school visited us in October 2006, to whom we gave an assignment to create a table mat for children. They came back to us in the following February with their ideas on an ideal children’s table mat. Denny’s intends to cooperate in these activities as much as possible.



Making community events successful in cooperation with volunteers

In August 2007, Famil participated in a summer festival in Hananoie Hospital, a rehabilitation facility, to which Famil offers food service through its restaurant. At the festival, operated by the Yukiie Community Association, Himawari-Sou and Hananoie Hospital, we offered nine food items, including fried noodles, *takoyaki* octopus balls, grilled sausages, deep-fried chicken, and *yakitori* kebabs at a food stand.

This annual event, supported by town-wide efforts, is for the amusement of the entire town. Objectives of the festival are not limited to entertaining the patients of the hospitals, but also to amusing their families and local community associations, women’s groups and other neighbors.

Hospital staff and local people volunteered in preparation for the festival, including picking weeds at the festival site. Some of them entertained the audience with their hula dancing, and others demonstrated *taiko* drum performance. Famil worked with other volunteers to prepare foods at the stand to serve delicious items to community residents.



Food stand operated with volunteers’ support

Disaster response

Intensified earthquake and other disaster preparedness and response

Denny’s formulated its Large Scale Disaster Response Procedures in 1996, to ensure prompt reactions to disaster occurrence, such as earthquake and fire. In the wake of a number of subsequent damage caused by earthquakes, storms and floods, we revised these procedures in December 2004, rectifying weaknesses in the original version. The updated procedures serve as the employees’ code of conduct during emergencies.

Preparatory measures to support stranded commuters in the event of a disaster

Disaster preparedness and response at Denny’s includes community contribution elements. In 2006, we were in discussion with eight prefectural or municipal governments in Kanto Region about the support of stranded commuters in the event of a disaster.

In February 2007, we became the first restaurant operator to enter into agreements with these local governments to provide support for disaster-affected commuters. As the next step, we are scheduled to conduct related training programs at regional store managers’ meetings. Our Denny’s restaurants are also considering purchasing emergency supplies for individual and corporate use.

- **Counterparts of disaster support agreements**
Eight prefectural/municipal governments: Saitama Pref., Chiba Pref., Tokyo Metropolitan Gov., Kanagawa Pref., Yokohama City, Kawasaki City, Chiba City and Saitama City
- **Applicable restaurants**
377 stores
- **Details of agreed support**
For people who need to return home on foot due to disruption of transportation systems in the event of a disaster, applicable Denny’s restaurants—displaying special stickers to identify them as “Supporting Stations for Stranded Commuters Returning Home on Foot”—offer the following support:
 - (1) Access to water and restrooms; and
 - (2) Information provision, such as map-based route searching and disaster-related information obtained from radio and other sources



Sticker for Supporting Stations for Stranded Commuters Returning Home on Foot



Responsibilities to Employees

Fair employment and promotion

Implementation of diversity-oriented employment and promotion policies

A fulfilling and motivating workplace where every employee can realize their full potential enables the company to achieve solid and sustainable growth. With this recognition, we at Seven & i Food Systems respect human rights of employees, ensure no discrimination based on nationality, gender, age or other characteristics, and welcome diverse individuals in our team. For part-time employees, we provide equitable promotional opportunities, and assign and compensate appropriately based on fair evaluation.

Establishment and promotion of re-employment programs for retired employees

Denny's encourages retiring employees to apply for its re-employment program, which was formulated in April 2005. Regular full-time employees, if desired, can work up to the age of 65 under reemployment contracts. Seven former regular employees continue working with us after reaching the age of 60 (as of May 31, 2007). Part-time employees whose contributions are valued by the company are also eligible to sign and renew six-month reemployment contracts until they reach the age of 65. The number of part-time employees at the age of 60 or older was 225 as of July 31, 2007.

At Famil, retired employees are eligible to be re-employed with annual contracts and work up to the age of 65. Using this program, effective from September 1995, 175 senior employees at and over 60, including seven former full-timers and 168 part-timers, were working with us as of June 30, 2007.

Poppo established its reemployment program, which is equivalent to that of Denny's, in April 2006. There were 95 senior employees, consisting of four former full-timers and 91 part-timers working as of February 28, 2007.

