



CSR Report
2008

Seven & i Holdings Corporate Creed

(Formulated in 1972)

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

(Formulated in 1993, latest revised in 2007)

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:

Ethics and compliance with regulations

Basic policy

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.

Business activities

1. Relationship with customers / sales activities
2. Relationship with business partners / business activities
3. Relationship with shareholders
4. Promotion of fairness

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

● 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.

● Reporting period

Fiscal Year 2007 (from March 1, 2007 through February 29, 2008). Some activities in FY 2008 are also included.

● Reference

Sustainability Reporting Guidelines (Version 3.0), Global Reporting Initiative (GRI)

Publication schedule

Current report November 2008 Next report scheduled September 2009

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.

At the Seven & i Holdings Group, CSR is an integral part of our business strategy to become a truly sustainable business.



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



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

Active stakeholder engagement activities to sincerely meet public expectations

Business communities today are facing higher public expectations and scrutiny in the midst of dynamic societal changes, such as accelerating economic globalization and global warming, Japan's declining birth rate, aging population, and decreasing total population, as well as increasing concern over food safety and reliability.

In response, we at the Seven & i Holdings Group (our "Group") are working to make meaningful differences in society by actively engaging with a wide range of stakeholders, such as shareholders, customers, business partners, and local communities, and employees. At the same time, all the operating companies of our Group are united to create a "new, comprehensive lifestyle industry" that provides innovative, truly customer-oriented services and values.

Establishing CSR Management Committee to take our groupwide CSR activities to another level

From fiscal year (FY) 2008, our CSR activities are operated and managed under a new structure with three committees: the CSR Management Committee, the Risk Management Committee and the Information Management Committee. The CSR Management Committee has two sub-committees: the Compliance Committee and the Environment Committee. The objective of this restructuring is to accelerate and refine our activities across the Group.

Aiming to take our CSR efforts to the next level, we work to ensure that each and every operating company complies with applicable laws and regulations, rigorously manages risks, and strengthens its information management systems. To achieve a responsible supply chain, we also work with our business partners with the use of the Business Partner Action Guidelines and the Business Partner Help Line, which were established during FY 2007.

Offering safe, reliable food products and preventing global warming

Recognizing that the safety and reliability of food products is of greatest concern to our customers, we launched the Quality Control Sub-Committee under the Compliance Committee to improve our groupwide information sharing and incident response. To meet growing consumers' demand for safe, reliable food, we also formed an agricultural production corporation with local farmers in August 2008. With this farm using food waste generated from our stores in its production, we have built a closed-loop production system.

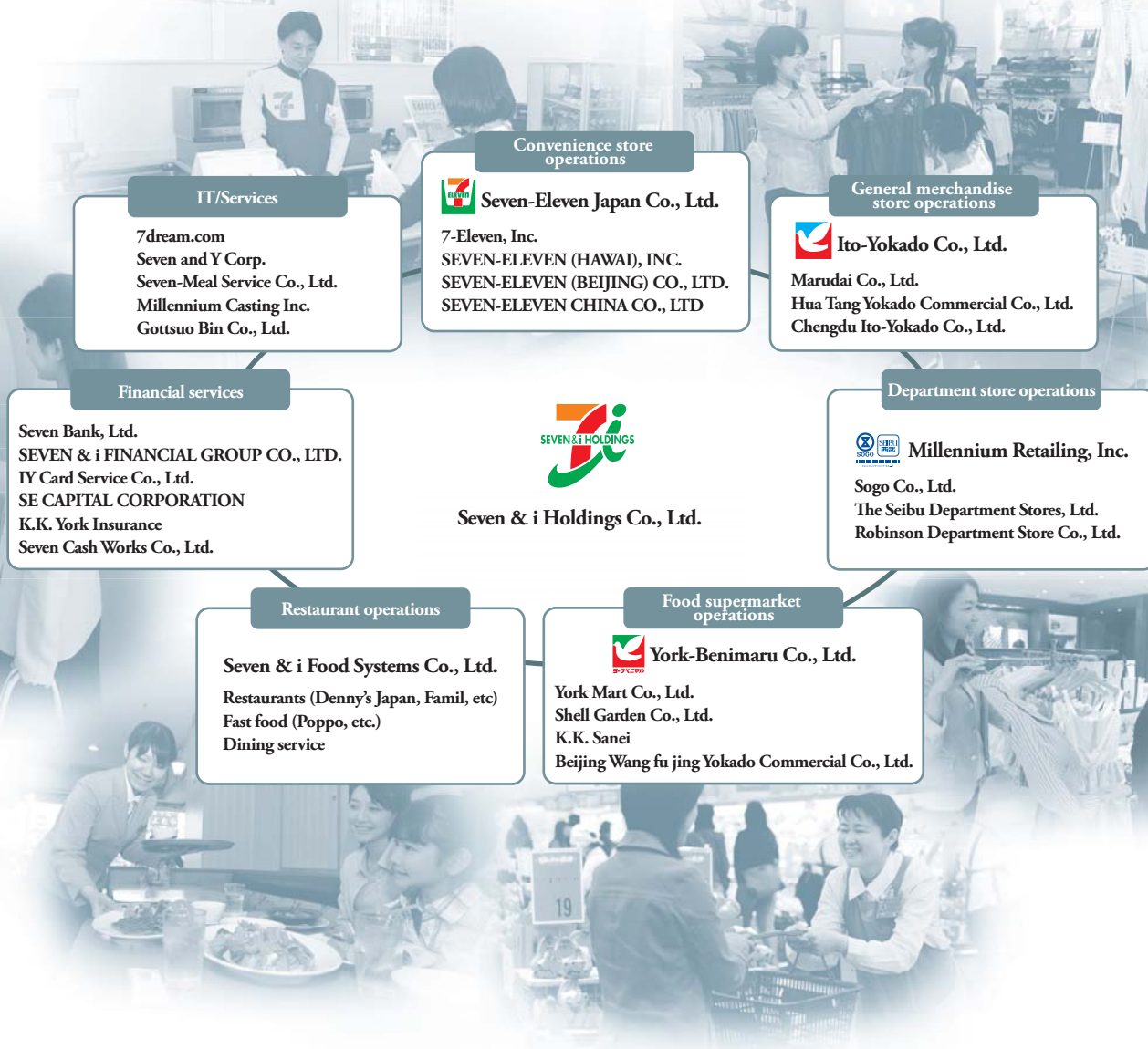
To strengthen our Group's environmental activities across the entire supply chain, ranging from product development to production, distribution and sales, we formulated the Environmental Declaration and the Fundamental Policies Relating to Measures to Contribute to the Prevention of Global Warming in June 2008. Under these clear directions of our Group, we are working to make an environmental difference in a more collective and holistic manner.

Furthermore, as a part of our initiatives to conserve the global environment, our forest conservation program to reduce CO₂ emission is scheduled to begin in FY 2009, in partnership with the International Tropical Timber Organization (ITTO).

The Seven & i Holdings Group has been, and will be committed to transparent disclosure and active stakeholder engagement. We will continue striving for success both in terms of financial and social performance.

We look forward to your continued support.

We operate retail, restaurant and other businesses to enrich customers' daily lives.



Seven & i Holdings Co., Ltd., is a holding company that was established in September 2005 through a stock transfer by Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd., and Denny's Japan Co., Ltd. The Company oversees approximately 100 operating companies, principally retail businesses, and has seven core operational areas that are closely connected to the daily lives of its customers—convenience stores, superstores, supermarkets, department stores, food services, financial services, and IT/services.

By leveraging group synergies, we are working to bring innovation to the retail industry and to create a new, comprehensive lifestyle industry that will continuously attuned to social expectations and diverse needs of individual customers.

Corporate profile (as of February 29, 2008)

Company name: Seven & i Holdings Co., Ltd.
 Headquarters: 8-8, Nibancho, Chiyoda-ku, Tokyo 102-8452, Japan
 Establishment: September 1, 2005
 Listed on the First Section of the Tokyo Stock Exchange
 Nature of business:
 A pure holding company that plans, administrates and operates a corporate group primarily operating convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services businesses.
 Paid-in capital: ¥50 billion
 Consolidated number of employees: 153,128
 Consolidated operating revenues:
 ¥5,752.3 billion (for the year ended February 29, 2008)
 Consolidated operating income:
 ¥281.0 billion yen (same as above)

The Report this year focuses on our CSR activities which are closely connected with consumers' daily lives.

Reflecting business characteristics of the five major operating companies*

In preparing Seven & i Holdings' CSR Report 2008, we selected three priority topics based on the fact that our businesses are closely connected with customers' daily lives. The priority topics are covered in detailed in the "In Focus" special features.

The first topic is the safety and reliability of food products. Following a string of food scandals in recent years, Japanese consumers have greater concerns over, and less confidence in, food products. As more than 50% of revenue of our major operating companies is food-related, this issue is of great importance for us.

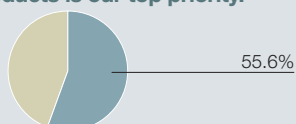
The second is global warming, which is drawing increasing public attention as the first commitment period of the Kyoto Protocol started in 2008. To achieve reduced CO₂ emissions—a key challenge for a group that operates an increasing number of stores—we are continually working to reduce energy consumption throughout our store operations and improve efficiency of our distribution process.

The third is a comfortable workplace for part-time employees. Because more than 70% of the employees at our major operating companies work on a part-time basis, creating a good working environment for our part-time workers is an essential theme for us. This is also our response to growing public demand for equitable treatment of non-regular workers.

* Seven-Eleven Japan, Ito-Yokado, Millennium Retailing, York-Benimaru and Seven & i Food Systems

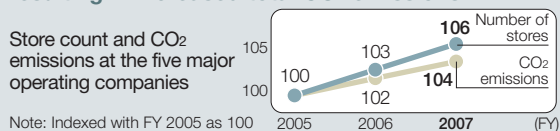
Over 50% of revenues are food-related. Quality control and recycling of food products is our top priority.

Food-related revenues at our five major operating companies



Preventing new store openings from resulting in increased total CO₂ emissions

Store count and CO₂ emissions at the five major operating companies



Over 70% of our employees work part time. We support a variety of employee working styles.

Non-regular employees at the five major operating companies



More than 80% of the Group's domestic operating income comes from the operations of the five major operating companies.

Contribution by the five major operating companies to our total domestic operating income



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As a holding company that manages and oversees a number of operating companies, we recognize that strengthening corporate governance and ensuring full regulatory compliance are fundamental to fulfilling the social responsibility of our Group. Through a series of "In Focus" sections, the Report also highlights how we address groupwide challenges.

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CSR reporting of operating companies

Together with groupwide challenges of "food safety and reliability" and "global warming prevention," the Report introduces typical CSR activities by our operating companies to illustrate how each company applies its operations and resources to contribute to society.

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We have a distinct separation of management oversight and business operation responsibilities to ensure the transparency and reliability of our business and increase business efficiency throughout our 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 implement initiatives in 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 objective of these initiatives is long-term growth in enterprise value.

Basic structures and systems

Corporate governance system underpinned by the executive officer and corporate auditor systems

As of October 31, 2008, the Board of Directors at Seven & i Holdings comprised 12 members, of whom three 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, 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.

We also monitor management through a system

of corporate auditors. As of October 31, 2008, 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, and receiving reports from directors.

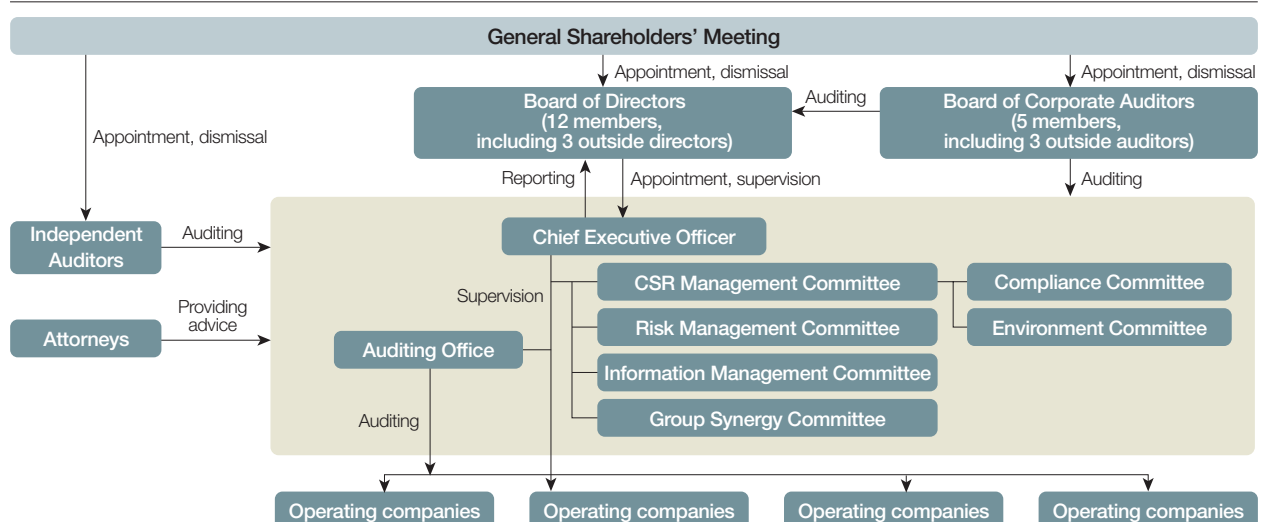
Furthermore, we have established the Auditing Office responsible for the internal audits of our Group. It works closely with corporate auditors and verifies the internal auditing of operating companies and providing guidance to them. The Office also has internal auditing responsibility for the holding company itself.

Strengthened corporate governance by introduction of outside directors, outside corporate auditors and special committees

To ensure proper management oversight, some of our directors and corporate auditors' positions are assumed by external individuals. We assign employees to assist the outside directors and outside corporate auditors to facilitate smooth information exchange and close interaction with the inside directors and standing corporate auditors.

To strengthen corporate governance and maximize Group enterprise value, we have also established the CSR Committee, Risk Management Committee, Information Management Committee, and Group Synergy Committee, which directly report to the Chief Executive Officer.

Corporate governance system



Investor relations basic policy and activities

Fulfilling responsibilities to shareholders and other investors, guided by the corporate creed

The corporate creed of Seven & i Holdings starts with the sentence, "We aim to be a sincere company that our shareholders trust." To realize this credo, we 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, expand and develop our group business, and disclose information in a timely and proper manner.

Active communication with investors

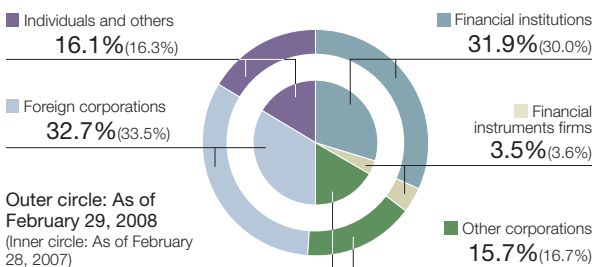
Seven & i Holdings sends notice to shareholders of the annual meeting earlier than the statutorily required date to improve the vibrancy of the meeting and to facilitate smooth exercise of voting rights. For institutional investors, our notice of the annual shareholders meeting is posted on the membership websites of several trust banks. We have also participated in an online proxy voting system for institutional investors, called the "ICJ Platform."

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 strictly comply with laws and regulations

Summary of the latest annual shareholders meeting

- Date: Thursday, May 22, 2008
- Meeting duration: 106 minutes
- Attendants: 854 persons
- Voting rights exercised: 78.28%

Shareholder composition



and pay due consideration to provide fair information.

We are also focusing on investor relations programs to disclose adequate and appropriate information to investors and financial analysts. From FY 2008, the Disclosure Sub-Committee is in place under the Information Management Committee to ensure our financial and other important information is disclosed in an accurate, fair and timely manner. In addition, our website includes relevant information for investors, such as financial results (*Kessan Tanshin*), real-time disclosure information, other IR material, and stock information.

External recognition

In recent years, there has been growing attention to socially responsible investment (SRI), which evaluates a corporation's performance holistically, considering both financial and non-financial elements of the company. Seven & i Holdings has been included in a number of Japanese and international SRI funds, including FTSE 4 Good Global Index.*

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.

* A SRI index developed by UK-based FTSE Group



FTSE4Good

Credit quality (as of October 30, 2008)

		R&I	JCR	S&P	Moody's
Seven & i Holdings Co., Ltd.	Long-term	AA	AA+	AA-	Aa3
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	AA	—	AA-	—

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

We have strengthened our CSR management system to ensure our operating companies are fully responsible to society under further effective management and oversight.

Seven & i Holdings and its operating companies believe that sincere interactions with our stakeholders, including shareholders, customers, business partners, local communities, and employees, is the center of our CSR activities.

To make this happen anytime anywhere, we at Seven & i Holdings need to manage our operating companies to ensure they are responsible to their stakeholders, in addition to fulfilling our own responsibilities to our shareholders and operating companies.

With this in mind, we have established the CSR Management Committee, the Risk Management Committee and the Information Management Committee. These three committees are working closely with relevant operating companies to enhance our stakeholder engagement activities, which aim to incorporate stakeholders' views into our business operations.

These committees also periodically review and evaluate each operating company's performance of related areas. Such findings and results will be reflected in the future management objectives of our Group and of individual operating companies. By doing so, our entire Group aims to work in unison to take our CSR activities to the next level.

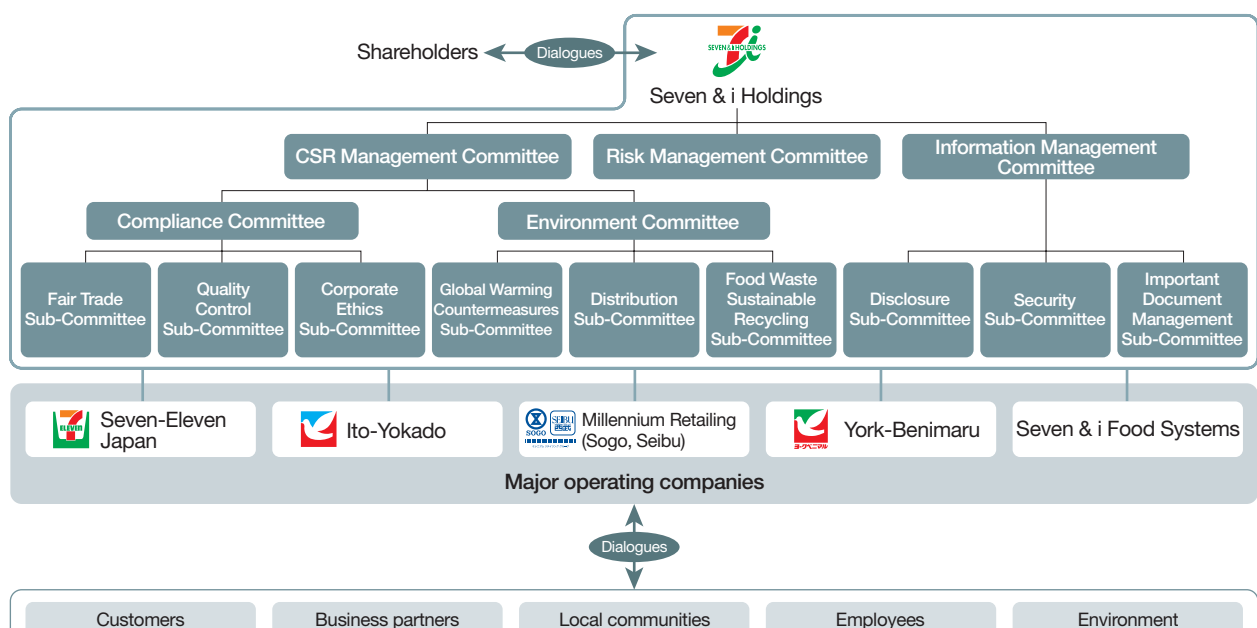
Basic structures and systems

Establishment of the CSR Management Committee responsible for promoting groupwide CSR activities

At the inception of our organization, we established the CSR Promotion Committee and its five specialized sub-committees to facilitate effective stakeholder engagement activities. It was part of our efforts to develop a mechanism to centrally review and evaluate the CSR performance of our operating companies.

In February 2008, however, we decided to reorganize the CSR Promotion Committee with the clear separation of promotion function and oversight function, aiming to achieve even more effective, prompt implementation. To this end, the committee's functions were allocated to three separate committees: the CSR Management Committee that promotes CSR activities, the Risk Management Committee, and the Information Management Committee that has responsibility for the Group's overall information management. . In addition, the Compliance Committee and the Environment Committee were set up under the CSR Management Committee.

CSR management system



● Compliance Committee

The Compliance Committee, chaired by our Managing Executive Officer, consists of the Fair Trade, the Quality Control, and the Corporate Ethics Sub-Committees.

To strengthen the compliance system and process of the entire Group, the committee is working to develop action guidelines applicable to all operating companies, consolidate the contact points of company-specific help lines, and formulate written rules defining how to respond to identified nonconformity with applicable laws, regulations and rules. The committee is also focusing its efforts on educating newly joined operating companies about our Group's policies on fair business practices, as well as establishing a system to share product/food safety information among our operating companies and setting up clear rules on how to report and respond in case of the occurrence of product-related incidents.

● Environment Committee

The Environment Committee, chaired by our Managing Executive Officer, consists of the Global Warming Countermeasures, the Distribution, and the Food Waste Sustainable Recycling Sub-Committees.

This committee is responsible for strengthening our environmental risk management system applied to the entire Group, whether in Japan or abroad, and for deliberating and determining how we should address environmental issues as a single group. The committee also develops groupwide targets on global warming prevention, food waste and packaging materials' recycling, and waste disposal. It also provides various support for the operating companies' green actions.

Strengthened risk management system

To operate a more sophisticated risk management system, we formulated the Risk Management Rules and relaunched and enhanced the Risk Management Committee in February 2008. The objective of the rules is to manage the risks of our entire Group, i.e., Seven & i Holdings, subsidiaries and affiliates, in a unified manner as a part of our Group's internal control system.

Under the new rules, the Risk Management Committee discusses detailed risk management policies and implementation thereof, and provides the overall direction of our risk management practices. Aiming at continuous improvement of our risk management system, the committee also conducts periodic risk identification, analysis and evaluation, the findings from which are incorporated in future policy development.

Strengthened information management system

In February 2008, we launched the Information Management Committee that oversees information management across the Group. Concurrently, we formulated the Basic Rules on Information Management to specify the system and measures required for proper handling and management of information. In line with the rules, this committee operates and improves the Group's information management system; identifies, analyzes and evaluates associated risks; and develops necessary actions to deal with such risks.