Internship and other supportive programs to expand workplaces for people with disabilities

Denny's, as a socially responsible business, has actively been seeking to employ people with disabilities. From September 2006 to January 2007, we notified and implemented our internship programs targeting graduating students at 18 special-needs education schools. Subsequently, we welcomed 11 graduates as our new members, based on their performance during

the internship. As of April 2007, 89 employees with disabilities worked at Denny's, representing 2.18% of our 4,825 non-temporary employees, higher than the statutorily required rate of 1.8%.

At Famil, employees with disabilities are sought mainly for employee cafeteria operation services. Our recruiting channels include schools for children with special needs and special career forums organized by public job placement offices for interaction between businesses and people with disabilities. As of April 2007, 27 members with disabilities worked with us, 2.5% of the total workforce of Famil.

Poppo has conducted its semi-annual internship program for second-year students of special-needs education schools in spring and fall each year since 2000. Successful interns have been employed after their graduation. Of 19 Poppo employees with disabilities, 11 people are former interns (as of April 2007). Employees with disabilities consist of 2.98% of our workforce, a higher rate than the statutorily required level.

Confirmation of prospective foreign staff's work eligibility under applicable laws

Before employing foreign persons, we at Denny's verify the validity of their residential status and periods of stay by checking their passports and alien registration certificates. For international college/junior college students, and those attending vocational schools, we confirm their work eligibility with their valid work permits, before entering into employment contracts which comply with statutorily working hour limits. A total of 538 employees from foreign countries worked at Denny's as of July 2007.

Creating a female-friendly workplace

Since its foundation, Denny's has been a gender discrimination free workplace, offering equal opportunities for employment, compensation and promotion. As a result, about 30% of managerial or executive positions at Denny's are held by women (as of February 28, 2007). Our employees can access group-wide Re-Challenge Plan programs for their childbirth, child-rearing, and nursing care responsibilities. These supportive plans are available for both men and women.

Women in managerial and executive positions at Denny's
(as of February 28, 2007)

Position	Women	Men
Regional leaders	2	56
Training managers	1	17
Store managers	39	573
Deputy store managers (including equivalents)	34	219
Front managers, Kitchen leaders	383	424
General managers	2	19

* Including one executive officer

Note: "Women" in the chart above refers to regular, quasi-regular and part-time female employees

At Famil, female store managers are at the helm of eight restaurants out of 379 (as of July 2007).

At Poppo, 81 or about 60% of the 135 store managers are women (as of February 2007).

Aggressive policy on part-timers' promotion

At Denny's, part-time employees are eligible to become quasi-regular employees, under revised HR policies from FY 2001. While part-timers have some limitations in their job descriptions, quasi-regular employees can be promoted all the way to store manager. Furthermore, talented quasi-regular employees can apply for regular employee status, using Denny's Career-Path Change program. As of July 2007, 604, or 75% of 806 quasi-regular employees took managerial positions, including 35 store managers, 59 deputy store managers (including equivalents) and 515 leaders.

Regular employees promoted from quasi-regular status (Denny's)

FY 2005	FY 2006	FY 2007
4	5	5 (expected)

At Famil, part-time workers are called "Famil Mates" as they are our teammates. To improve cooking and other necessary skills together, they participate in periodical training programs and skill checks. Famil Mates of high caliber can be promoted to leadership positions. By July 2007, 131 part-time employees had become quasi-regular employees, consisting of seven store managers and 124 leaders.

At Poppo, part-timers with outstanding abilities and attitudes can be promoted to regular employees, based on recommendations from their supervisors. Each year, two to three part-time employees, whether they joined us from former employers, or fresh out of school, are promoted to regular employees.

Creating a motivating workplace

Providing more learning opportunities to help improve employees' work-related skills

Improving employees' capabilities—a driving force of customer satisfaction and of employees' motivation and enthusiasm—brings a great competitive edge to a company's growth. Seven & i Food Systems, therefore, develops and implements a variety of learning and training programs, including Open Training programs, to help motivated employees increase their work-related knowledge and improve their business capabilities.

Skill-improvement training courses for motivated employees

Denny's offers an equitable learning forum for regular, quasi-regular and part-time employees through a number of periodic "Open Training" courses, including cooking classes and "Dennylier" basic wine knowledge lessons. To encourage active participation, the company covers transportation fees incurred by participants.