CSR at Seven & i Holdings in number (as of February 29, 2008, specified otherwise)

	Seven-Eleven Japan	Ito-Yokado	Millennium Retailing		York-Benimaru	Seven & i Food Systems
			Sogo	Seibu		
Revenues (¥ million) ¹	2,574,306	1,464,094	495,336	461,079	319,931	113,472
Number of stores	12,034	176	12	16	149	1,047
Number of employees	11,671	43,013	5,417	4,940	12,140	16,883
Percentage of part-timers ²	54.6%	76.2%	50.2%	53.0%	81.2%	89.3%
Average length of service of regular employees	7 yrs 6 mons	16 yrs 11 mons	17 yrs 4 mons	20 yrs 1 mons	12 yrs 8 mons	13 yrs 6 mons
Percentage of women in managerial positions ³	0.5%	16.2%	16.7%	28.3%	29.0%	15.5% ⁴
Percentage of employees with disabilities	2.1% ⁵	2.1% ⁵	1.58%	1.78%	1.98% ⁶	2.1% ⁵
Number of parenting leave users (Number of part-timers)	27 (0)	218 (66)	31 (8)	22 (14)	25 (7)	47 (41)
Frequency rate of occupational injuries	2.39	1.84	1.15	1.1	2.74	18.56
Severity rate of occupational injuries	0.008	0.03	0.01	0.02	0.03	0.02
CO ₂ emissions (t-CO ₂) ⁷	902,471	700,535	163,222	143,883	155,068	110,334 ¹⁰
Waste generated (tonne) (Recycling rate)	308,752 (46.9%) ⁸	158,496 (58.6%)	17,879 (40.8%)	16,870 (60%)	46,405 (52%)	19,881 (25.2%) ¹⁰
Recycling rate of food waste ⁹	18.1%	24.7%	36.6%	38.3%	21.7%	20.4% ¹⁰

1. Seven-Eleven's figure represents the total revenue of the stores across the chain. Seven & i Food Systems figure incorporates the six-month revenues of its three former companies (Denney's Japan, Famil and York Bussan) which were integrated in September 2007.

2. Monthly average headcount calculated on the assumption that one month consists of 163 hours (8 hours/day).

3. Officers are excluded from the calculation.

4. Managerial position refers to deputy store managers or higher, including those taken by part-timers.

5. The percentage of workers with disabilities at the five qualified group companies of Seven & i Holdings as of June 1, 2008. The qualified group companies are: Seven & i Holdings, Terre Verte (special subsidiary for severe disabilities), Seven-Eleven, Ito-Yokado, and Seven & i Food Systems.

6. As of September 30, 2008.

7. The figure of Millennium Retailing represents the emissions from energy consumptions at stores. The figures of the other companies include distribution-related CO₂ emissions.

8. Calculated based on the average waste per store in Tokyo during the calendar year of 2007.

9. Seven-Eleven's rate is based on the performance of its roughly 1,000 stores in Tokyo, which includes the recycling rates of used cooking oil related to the introduction of new fryers during FY 2007. Sogo and Seibu's figures reflect the amount of waste reduced. The rates of Seven-Eleven, Ito-Yokado, York-Benimaru and Seven & i Food Systems do not take this factor into consideration.

10. Figure of Denny's Japan only.

To fulfill our commitment to compliance throughout our Group, we are promoting necessary systems and processes to implement our Corporate Action Guidelines.

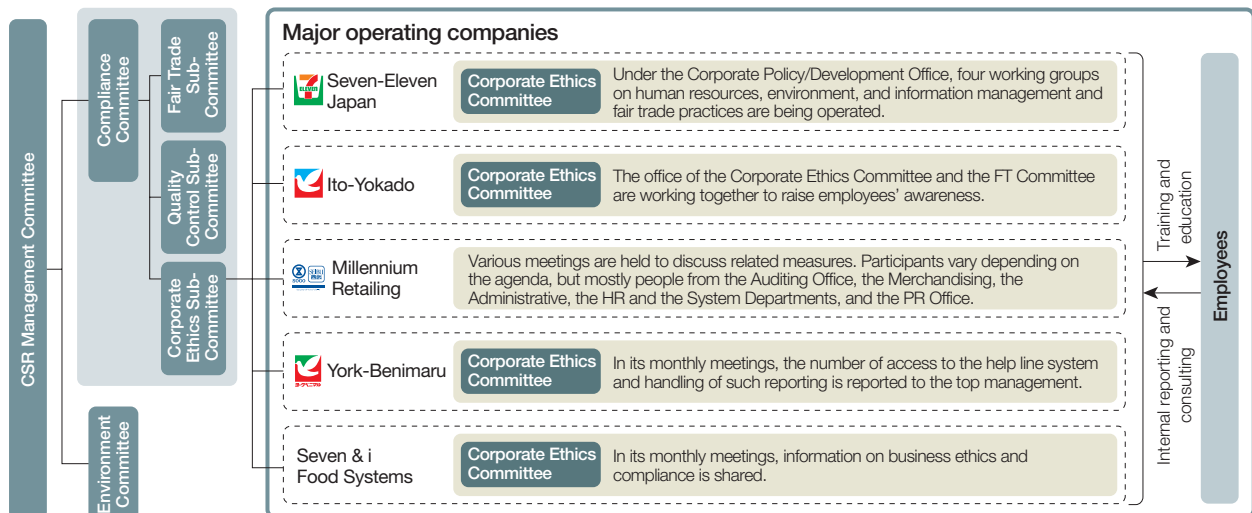
To ensure full compliance with the Seven & i Holdings Corporate Action Guidelines, and all applicable laws and regulations, Seven & i Holdings has established Corporate Ethics Committees or assigned fulltime employees with responsibility for compliance and sound corporate actions, in each operating company.

These committee members and the specially assigned employees are involved in the Compliance Committee under the CSR Management 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.

Compliance system



Compliance-related initiatives at major operating companies

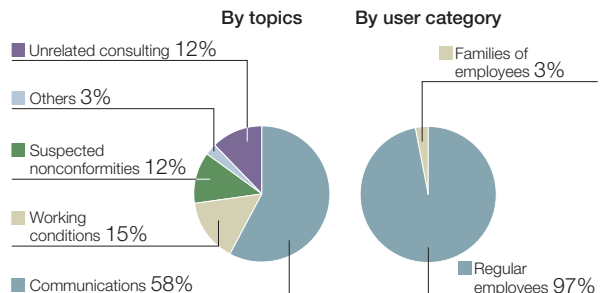
Seven-Eleven Japan

During FY 2007, all new employees of Seven-Eleven Japan received a copy of the Code of Conduct and participated in a training program on human rights. In addition, meetings of the Corporate Policy/Development Office, general staff meetings and many other occasions were used to raise employee awareness and improve compliance.

Employees also received an internal message in June 2007 to encourage access to the Help Line whenever necessary.

Access to Help Line System during FY 2007

Total access: 33 (13 in the previous year)

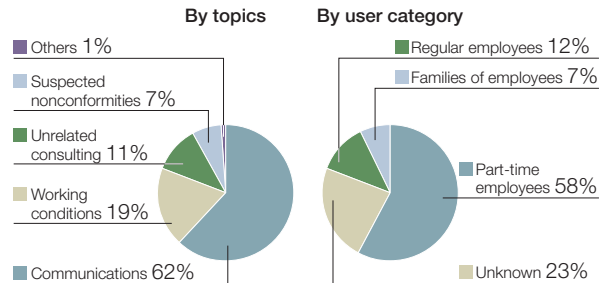


Ito-Yokado

In March 2007, Ito-Yokado developed a compliance training DVD for store management staff and distributed it for store-level education. All Ito-Yokado stores also displayed a revised poster to encourage greater employee awareness and use of the Help Line.

Regular compliance training programs for new employees and new managers were also implemented.

Access to Help Line System during FY 2007
Total access: 228 (142 in the previous year)

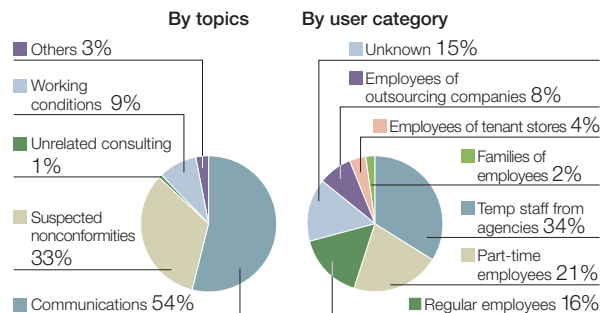


Millennium Retailing

Millennium Retailing developed a new version of Yellow Whistle system posters and had its stores display them to encourage greater employee awareness and more effective use of the system.

The company also conducted regular compliance training programs. The FY 2007 program was focused on more specialized topics than last year, and was targeted at sales floor leaders, such as the managers of the Administrative and the Sales Promotion Departments.

Access to Help Line System during FY 2007
Total access: 127 (134 in the previous year)

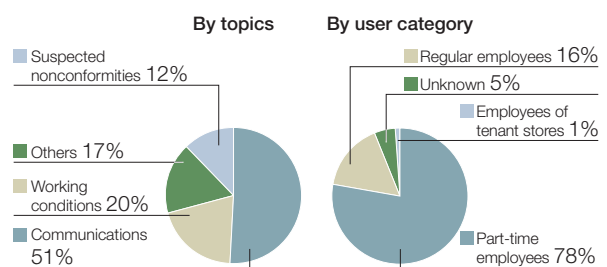


York-Benimaru

York-Benimaru revised its Business Ethics Action Guidelines in March 2008 and distributed copies to the management staff at the headquarters and stores, as well as to new employees and new store managers. The company also focused on compliance education for affiliate companies' employees.

Awareness-raising posters were also displayed in stores to facilitate more recognition and use of the Help Line.

Access to Help Line System during FY 2007
Total access: 75 (60 in the previous year)

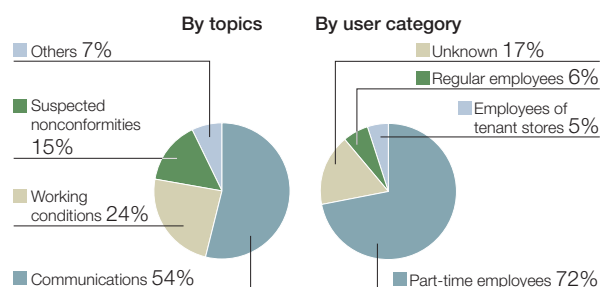


Seven & i Food Systems

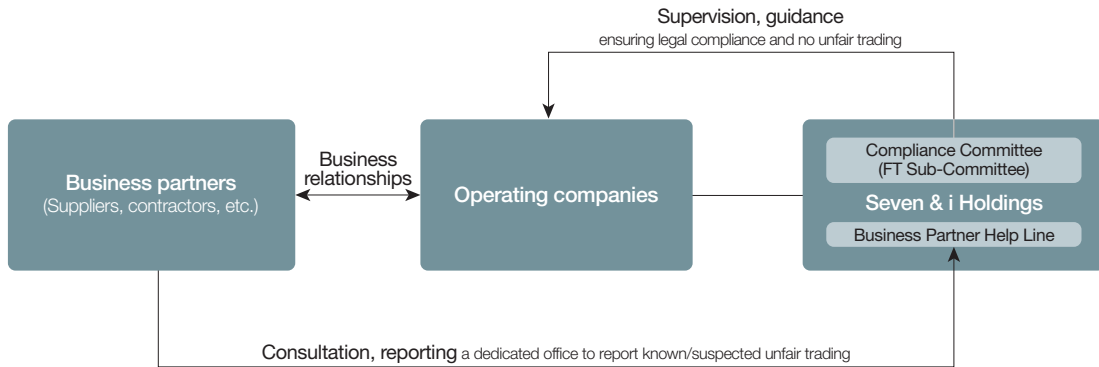
In September 2007, when the company was established as a result of full integration of Denny's Japan, Famil and York Bussan, Seven & i Food Systems prepared "7FS Corporate Action Guidelines" booklets and posters for distribution to all stores to make all employees understand the guidelines.

Training on these guidelines was also included in the new employee orientation and training sessions for store manager candidates during FY 2007.

Access to Help Line System during FY 2007
43/ Total access: 107(50 in the previous year)



For proper labeling and fair business



The Anti-Monopoly Act that prohibits unfair trading by large-scale retailers is among key applicable laws we need to comply with in doing our business. Under this law, there are several related regulations we also need to observe, such as: the Subcontracting Act that aims to prevent companies from acting against contractors' interests; the Regulations on Unfair Trading by Large-Scale Retail Businesses that restricts the abuse of dominant bargaining positions; and the Act against Unjustifiable Premiums and Misleading Representation that restricts unfair premiums and presentation.

A draft of the revised Anti-Monopoly Act was approved by the Japanese Cabinet, which is under deliberation in the Diet aiming to implement as early as 2009. The new law would be more stringent for businesses: for example, it would introduce penalties for abuses of dominant bargaining positions or for predatory pricing.

Successive food-related incidents in Japan have spurred lawmakers to work toward the launch of a "Consumer Agency," aiming to pass the relevant bill in the Diet during its 2009 spring session. Some existing laws would be regulated by the Consumer Agency—such as the Act against Unjustifiable Premiums and Misleading Representation, the JAS Law and the Food Sanitation Act—probably under more rigorous approach to protect consumers' interests. Corporations therefore would be required to improve their compliance systems.

At Seven & i Holdings, we launched a special organization to ensure an effective system is in place for detecting any possible unlawful or antisocial behaviors, and to make our Group conduct fair and legal business at any given time, while keeping abreast of regulatory changes. The organization, called the Fair Trade Sub-Committee as a part of the Compliance Committee under the CSR Management Committee, provides a forum to share information on the latest regulatory and administrative developments as well as our operating companies' related examples.



This sub-committee has also taken many other steps, including employee education, to maintain our fair business practices.

Help line for business partners

Business communities are under increasing scrutiny from customers and the broader public, as many product incidents have continually occurred, putting consumers' safety and confidence in danger.

To prevent and promptly rectify possible misconduct that may erode public confidence, we set up the Seven & i Holdings Business Partner Help Line operated by a third party, in conjunction with the implementation of our Business Partner Action Guidelines (p.13). By listening to our business partners' concerns and feedback and taking prompt actions for improvement, we aim to build and maintain fair business relationships with our business partners.

The helpline was accessed by eight times by the end of the first half of FY2008. Main areas of concern



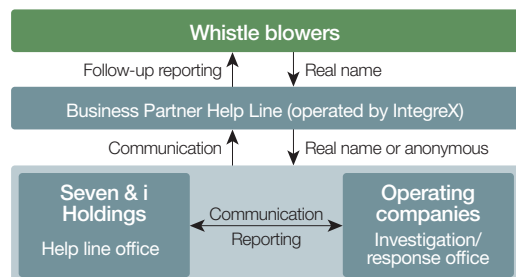
Leaflet to inform about the opening of the Business Partner Help Line

included our behavior and attitude to business partners, appropriateness of specific transactions, and product safety and reliability.

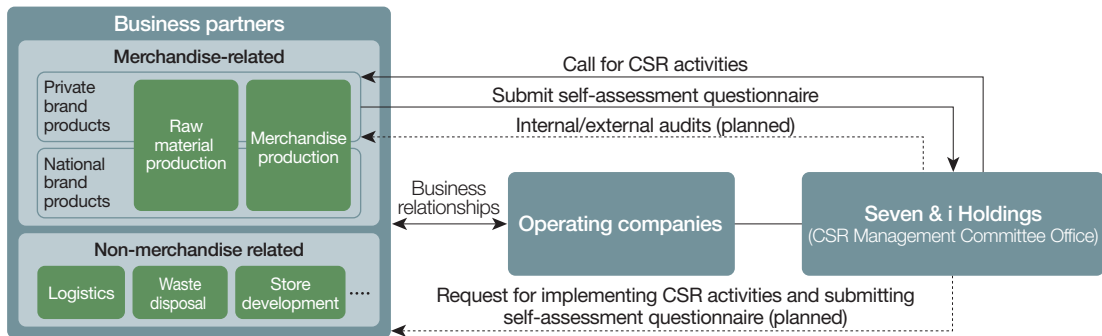
Based on our review of the received concerns, we will take corrective actions and reinforce employee education with relevant operating companies and departments. Through this system, we aim to ensure sound business practices and build even more trusting relationships with our business partners.

For more information about the Seven & i Holdings Business Partner Help Line, please visit:

WEB <http://www.7andi.com/csr/helpline.html>
(in Japanese)



Toward a responsible supply chain



Corporate social responsibility today—e.g., legal compliance, decent working conditions and environmental conservation—is expected to cover its entire supply chain, extending beyond a company’s own business activities. Accordingly, companies need to involve not only internal members but business partners in the supply chains, such as suppliers, contract manufacturers and logistics vendors, in fulfilling such responsibility to society.

Given this, we defined our social responsibility standards for business partners in the Seven & i Holdings Business Partner Action Guidelines, which were formulated and implemented in March and December 2007, respectively.

Briefing on the Business Partner Action Guidelines

To ensure effective implementation of the guidelines, we held an explanatory meeting for buyers of our operating companies and back office officers and managers.

Approximately 600 participants left the meeting understanding the concept of the action guidelines, i.e.,

the compliance with the guidelines and implementation of CSR by both our business partners and Seven & i Holdings will allow us to earn further trust from our stakeholders who support our business activities, and to enable both business partners and operating companies to increase respective corporate value.

Self-assessment questionnaire

Proprietary products of our Group and individual operating companies are manufactured by approximately 800 companies in Japan and abroad. We asked these business partners subject to our action guidelines to complete and return a “Self-Assessment Questionnaire,” which specifies required actions and conditions to meet the guidelines.

This evaluation tool is designed to promote effective CSR activities by our business partners and to help us understand the CSR performance by each partner.



Seven & i Holdings Business Partner Action Guidelines

Legal compliance

In accordance with corporate ethics, our business partners shall comply with applicable local laws and relevant international rules.

Respect for human rights and dignity

Our business partners shall respect human rights and dignity of all individuals who are involved in their business activities.

Employment and Workplace Environment

At our business partners, all individuals engaged in business activities shall be employed in a proper manner and work in a safe and worker-friendly environment.

Environmental Management

Our business partners shall make utmost efforts to prevent environmental pollution and reduce environmental burdens.

Relationship with society and local communities

Our business partners shall pursue good relationships with society and local communities.

Information Management

Information obtained in the course of business shall be maintained appropriately.

Commitment to Product Safety

To deliver safe and reliable merchandise to final consumers, our business partners shall comply with the quality standards of relevant operating companies of Seven and i Holdings and shall ensure the followings.

Fair Business

Our business partners shall conduct transactions in a fair, transparent, and appropriate manner, as well as under free competition. They shall also maintain normal and healthy relationships with politics and public administration.

To see the full text of the Seven & i Holdings Business Partner Action Guidelines, please visit:

WEB <http://www.7andi.com/en/csr/fair-trade.html>



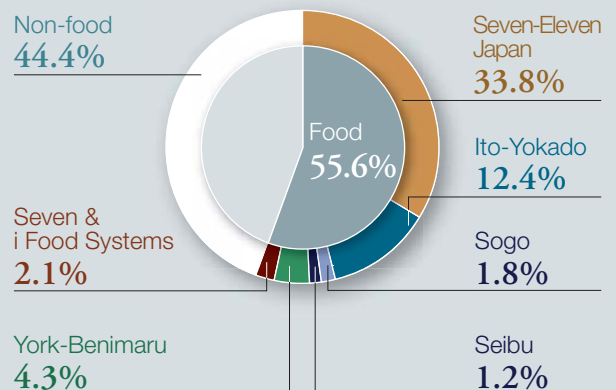
Elementary school students harvesting daikon radishes at Seven Farm Tomisato (p.17)

In Focus 1

Commitment to food safety and reliability and building a recycling society

Aspiring to become a “new, comprehensive lifestyle industry,” our Group strives to enrich customers’ daily lives through our wide-ranging businesses, such as operations of convenience stores, supermarkets, department stores and restaurants. To such a business as our Group, food is one of the core merchandise categories, accounting for about 56% of our total revenues. In recent years, this daily necessity has been the center of negative attention in Japan, due to mislabeling incidents, increasing concerns over imported food, lower food self-sufficiency ratio, increasing food waste, and higher food prices caused by surging oil and grain prices, to name a few. Our Group has been taking many steps to address these issues and provide safe and reliable food to our customers.

Percentage of our food-related revenues and breakdown by major domestic operating companies



Rigorous control on production, management and distribution processes

As a corporate group offering a variety of food products, including fresh products (e.g., produce and meat), so-called Daily Products (e.g., boxed meals and prepared foods), processed food (e.g., seasonings) and fast food, we have advanced food quality control in place across the supply chain, ranging from in-store monitoring of freshness and overall quality, to the management of ingredient production.

Robust traceability systems to trace production, processing and distribution

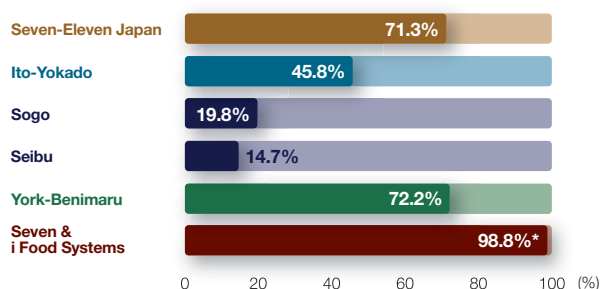
Recent successive food-related problems—such as bovine spongiform encephalopathy (BSE), fraudulent labeling, tampering with insecticide and contaminated rice—have shaken consumer confidence in food products. Consequently, shoppers want to see more rigorous food safety programs that cover the entire supply chain from ingredient production to processing and distribution. To ensure the safety of our food products, we comply with the Beef Traceability Law effective from December 2004, and each of our operating stores has built its own system to trace the production history of a range of food products, not only fresh food but also prepared and packaged products.

Examples of our traceability systems include the Recipe Master System by Seven-Eleven Japan. In its dedicated factories, all ingredient production and consumption is centrally managed by the system. Recording when and where ingredients are produced, and which ingredient is used in what amounts, for what product, at which factory, the system enables SEJ to respond promptly to any ingredient problem by immediately identifying the items that contain the ingredient in question, and removing them from shelves.

Ito-Yokado offers “KAOGA-MIERU-SHOKUJIN (food traceable to producers)” house brand products. Merchandise of this brand is selected against the company’s own criteria regarding the place of origin, production method and traceability. Similarly, York-Benimaru offers traceable products under the “YORK-BENIMARU-NO-SANCHIGA-MIERU-SHOKUJIN (products with the place of origin visible)” brand. The information of these products, such as places of origin and cultivation methods, is also available on the companies’ websites.

Denny’s Japan, a part of Seven & i Food Systems, is also working to advance the traceability of the ingredients of its menu items. For example, producers who grow vegetables to be served in salad and other items in Denny’s restaurants are required to submit “Cultivation Plans” and “Cultivation Records for Registration” to the company.

Percentages of food-related revenues in our Group



*The figure of Seven & i Food Systems represents the revenue from food-related business in stores and offices.

New private brand representing safety & reliability, taste & quality, and reasonable prices

Our traceability management systems are used in developing private brand products that offer safe, reliable, delicious, and quality options to our customers at reasonable prices.

The latest example of such private brands is *Seven Premium*, rolled out in May 2007. In a new Group Merchandising Reform Project, product development staff of our operating companies have been working together to develop and expand the new brand. The project generates group synergy by sharing each company’s accumulated know-how and procedures, such as those on product development, general quality control, and factory-level hygiene and quality control.