Cooking class

To help increase employees' motivation, we provide customer service advice, notify them of training program information, and announce internal contest results in our "Denny's Information" learning and education tool.

Famil conducts promotional examinations for part-time employees to ensure their fair, equitable treatment and support to upgrade their cooking and customer contact skills.

These examinations—contents of which vary depending on position ranks: Trainee, Junior, Regular or Senior—are held quarterly (April, July, November and January) on a regional basis. Examinees go through respective group training sessions, examinations and interviews. The resulting ranks are reflected in their wage and other arrangements.

At Poppo, employees take Food Sanitation Seminars at the company's expense to acquire necessary knowledge on food hygiene. Through periodical Sales Contests, sales personnel at Poppo improve their sales techniques and motivate themselves for better performance.



Responsibilities to the Environment

Effective use of resources

Reducing and properly disposing of food waste

As a food-related company, Seven & i Food Systems cannot avoid the issue of proper treatment of raw refuse, such as leftovers from customers and those from processing and cooking procedures. We have been striving to reduce food waste and promoting effective use thereof by making compost, which in turn contributes to creating a recycling society.

Promoting food waste recycling through Eco-Distribution System

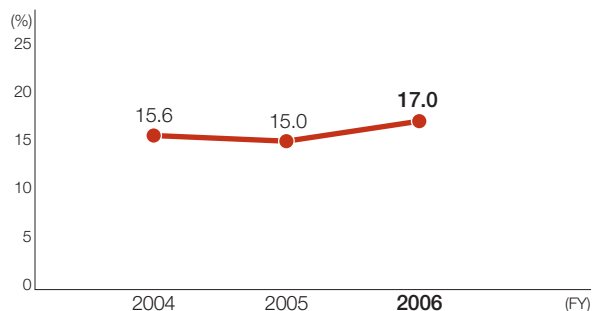
At Denny's, garbage from restaurant kitchens, including leftovers, accounts for 42% of the all waste generated. For proper disposal and higher recycling rates of food waste, Denny's restaurants joined the network of Seven-Eleven's Eco-Distribution System in 1998.

Under this shared system, Denny's started recycling and composting raw refuse from 20 stores in Tokyo and 2 stores in Aizu-Wakamatsu, Fukushima in FY 2003. By February 28, 2007, this practice had grown to be carried out by 59 restaurants, an increase of 12 restaurants from the previous year, recycling 17% of 7,851 tonnes food waste generated from all our restaurants. In FY 2007, we are targeting a recycling rate of 20% through expansion of participating stores to 85.



Collection of raw refuse to create compost

Food waste recycling rate at Denny's



Ensuring waste separation and reducing waste generation

At Denny's, there have been a set of trash bins in all our restaurants since 1992 to collect different types of waste—e.g., papers, bottles, breakables and cigarette butts—separately. In addition, food waste is placed into exclusive bins. In parallel with these waste sorting practices, we have taken steps to reduce the amount of waste itself. We have shortened procurement leading time, started to pack ingredients in smaller units to avoid waste of inventory, and begun using returnable containers travelling between distribution centers and restaurants to reduce the consumption of cardboard boxes.

Global warming prevention

Reduction of CO₂ emissions through more efficient energy use

As reduction of green house gas emissions has become a global agenda, businesses have responsibilities to take steps to improve energy efficiency. As we at Seven & i Food Systems consume a lot of energy for cooking facilities and air conditioners/heaters in our restaurants, we have been implementing a variety of energy saving measures, including installation of energy-efficient equipment.

Installation of thermal-efficient, energy-saving equipment

Energy efficiency initiatives in the kitchens (Denny's)

Energy consumption in the kitchens of Denny's restaurants had been on a rise in recent years, partly due to diversified menu items. To address this issue, we started installing energy-efficient equipment to reduce energy consumption and CO₂ emissions.

In existing stores, gas-powered stoves and noodle cookers were replaced with electricity-powered ones in FY 2004. In newly opened stores, electric kitchen equipment is installed, starting with the Tachikawa Store in Tokyo in 2002. As of February 28, 2007, 67 newly opened restaurants had electric cooking equipment.

In addition, "Eco Cute" water heaters—electric heat-pumps that use CO₂ emitted from energy consumption as their refrigerant—have been installed in three Denny's restaurants.

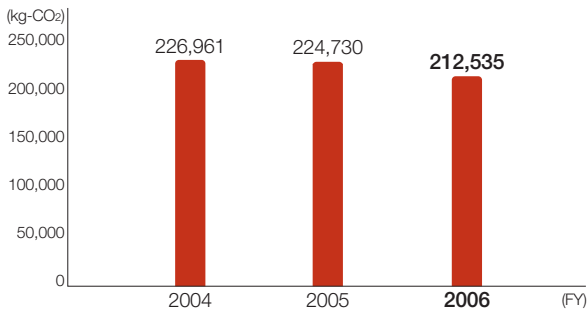
We have also started using



Electricity-powered kitchen equipment with less energy use and CO₂ emissions

cogeneration systems that warm up water by recovering exhaust heat from electricity generation. The Houya-Yagisawa Store, Tokyo, adopted these systems in FY 2003 and the Oofuna Store, Kanagawa, and the Nishiogi-Kita Store, Tokyo, in FY 2006. Energy output of the installed systems is 5 kWh each.

CO₂ emissions per store (Denny's)



Reduced electricity consumption through installation of "Eco-Ace" (Famil)

Famil started using "Eco-Ace" systems, which adjust incoming voltage to reduce electricity consumption, in 2003. Of 379 Famil restaurants, 60 stores had already installed this equipment as of February 28, 2007. As a result, total electricity consumed by all stores in FY 2006 was reduced by 9.3% from the previous year.

Shift to electric cooking equipment to reduce CO₂ emissions (Poppo)

At Poppo, we use electricity for cooking equipment at all our restaurants, except at six stores that use both gas and electricity-powered equipment, for safety concerns and CO₂ emission reduction purposes. We have also set up each appliance's running hours by day of the week to avoid wasteful energy use. Every day, we check electricity and water meters to eliminate any waste in our resource consumption.



Electricity-powered cooking equipment

Streamlining logistics to reduce CO₂ emissions in the course of distribution

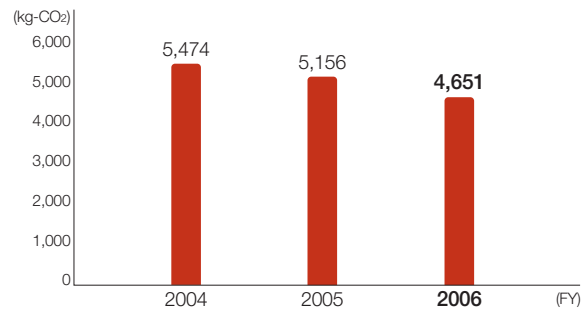
Denny's has long been working to reduce distribution-related CO₂ emissions. In 1982, we launched combined distribution systems and separated distributions based on temperature control requirements. As a result, the number of distributing trips to restaurants decreased considerably.

Before these initiatives, 10 trips per day were necessary. We now have one trip a day each by refrigerated and non-refrigerated vehicles; a few trips per week by freezer trucks. We also see to it that recent expansion of our store network will not lead to additional distribution trips. To this end, we have been taking various measures, such as reorganization of distribution centers, enhanced accuracy of inventory order placement, mix-delivery of room-temperature and refrigerated goods.

In FY 2006, we achieved higher logistics efficiency by projecting delivery volume during weekdays and weekends, resulting in a 3.7% reduction in the number of distribution vehicles from the previous year. We also installed digital tachographs in all our distribution trucks, which led to more energy-efficient driving patterns. During FY 2006, our average fuel efficiency has improved to 5.8 km/L, from 4.5km/L of the previous year. Accordingly, we were able to achieve a 9.8% reduction of CO₂ emissions.

We will continue our efforts to attain higher logistics efficiency and lower environmental impacts of our distribution operations through strict vehicle management and resulting improved fuel efficiency.