Seven Premium



KAOGA-MIERU-SHOKUJIN

Reducing food waste and making compost and livestock feed

Creating a recycling society is on today's societal agenda. Rather than producing, consuming and disposing of massive amounts of goods, we need to use finite resources effectively. To this end, we strive to reduce food waste from our store operations and promote the recycling to make compost and livestock feed.

Food waste recycling programs suited to the size and business activities of operating companies

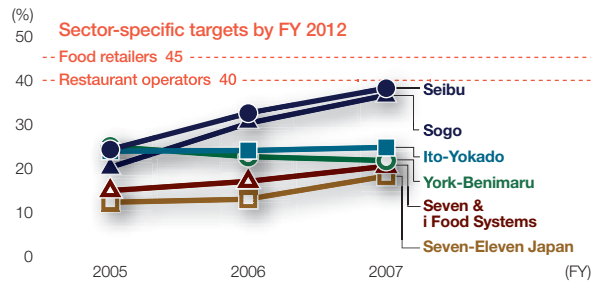
The food industry in Japan generated a total of 11.352 million tonnes in 2006, including 3.042 million tonnes (27%) from restaurant operators and 2.620 million tons (23%) from food retailers, according to a survey on the recycling of food resources released on November 20, 2007 by the Ministry of Agriculture, Forestry and Fisheries of Japan. Meanwhile, the Food Waste Recycling Law was amended in December 2007, which requires large food waste generators to annually report the amount of food waste generated and the status of food recycling practice to the relevant minister.

Our Group, operating food retail and restaurant businesses, is taking steps to reduce and recycle food waste aggressively. Based on our assessment and analysis of our waste volume and type, we are working to do more than just meet legal requirements.

Seven-Eleven Japan, for example, promotes appropriate waste disposal across the chain, by centrally collecting and disposing of waste from more than 12,000 SEJ stores in Japan, including franchisees (p.34). This waste management system is jointly used by SEJ and Seven & i Food Systems.

Ito-Yokado promotes food waste recycling through a financial support program, which commenced in FY 2002, covering part of the recycling costs of waste management contractors (p.47).

Food waste recycling rates in our Group



Notes: SEJ's FY2005/2006 figures represent the percentages of stores with food recycling. SEJ's 2007 figure is based on the average recycling rate of some 1,000 SEJ stores in Tokyo and of waste cooking oil used by new fryers installed during the year. Figures of Sogo and Seibu include estimated waste savings, while SEJ, Ito-Yokado, York-Benimaru, Seven & i Food Systems (Denny's only) exclude this factor.

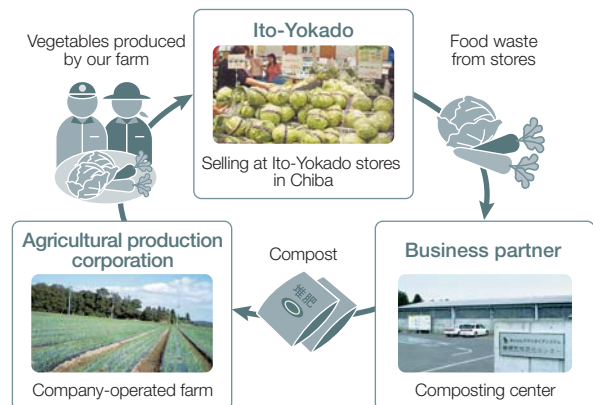
Recycling loop turning food waste into recyclable resources

A "food recycling loop," using food waste from store operations to make compost and livestock feed in production of food products, is recommended by the revised Food Waste Recycling Law.

Our Group, primarily SEJ and Ito-Yokado, already started to develop this system in 2002. Farm products grown with recycled compost are available in selected SEJ and IY stores. We also took a step further toward self-sustaining, closed-loop food recycling in August 2008 by establishing a new agricultural production corporation Seven Farm Tomisato. In the farm, food waste produced by Ito-Yokado stores is composted and used to grow vegetables.

The Seibu Department Stores ("Seibu") and York-Benimaru also work with local farmers and poultry producers to practice closed-loop recycling for selected items.

Agriculture in a closed-loop recycling system



Topics

Establishing Seven Farm Tomisato as a model of recycling-based agriculture

On August 23, 2008, our first agricultural production corporation named Seven Farm Tomisato was established in Tomisato City in Chiba. The farm makes compost using food waste collected from Ito-Yokado stores, and uses it to grow vegetables, which are sold at Ito-Yokado stores in the prefecture.

Seven Farm Tomisato was established jointly by Ito-Yokado, Tomisato City Japan Agricultural Cooperative (known as “JA Tomisato”) and its cooperative members. In its roughly two-hectare (20,000 m²) field in Tomisato City, Chiba, various vegetables, such as *daikon* radishes, broccoli and carrots, are planted. In the initial year, the farm targets an annual yield of about 130 tonnes with two rounds of planting.

One of the distinct features of the farm is the collaboration between agricultural producers (JA Tomisato members) and a retailer (Ito-Yokado). Information from Ito-Yokado, such as retail prices, sales performance and nationwide yield of specific products, is effectively used in the farm’s daily efforts to grow safe, reliable produce that meets customer needs. At the farm, we also work to avoid wasting any produce we grow. Nonstandard items, mainly due to sheer size and shape, are used as ingredients of our convenience store products and restaurant menu. This is made possible by the breadth of our Group network. As a next step, we are planning to work together with local farmers and agricultural organizations to find more effective uses of farmland, improve productivity, and ultimately energize local agriculture.

Another notable feature of the farm is the operation of recycling-based agriculture practices with a closed recycling loop. The farm uses food waste generated by some Ito-Yokado stores in Chiba, such as Matsudo, Yabashira, and Goko

Stores, to make compost, which is mixed in the farm’s soil. Vegetables produced in the farm are sold in the aforementioned and other Ito-Yokado stores in Chiba. In spring 2009, the farm plans to expand its land to four hectares to grow a wider variety of products for a greater number of stores.

Seven & i Holdings positions this farm as a model practice of recycling-based agriculture. Aiming to expand this model to a new business pillar of our Group, we will continuously review and improve the farm’s operations, such as daily activities, profit sharing structure and quality control systems.

From Stakeholders

High hopes for the new type of agriculture connecting producers and consumers directly

This joint business with Ito-Yokado has provided us with access to information which is otherwise inaccessible in the web of complicated distribution systems—e.g., which item is selling well and what “food safety and reliability” exactly means to customers. With our good partner Ito-Yokado, with whom we share responsibility and risk, we would like to discuss everything regarding our joint business and strive for a more vibrant agricultural community in Tomisato.



Hiroaki Tsuda
Co-owner, Seven Firm Tomisato
(Member of JA Tomisato)



Seven Farm Tomisato farmland



Tree planting near Lake Shikotsu-ko

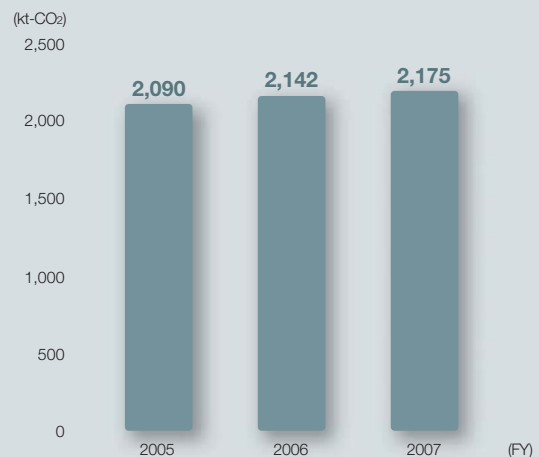
In this afforestation program by Seven-Eleven Midorino Kikin, we have worked to restore typhoon-hit forests near Lake Shikotsu-ko. In recognition of the program's contribution to global warming prevention, we received an award from the Environmental Minister in FY 2007 (p.38).

In Focus 2

Combating global warming and creating a low carbon society

In January 2008, the first commitment period under the Kyoto Protocol finally commenced. Japan is required to reduce its average green house gas emissions, including those of CO₂, by 6% from 1990 levels during the five-year period ending 2012. At Seven & i Holdings, global warming has long been of the highest priority among environmental issues. We therefore have measured and evaluated CO₂ emissions of each operating company, and taken reduction measures covering the entire supply chain processes from product development and manufacturing to distribution and sales. In June 2008, we formulated (i) the Environmental Declaration and (ii) the Fundamental Policies Relating to Measures to Contribute to the Prevention of Global Warming, aiming to elevate our efforts to the next level of even more holistic, groupwide activities. In line with these specified directions, we have embarked on a variety of initiatives to create a low carbon society.

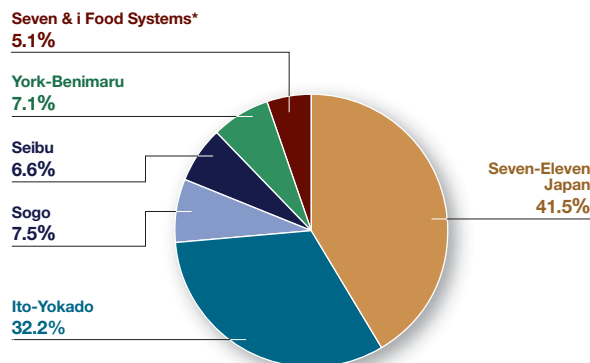
Total CO₂ emissions by major operating companies



Environmental declaration to drive our environmental activities across the supply chain

On June 5, 2008, Seven & i Holdings issued two sets of environmental policies and goals—(i) the Environmental Declaration and (ii) the Fundamental Policies Relating to Measures to Contribute to the Prevention of Global Warming—to strengthen existing environmental activities by individual operating companies and evolve them into groupwide initiatives with a key focus on global warming prevention.

CO₂ emissions by major operating company



* Denny's Japan only

Seven & i Holdings Environmental Declaration

(Formulated in June 5, 2008)

We believe the most pressing problem facing all people around the world is how to preserve the environment and pass on an abundant and beautiful natural world to the next generation. Our mission is to contribute to the solution of this problem. To achieve harmony between the environment and our business activities, we will work together with our customers, local communities, and business partners throughout the entire supply chain, from product development and manufacturing to distribution and sales. We will strive to be a leader in the global retail industry not only in product safety and security but also in measures to alleviate environmental problems, and pursue initiatives on a Groupwide basis.

We consider the prevention of global warming to be the largest and most serious challenge facing the world. We are aggressively pushing forward measures to contribute to the achievement of low-carbon societies by reducing emissions of carbon dioxide, the primary cause of global warming.

We endeavor to provide environmental education for all employees in the Group, to ensure that each employee is aware of the Company's social responsibilities as a good corporate citizen, and to exist in harmony with the environment and our local communities.

From the viewpoint of sincerity and transparency, we disclose all information relating to these initiatives accurately, reliably, and promptly.

Fundamental Policies Relating to Measures to Contribute to the Prevention of Global Warming

(Formulated in June 5, 2008)

We at Seven & i Holdings and its operating companies comply with environment-related laws and regulations. We are fully aware that our business activities are connected to global resource and global warming issues. Based on this recognition, we will evaluate the environmental impact of and strive to reduce CO₂ emission from each process of our operations, covering the entire supply chain from product development to production and distribution, as well as sales and consumption.

I. Measuring CO₂ emissions and evaluating progress

- Each operating company should accurately measure CO₂ emissions associated with its business activities. It also should evaluate its environmental performance against appropriate goals, such as industry association targets (often expressed as per unit energy consumption: total energy use ÷ [floor areas x operating hours]).
- We will start to measure CO₂ emissions from each process—manufacturing, distribution, sales and disposal—of our private brand *Seven Premium* products.
- From fiscal year 2007, business partners that manufacture proprietary products of our Group are subject to the Seven & i Holdings Business Partner Action Guidelines. Internal and external audits to inspect the adherence to the guidelines will be introduced in fiscal year 2008.