CO₂ emissions during distribution processes (Denny's)



TOPICS

Resource-friendly chopsticks with no possible emissions of endocrine disruptors

At Denny's, we use as many as 40 million pairs of disposable chopsticks each year. For effective use of forest resources, beginning from 1997, all chopsticks served in our restaurants are made from discarded parts of Yoshino cedars used for construction application, Cedar wood is safe for human bodies, as it has natural antiseptic properties and requires no bleaching for processing.

We do not use any polyvinyl chloride (PVC) in our chopstick covers to prevent risks of releasing dioxins or endocrine disrupting chemicals.

Third-Party Comments on Seven & i Holdings CSR Report 2007

September 20, 2007

To Mr. Noritoshi Murata
President and Chief Operating Officer
Seven & i Holdings Co., Ltd.

Akira Yamate
Chief Executive Officer,
Aarata Sustainability Certification Co., Ltd.

This is a translation of the third-party comments in Japanese on the Seven & i Holdings CSR Report. The translation has been done by and its responsibility lies with Seven & i Holdings Co., Ltd.

The objective of these comments is to express our independent view on the features, results, developments and future direction of key environmental and social initiatives described in the "Seven & i Holdings CSR Report 2007" (the "Report"). In preparing these comments, we performed the following procedures:

1. Interview with Mr. Noritoshi Murata, President and Chief Operating Officer
2. Interview with CSR (Corporate Social Responsibility) personnel at Seven & i Holdings (the "Company") and its five major group companies
3. Review of the final Japanese draft of the Report

These comments do not express any conclusion from an independent perspective on whether the information in the Report was collected in accordance with the Company's policies and standards, nor constitute an assurance or attestation of any kind.

1. Pursuit of synergies in CSR activities

In FY 2006, the Company's CSR Promotion Committee and its five specialized sub-committees started their full-scale activities. These sub-committees shared information on, and identified challenges of, each group company's CSR-related activities. In addition, the group companies have made further progress on promoting CSR by seeking advice from, and learning from advanced practices of, other group companies to address the identified challenges.

As a next step, we expect the Company to look for group-wide synergies in CSR activities. In this Report, the Company reported the formulation of *Seven & i Holdings Business Partner Action Guidelines* and the policy of collaborative food waste recycling. As such, along with promoting other CSR activities, it would be expected to generate group-wide synergies. Another area that we expect the Company to develop and exercise group synergies is agriculture. In light of the Company and its group's strong food product purchasing power, and Japan's low food self-sufficiency rate, we hope the Company will further promote agriculture as a group-wide initiative, by elevating existing individual efforts at group company level, such as promotion of local production for local consumption and an eco-friendly soil improvement agent. In addition, sustainable fishing is also one of the challenges that the Company should address to respond to the concerns of the possible depletion of global marine resources. We look forward to the Company's proactive actions to create group synergies in addressing the challenges in these areas.

2. Improvement of organization and disclosure of group companies' CSR activity information

The Report this year adopted company-by-company page composition and highlighted each group company's CSR focus and characteristic activities. We also noted that some new topics were included this year, such as "Responsibilities to Business Partners" (Seven-Eleven Japan); "Freshness Checking Patrols" (Ito-Yokado); "Star Club" program to motivate sales personnel, including those from business partners (Millennium Retailing);

establishment of traceability systems (York-Benimaru); and health-conscious menus (Seven & i Food Systems).

At the same time, we noted that some activities, which had been continuously carried out to address societal concerns, were not reported, because of the limitation of the total number of pages of the Report in consideration of the readers. In order to improve the disclosure further in the Report, we hope to see that the Company will grasp and analyze the group's CSR activities, and disclose it in a further refined way. Recommended steps include compiling a list of identified issues, targets and performance of each group company; prioritizing the portfolio of CSR activities in alignment with stakeholders concerns; and disclosing highly-prioritized activities in CSR reports and other activities on its website. The process of analyzing and prioritizing the CSR activities helps the Company to clarify its challenges and future directions of the group companies' respective CSR activities. Through the process, we hope the Company will deepen its CSR efforts.

3. Sharing and leveraging findings obtained from stakeholder engagement

In line with the Company's goal to implement CSR in the course of its business, its group companies are engaging stakeholders—listening to them and incorporating findings into its business operations - as a part of their day-to-day business. As featured in the Report, the group companies adopted a new approach to engaging with stakeholders, i.e. discussions on key CSR issues and future directions by the top management of the group companies and external experts. Together with other initiatives, the Company and its group have been making steady efforts to meet stakeholders' expectations.