II. Reducing CO₂ emissions

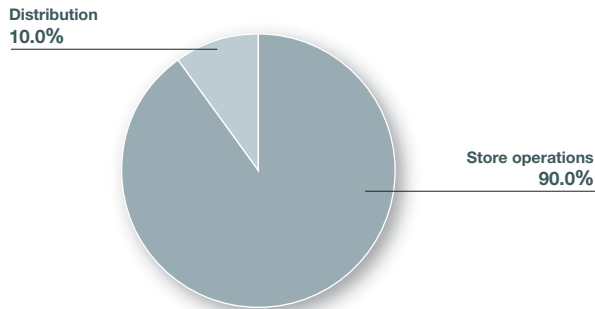
Each operating company should take actions in such a way as fits its business nature toward the following goals:

- II-1. Reducing CO₂ emissions from product development and manufacturing activities
- II-2. Reducing CO₂ emissions by increasing distribution efficiency
- II-3. Reducing CO₂ emissions from sales and marketing activities
- II-4. Reducing CO₂ emissions from employees

To read the full text of our Fundamental Policies Relating to Measures to Contribute to the Prevention of Global Warming, please visit:

WEB http://www.7andi.com/csr/environment_02.html (in Japanese)

Attributing factors of CO₂ emissions by major operating companies



Note: Emissions by Sogo and Seibu are excluded.

Increasing energy efficiency of store equipment, especially lighting and air-conditioners

Store equipment, such as lighting, signage and air conditioners, is indispensable to our operations. Electricity consumption for such equipment accounts for about 90% of the CO₂ emissions of our operating companies. To curb our electricity consumption despite our expansion of store networks and floor space to meet diversifying customer needs, each of our operating companies has aggressively installed energy-saving equipment in its stores, usually when opening new and remodeled stores.

Seven-Eleven Japan, in particular, has endeavored to minimize power consumption in its around-the-clock store operations since its establishment. Together with equipment manufacturers and other business partners, SEJ has developed its own energy-efficient and highly durable store equipment. Examples include: “continuously adjusting lighting equipment,” which automatically adjusts in-store light levels; power-efficient lighting fixtures; and ceramic floor tiles that effectively reflect light from the ceiling are among key examples (p.31). SEJ takes many other initiatives, including the opening of an experimental “green” store in Nagano City in February 2008 (p.31). The pilot store with state-of-the-art equipment targets the annual reduction of CO₂ emissions by approximately 1.4 tonnes compared with the average emissions of existing stores.

Ito-Yokado, aggressively opening mall-styled stores, is also working to shift into energy-efficient equipment and conduct periodic equipment maintenance. Energy-saving devices at Ito-Yokado stores include: ice thermal storage air-conditioners that use ice made during off-peak night hours; cogeneration systems that warm up water by recovering exhaust heat from electricity generation by small-sized, gas-powered engines; and solar panels that utilize the natural energy to keep the stores bright (p.45).

Other companies in our Group also take various steps to reduce energy use and CO₂ emissions in their

operations. Specific programs vary depending on the nature and format of the company’s business. A notable example is the introduction and expansion of all-electric restaurants by Denny’s Japan. Previously, all the cooking equipment at Denny’s was powered by natural gas, because of its high heating power and low running cost. However, an “electric kitchen” has been proved to reduce total energy requirement, while achieving compatible heating capability, by a pilot program since 2002 that introduced induction-heating stoves and other electricity-powered equipment in selected stores. As a result, Denny’s kitchens are going electric in a greater number of its restaurants, primarily in new stores.



Ice thermal storage system



Solar panels



Electric kitchen equipment



SEVEN ECOLOGY logo for our environmental activities. Featuring a carbon sink of twin leaves, the logo represents our commitment to global environmental conservation together with stakeholders.

Topics

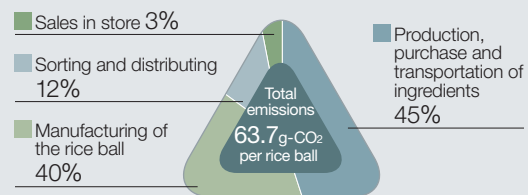
Study on “carbon footprint” labels showing the product’s CO₂ emissions

To reduce the nation’s green house gas (GHG) emissions, the Ministry of Economy, Trade and Industry (MITI) is studying an introduction of carbon footprint labeling on food and household products. A carbon footprint label would tell consumers how much GHG (usually CO₂) is emitted throughout the lifecycle of the product on which the label is attached.

Apart from this governmental initiative, Seven & i Holdings calculated the carbon output related to two Seven-Eleven items: a “Fukkura-Gohan Kishu-Ume” rice ball and a ham and egg sandwich. We have also become a member of the MITI’s study panel on carbon footprint labeling

launched in June 2008. In future, we are planning to capture and measure GHG emissions related to our *Seven Premium* products, such as food and household items.

Estimated life-cycle CO₂ emissions of a Kishu-Ume rice ball*



* The calculation formula differs from MITI’s panel.

Topics

Tropical forest conservation program for some 8,000 hector-worth forests worldwide

Seven & i Holdings will start its tropical forest conservation program in spring 2009 through the U.N.’s International Tropical Timber Organization (ITTO). This program is designed to conserve a total of approximately 8,000 hectares of tropical forests around the globe, mainly in Africa, Asia and South America. We have become the first private sector company to implement such an initiative.

The project is estimated to reduce CO₂ emissions by about 1.2 million tonnes during the first year. This reduction is equivalent to approximately 55% of the total CO₂ emitted from our major domestic operating companies during FY 2007 (about 2.17 million tonnes).

Seven & i Holdings and ITTO are planning to consider a customer participatory program to conserve more tropical forests.



ITTO Executive Director Ze Meka and Seven & i Holdings COO Murata

From Stakeholders

We hope this project will spur broader corporate participation in the conservation of natural tropical forests

Destruction of natural tropical forests is a global problem. As tropical deforestation accounts for 20% of climate change, such conservation is urgently needed.

The Kyoto Protocol is now in effect but forest conservation projects make up only 1% of the total CDM projects* registered, meaning virtually nothing has been done to save tropical forests. We welcome Seven & i Holdings’ decision to become the first private sector company to contribute to this area. This will surely make a meaningful difference. (Emmanuel Ze Meka, Executive Director, ITTO)

* CDM stands for Clean Development Mechanism, a flexible mechanism under the Kyoto Protocol to help achieve numerical commitment to the reduction of GHG emissions.



Serving customers in the store

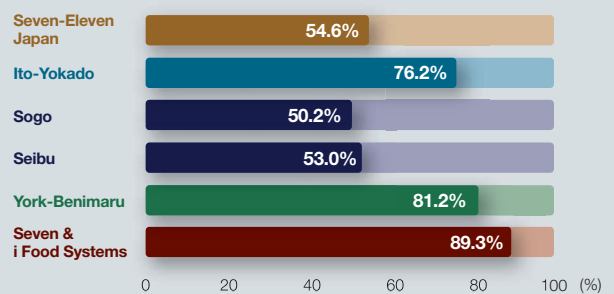
Part-time employees in the perishables department take our training programs for better customer service and food processing skills.

In Focus 3

Creating a comfortable workplace for part-time employees

Non-permanent employees in Japan account for 33.5% of the total employees (excluding officers) as of February 2008, according to a labor force survey by the Ministry of Internal Affairs and Communications. The percentage more than doubled from 16.4% in 1985. Part-timers, 11.64 million people in total, are the largest constituent of these non-regular employees. At our Group, we have many part-time employees as part of our team, an increasing number of whom are taking important positions and roles in our store operations. In the society of aging population, fewer children and shrinking labor supply, non-permanent employment has become of growing importance. Our Group is working to create a comfortable workplace by listening to our part-timers and developing a motivating HR system.

Part-time employees in our Group



Building a motivating workplace

The Revised Part-Time Labor Law came into force on April 1, 2008, aiming to provide a motivating working environment and equitable treatment to part-time workers. In line with the letter and spirit of the law, our Group will work further to enhance our HR policies and programs for part-time employees.

Parenting and nursing care support system for full- and part-time employees of the Group

Our employees with parenting and nursing care responsibilities can use a groupwide support plan, called the Re-Challenge Plan. This support system was launched in 1991 by the then IY Group.

Employees can access three programs in the plan: 1) Leave Plan, allowing employees to take parenting 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) Reemployment Plan, allowing departed employees to be reemployed on a preferential basis.

The programs are continuously evolving. Initially, the programs were available only for regular employees, but from August 2002, all employees, including part-timers, can use them. The Shorter-Hours Plan extended its eligibility in April 2008 to the employees with children of first grade or younger. It used to be limited to those with pre-elementary school children.

Millennium Retailing, a new group member since FY 2005, has its own parenting and nursing care support program to help its part-time employees continue their career development without concerns (p.65).

Users of parenting support programs (FY 2007)

Seven-Eleven Japan	Ito-Yokado	Millennium Retailing		York-Benimaru	Seven & i Food Systems
		Sogo	Seibu		
27 (0)	218 (66)	31 (8)	22 (14)	25 (7)	47 (41)

Note: Numbers in parentheses represent part-timers

Key points of the Revised Part-Time Labor Law

- Required documentation of working conditions
- Explanation of factors considered to determine employment conditions
- Required provision of training opportunities
- Provision of employee facilities
- Prohibition of discriminatory treatment
- Required implementation of measures to facilitate part-timers to become regular employees

From Stakeholders

I hope more employees will use this system to achieve a work and family balance.

Knowing that my familiar workplace was waiting for my return was really reassuring to me during the parenting leave. Looking for a new job from scratch with young children would have been really difficult. The monthly internal newsletters I continued receiving even during my leave kept me updated, and helped eliminate worries regarding my return.

Without this support program, my elder daughter would have needed to leave her preschool, which is only for the children of those who work or are on parenting leave. She was able to continue her nursery and our family did not have to change our living environment much. I appreciate this program in this respect, too.

Together with the system, I have been receiving a lot of support and encouragement since pregnancy from people around me. I owe my balanced professional and family life to all this support.



Kaori Hisada

Kimono and Luxury Goods Department
Ikebukuro Store, The Seibu Department Stores

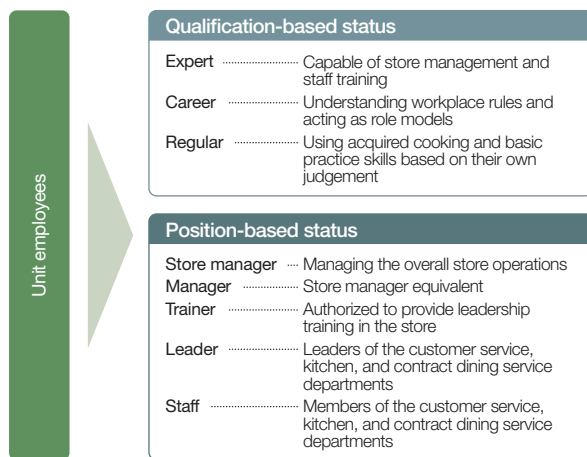
Various programs to promote the conversion to permanent employment

The Revised Part-Time Labor Law requires employers to take either of the following actions to facilitate more part-timers to become permanent employees:

- (1) If a new permanent employee is to be recruited, details of the job opening should be notified to existing part-time employees;
- (2) If a full-time position is to be filled from within, opportunities to apply for the position should be offered to the part-timers;
- (3) Introduction of a test-based or other promotion system to offer part-timers opportunities to become permanent employees; or
- (4) Other actions to facilitate the conversion from part-time employment to permanent employment

Seven & i Food Systems, employing the highest percentage of part-timers in our Group, introduced a new HR system in October 2008. To accommodate a variety of employment statuses, the company introduced a set of three employee group categories. Part-time employees are classified as the Unit employee group, and evaluated against the individual's qualification- and position-based statuses. This evaluation system is comparable with the other employee groups. An annual promotion program is also in place to provide opportunities for part-time employees to become regular employees.

New HR system for Unit employees



Ito-Yokado, the largest employer of part-time workers in our Group, began promoting part-time employees to permanent employees ("Expert" employees) in November 2007. In the Career Promotion Choice Program (p.53), "Leader Partner" employees — part-time workers taking leadership positions in the workplace — are eligible to seek regular employment status. As of FY 2008, approximately 250 Leader Partners have become Expert employees.

From Stakeholders

I encourage many can-doers to use the Career Promotion Choice Program

When I learned about the new program for possible regular employment, I could hardly wait to apply for it. Now my aspiration since I joined the company has come true, and I am working with a sense of more responsibility and fulfillment. The other day, I assisted sales floor operations for the first time and realized how my work in the office is translated to the store operations. This experience has broadened my horizons and enabled me to work in a more store-facing fashion.



Yumi Kobayashi
Children World
Department
Apparel Division
Ito-Yokado

Expansion of re-employment program to part-timers, enabling them to work until 65

The Law concerning Stabilization of Employment of Older Persons came into effect in April 1, 2006. Under this law designed to create and protect the employment of senior citizens, business employers are required to: (1) raise retirement age to 65, (2) establish a re-employment program, or (3) abolish a fixed aged retirement system.

Operating companies of our Group have re-employment programs in place, where eager workers without health and performance issues are able to work until the age of 65. Part-time employees are also eligible for this program.

Employee training and licensing programs for enhanced professional skills for part-timers

The Revised Part-Time Labor Law requires employers to provide part-time employees with necessary occupational training. The law also recommends career development training programs for part-time employees, tailored to the individual's willingness, capability and experience.

Our operating companies have continually improved respective part-timer training programs in order to: (1) create a store that provides satisfying customer experiences and (2) increase the motivation of each employee.

Such programs include Ito-Yokado's "Friends Mate" in-house licensing program since April 2004. Employees will acquire necessary practical knowledge, skills and customer service techniques through a series of training, examination and licensing procedures in the program. For individuals of Rank 1 and 2, license status is recorded in the HR database for personnel appraisal and other purposes. The program offers 18 licenses, covering all divisions and functions except the perishables department, with 24,005 aggregated license holders as of July 31, 2008. The perishables departments of Ito-Yokado and York-Benimaru have separate food processing training and skill certification programs.



License examination for Men's Styling Coordinator

Millennium Retailing supports its part-time employees at Sogo and Seibu stores to acquire high-level of customer service skills. To help obtain licenses and certifications offered by the Japan Department Stores Association and others, the company covers related costs of training course, examination, and registration/renewal in full.

Seven & i Food Systems also strongly encourages its employees to acquire necessary national licenses as a purveyor of safe food (e.g., cooks, health supervisors and fire protection managers) and thus provides related training programs and financial support. In FY 2007, a total of 156 employees passed such national examinations.

In addition, employees of Seven & i Food Systems,

whether regular or non-regular, can equally participate in a number of periodic "Open Training" courses, including cooking classes.



Cooking class

From Stakeholders

Higher motivation through professional growth opportunity

At Denny's Japan, employees can participate in the "Dennylier" basic wine education and certification program. In FY 2008, the examination was held in September and October, and the certification-giving ceremony was held in November.



Comments from new Dennyliers

Desire to deliver an even more delicious dining experience to customers was the primary reason to take the Dennylier training. Participated in by many employees, both regulars and part-timers, the course was useful and informative. External experts taught us a variety of basic wine knowledge, such as wine and food matching. We were also able to master uncorking, wine-serving and other customer service techniques. With the enhanced skills and knowledge of wine, we would like to communicate more with our guests.



(From left)
Mr. Nemoto, Nagoya Toushincho Store
Ms. Kondo, Higashi-Kanagawa Store
Ms. Yasuda, Nagoya Toushincho Store
Mr. Konnai, Nagoya Toushincho Store

Denny's Operations
Restaurant Division
Seven & i Food Systems

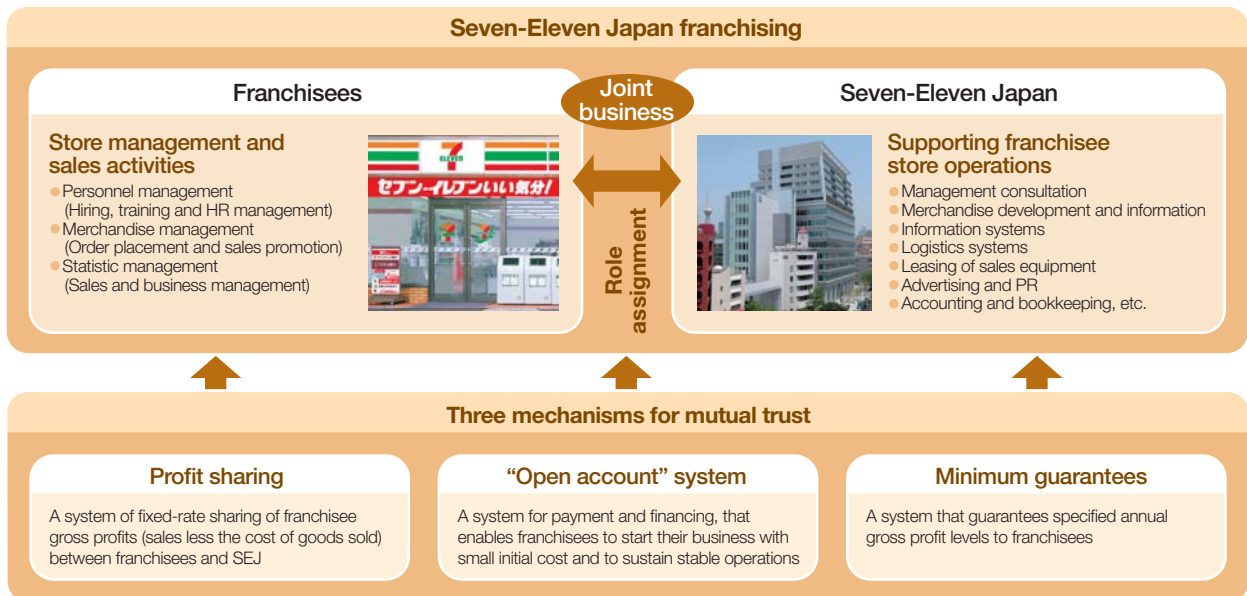


Overview of Seven-Eleven Japan

Since our foundation, bringing innovation and dynamism to small and medium sized retail stores, and achieving coexistence and co-prosperity with franchisees, have been our long-standing commitments.

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 develop a business model that enables existing small and medium retailers to operate businesses in a more efficient and modernized way, and thus to successfully respond to market changes and grow further even in a tough business climate.

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 12,073 stores nationwide (as of October 31, 2008).



Our CSR focus

● Continuous improvement of food safety systems

To ensure the safety of our food products, our “Daily Products,” including boxed meals, side dishes, sandwiches and prepared noodles, are produced in the dedicated factories at our contractors, which are subject to SEJ’s hygiene and quality control standards and rules. For instance, the factories are required to centrally manage the data concerning the production, procurement, consumption and sales of ingredients and packaging materials; and to use no artificial colors and preservatives. We are also working to use more domestically produced ingredients in our products to meet customers’ demand.

● More energy-efficient store operations and using fewer distribution vehicles

To minimize power consumption in our 24-hours-a-day, seven-days-a-week business, we strive to improve energy

efficiency in store fixtures and equipment, such as signs, lights and showcases. For instance, we have introduced “continuously adjusting lighting equipment,” which adjusts light levels in the store automatically, depending on seasons, weather conditions and time of the day. In addition, we have developed a combined distribution system where products are first shipped to our combined distribution centers, and then cross-docked and delivered to SEJ stores. Through this system, we now use a fewer number of trucks per store to deliver our merchandise.

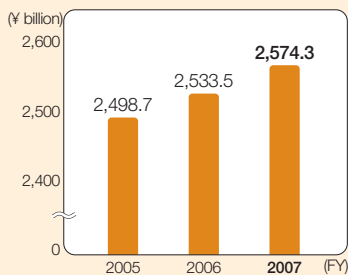
● Growing together with franchisees

Operation of Seven-Eleven stores is a joint business between SEJ and our franchisees. As a responsible franchiser, SEJ provides a range of support for our franchisees, such as consultation for new store openings and daily operations, as well as financial support through a mutual aid compensation program.

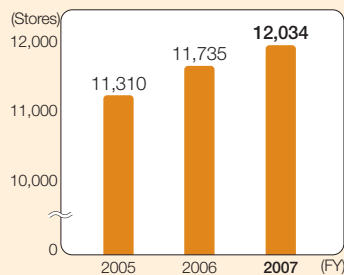
Corporate profile (as of February 29, 2008)

Establishment:	November 20, 1973	Paid-in capital:	¥17.2 billion
Headquarters:	8-8, Nibancho, Chiyoda-ku, Tokyo 102-8455, Japan	Total sales:	¥2,574.3 billion
Nature of business:	Operation of franchise convenience store chain in Japan	Number of employees:	11,671*
		Number of stores:	12,034

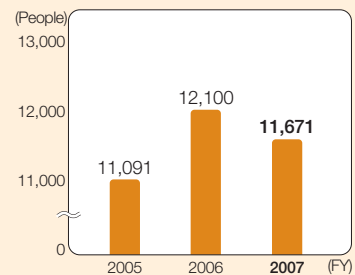
Total sales



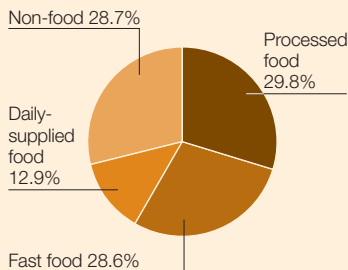
Number of stores



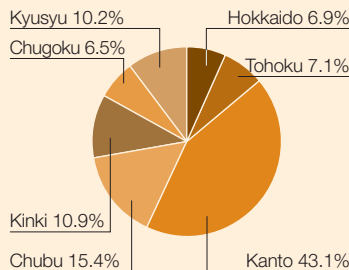
Number of employees



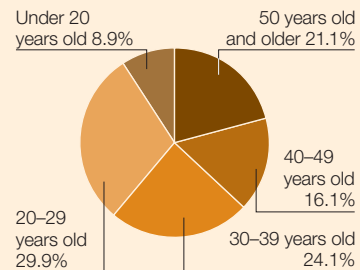
Sales by product category



Stores by region



Customers by age



* Including permanent employees and part-timers at non-franchise stores. The number of part-timers represents monthly average headcount calculated on the assumption that one month consists of 163 hours (8 hours/day).

Food Safety and Reliability

Q Given the many food incidents in recent years, can I trust boxed meals at convenience stores?

A Together with our suppliers, we have improved our hygiene and quality control systems, and developed the traceability system tracking the production history of our products all the way back to ingredient origins.

Establishment of a joint organization with suppliers to implement rigorous hygiene and quality control in dedicated factories

To offer safe, reliable and delicious products to our customers, the contract manufacturers of our Daily Products (e.g., boxed meals, side dishes, sandwiches and prepared noodles) and SEJ jointly established the Nihon Delica Foods Association (NDF) in 1979. The NDF developed its own standards and rules, based on which quality and sanitation control systems were created.