As a next step, we recommend that the Company and its group share findings of each group company's stakeholder engagement with the entire group. We look forward to seeing the Company taking an active role in this, such as providing its group companies with useful information related to existing stakeholder engagement performed on a company-by-company basis and considering possibilities to intensify dialogues among entire group companies.

Responding to Third-Party Comments

Seven & i Holdings, launched in September 2005, celebrated its second anniversary recently. Since the time of foundation, we—mainly through the CSR Promotion Committee and its five specialized subcommittees—have been discussing and developing group-wide CSR policies and activities, based on our review of various issues identified through stakeholder dialogues and responses to those issues by relevant companies.

We received a lot of inquiries from stakeholders about our CSR management, for instance, whether we have a CSR management structure in place at group-wide level, or what we are planning to do to make CSR policies permeate throughout the group. In response to these voices, this CSR Report 2007 has extensive coverage of activities by the specialized subcommittees:

The Corporate Ethics and Compliance Sub-Committee has been working on educational programs to ensure all employees understand and practice *the Seven & i Holdings Corporate Action Guidelines*, and proper operation and awareness-raising of internal reporting systems; the Fair Trade Sub-Committee has been striving to ensure appropriate education of sourcing personnel, and to establish and intensify fair trading verification systems; these two sub-committees formulated *the Seven & i Holdings Business Partner Action Guidelines* to facilitate legal compliance, environmental conservation and fair working conditions through the entire supply chain, and are actively preparing for the implementation of these guidelines within the FY 2007.

The Environmental Management Sub-Committee has launched the Waste Management, the Logistics, and the Containers & Packaging Working Groups, aiming for proper and effective responses to applicable laws and regulations across the group; the Social Contribution Sub-Committee formulated *the Seven & i Holdings Basic Policy on Social and Cultural Contribution* in June 2007, based on its evaluation of existing social contribution activities, such as their missions and relevancy to our

business; the Information Management Sub-Committee has been reviewing information management policies, systems and rules by referring to *the Seven and i Holdings Information Security Policy*, to strengthen our information security measures to prevent information theft/leakage and unauthorized access and to make our internal control systems rock-solid. In the course of summarizing these sub-committees' activities, we were able to further clarify our group-wide CSR challenges and obtained important insights to develop future policies and activities.

In preparing this Report, each operating company reviewed its CSR focus and performance thereof, and its top management held dialogues with external experts to receive objective evaluation and insights. We believe it is important to incorporate received comments and requests from various stakeholders into our business objectives.

In a dramatically changing environment, facing economic globalization, global warming, changing demographics in Japan (decreasing birthrate, increasing longevity and declining total population), concerns over food safety and reliability, public expectations of businesses have been expanded in width and depth. We at Seven & i Holdings—while endeavoring to maximize group-wide enterprise value—intend to make positive contributions to create a sustainable society. To this end, each and every employee faithfully strives to meet societal needs in their daily operations. We will be actively communicating the progress and achievements of these efforts in our CSR reports, annual reports, and on our website.

Taking this opportunity, I would like to express our deepest gratitude for your support, and look forward to your continued cooperation.

September 2007

Katsuhiko Goto
Chief Administrative Officer
Seven & i Holdings

Editor's Note

In compiling this "Seven & i Holdings CSR Report 2007," we established two major objectives:

One was to review the group-wide CSR management and to report the results thereof to the fullest extent possible; the other was to clarify each operating company's CSR focus, by identifying the specific activities being performed and CSR issues currently being faced.

To achieve the former objective, we put together a special report on five specialized sub-committees, which started their full operations in FY 2006. For the latter, we created company-by-company sections, each of which starts with introducing the CSR focus of the operating company, and features a dialogue between the top management and

external stakeholders/experts to discuss related activities.

As a result, we believe the Report presents the issues and goals to fulfill group-wide CSR commitments, and key CSR initiatives of each operating company more clearly than in previous reports.

We are determined to continue such active stakeholder engagement and in turn take our group-wide CSR to another level.

We welcome your candid feedback and comments.

CSR Promotion Committee
Seven & i Holdings



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