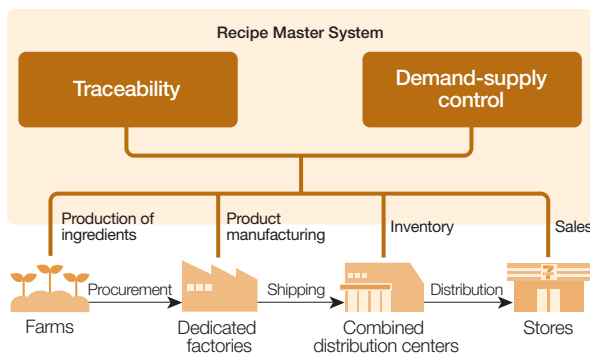
In 1984, these manufacturers built dedicated factories at our request in order to further enhance the hygiene and quality control for our products. At the same time, the Recipe Master System, a central information management system, was launched, enabling higher quality and lower costs through the joint purchase and central management of product ingredients.

● Recipe Master System with traceability and demand-supply control functions

Recipe Master System is the central information management system for our boxed meals and other prepared food products. The system tracks the production, procurement, use and sale of the ingredients and packaging materials.

By connecting the dedicated factories for these products, ingredient producers, and SEJ's headquarters, stores and distribution centers, this web-based system

Recipe Master System



provides real-time information on which ingredient is used in what amounts, for what product, at which factory, when the product using the ingredients is sold, and which store carries which items. Therefore, in case a problem is identified with our merchandise, we can immediately remove the item in question from store shelves. The system also allows us to monitor the use of ingredients and packaging materials in all the factories, which in turn leads to proper procurement and inventory control, and waste reduction.

● NDF-HACCP Certification Program based on our own standards

We introduced the Hazard Analysis and Critical Control Points (HACCP) method for food sanitation control in 1997, and then commenced our own NDF-HACCP Certification Program in 2002 to inspect and certify hygiene control performance of each dedicated factory. The HACCP methodology originates from a space food program.

In this certification program, factories are independently inspected by Tokyo Kenbikyoin Foundation against some 140 food safety items, which were determined by SEJ, based on the HACCP. Then, the NDF reviews the inspection results and provides certifications to factories meeting the standards. Certified factories need to receive annual follow-up inspection to maintain the control systems' quality.

A total of 86 NDF factories were certified by February 29, 2008. It is also planned that the remaining factories will obtain certification: factories manufacturing boxed meals and side dishes within the year 2009 and other factories within the next three years.



To maintain the production site dust and hair free, air shower and thorough hand washing is required before entering the room.

NDF-HACCP Certification Program evaluation items

Organization and management, document management, factory floor conditions, general sanitation controls, HACCP items, etc.

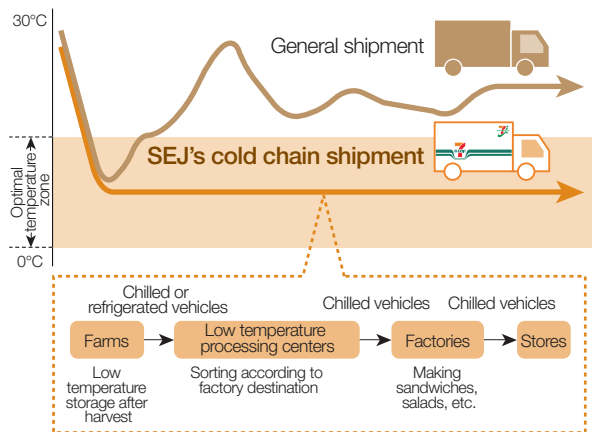
Expanded use of domestically produced vegetables for boxed meals and side dishes to about 93%

We at SEJ strive to meet customers' demand for safe and reliable food by using vegetables produced in Japan in our boxed meals and side dishes to the extent possible. Imported produce is used but in a small percentage as insurance against unexpected low crop yield caused by typhoons, cold summer, and so on. However, as a result of our aggressive expansion of the network of our contract farmers across Japan, we are now able to cover poor crop yield in one area by sourcing from a different region in the country. Consequently, the usage of domestic vegetables accounted for about 93% in FY 2007, up from about 89% in FY 2003.

As the next step, we are planning to use more domestic livestock ingredients, such as chicken, pork and beef.

To offer fresh products, we developed and operate the so-called cold chain system, where freshness-sensitive vegetables mainly for salads and sandwiches are transported at low temperatures during the entire trips from farms to stores. In doing so, vegetables can remain fresh and nutritious throughout the entire process.

Temperature change under general and cold-chain shipments



Reduced use of food additives in our Daily Products

At SEJ, we avoid using food additives wherever possible for our flagship boxed meals, side dishes, sandwiches and other prepared foods, which are intended to be consumed immediately after purchase. This basic policy of our product development is our response to customers' increasing demand for food safety and reliability. Even if we need to use some food additives, we use only safety-proven ingredients in minimal amounts.

In accordance with this policy, we eliminated sodium phosphate*1 from ham and sausages for our sandwiches in 2007. In addition, trans-fatty acids*2 (not food additives but their excessive intake is considered to have some negative health impact) in our house-brand bread have been reduced to one-third of the previous content. We have also reduced trans-fat in soybean oil, which is used to make fries for boxed meals and side dishes, by some 20%.

We will continue taking many steps to deliver safe and reliable food to our customers.



Our Daily Products

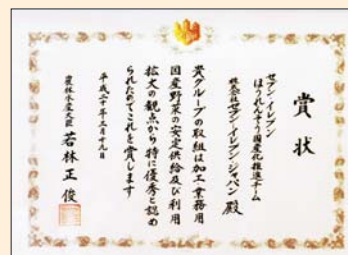
*1 Sodium phosphate is used to improve food texture. It is considered that its excessive intake may prevent calcium from being absorbed into body, which may lead to osteoporosis.

*2 Trans-fatty acids are a byproduct of manufacturing process of oil products. It is considered that their excessive use may cause arterial sclerosis or heart diseases. In July 2008, the State of California in the U.S. legally prohibited the use of trans-fatty acids.

TOPICS

Agricultural Minister Award for our promotion of domestic spinach

SEJ has worked with farmers and agricultural retailing experts to use more domestic spinach in our products. To grow tastier spinach for our products, such as sandwiches and side dishes, we have sought the best soil and cultivation methods. In recognition of such efforts, the project received the first-place award from the Ministry of Agriculture, Forestry and Fisheries in March 2008. This award program honors businesses that promote production and consumption of domestic vegetables. SEJ's teams working on higher quality cucumbers and on the promotion of contract farming also received different awards in the program.



Combating Global Warming

Q How is SEJ working to reduce energy consumption?

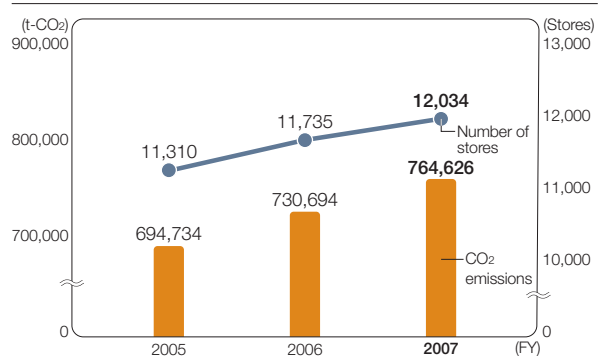
A We have developed original energy-efficient store equipment and building material to reduce power consumption in stores.

Reducing carbon emissions mainly through equipment improvement, while maintaining quality service and store functions

We at SEJ provide convenient shopping experiences to customers by opening anytime. Electricity is essential to sustain such store operations. We aim to reduce our CO₂ emissions without affecting our stores' shopper-friendliness or functionality for our employees, by installing a variety of energy-efficient store equipment.

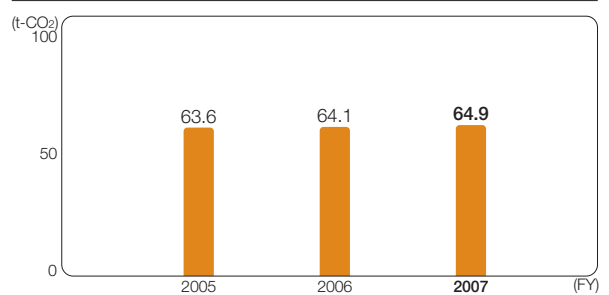
Nonetheless, our CO₂ emissions per store have been increasing gradually. Probable causes include increased power consumption associated with the installation of in-store fryers, expanded in-store services, and larger floor spaces. We will continue working to reduce our environmental impact by installing more energy-saving equipment in our stores and monitoring the performance of our experimental green store (p.31).

Number of stores and total CO₂ emissions across the chain



Note: Distribution-related emissions are excluded.

CO₂ emissions per store



Energy-saving features at Seven-Eleven stores



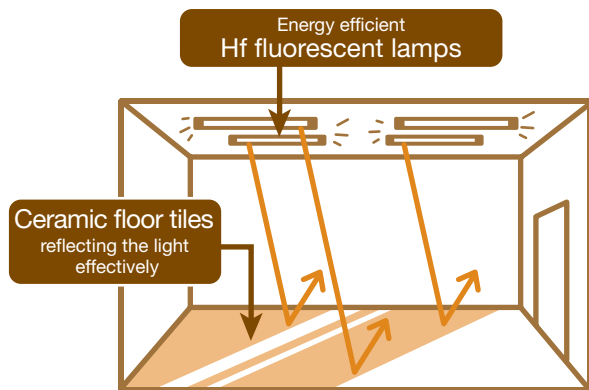
● **“Continuously adjusting lighting equipment” correcting brightness in stores automatically**

About 23% of electricity consumption at each store is used to keep the store bright. To achieve a lower electricity use, SEJ introduced continuously adjusting lighting equipment in 1986, which automatically adjusts light levels of three-segmented sales floors (the magazine section, the wall-side and the center), in accordance with the intensity of the natural lighting exposure in the store that varies depending on seasons, weather conditions and time hours. The introduction of this equipment has allowed us to reduce the lighting-related electricity consumption by 6%.

● **High-power lighting fixtures and ceramic floor tiles**

Since March 2007, our new and remodeled stores have installed high-power lighting fixtures and ceramic floor tiles that effectively reflect the light from the ceiling. The 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.

Effect of energy efficient fluorescent lamps and ceramic floor tiles



● **Induction-heating *oden* warmer**

In August 2007, we started to replace heat-conduction *oden* warmers with induction-heating (IH) ones. We completed the installation in all stores by August 2008. 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 approximately 1,650 kWh (about 0.6t-CO₂).



IH *oden* warmer

● **Condensation-free glass doors of display freezers/refrigerators**

In our new and remodeled stores, we use display freezers and refrigerators with special, condensation-free glass doors. We no longer need to use heaters to prevent condensation on the door surface caused by opening/closing the doors, resulting in an approximately 10% reduction of electricity use by freezers and refrigerators.

● **Temperature controllers enabling individual showcase management**

In FY 2005, our stores started to use a new temperature control panel to monitor and control each display freezer and refrigerator. We developed this panel for our own use because the previous inverter-mounted model was unable to control showcases individually, which sometimes caused unnecessary power consumption. The shift allowed us to reduce freezer/refrigerator-related electricity consumption by 15 to 20%.

TOPICS

Eco-friendly test store in Nagano City

On February 29, 2008, we opened an environmentally friendly test store, Seven-Eleven Nagano Yoshida 2-Chome Store, in Nagano City. With the latest green equipment that reflects SEJ's accumulated efforts and improvements, this store is expected to emit approximately 1.4 tonnes less CO₂ than an average existing store. The store has introduced and is experimenting with many eco-friendly equipment and fixtures, such as motion sensory lighting, called "Jinkan-akari sensor," in the storage and the office. We will closely monitor the effects of these new technologies.

The store celebrated its grand opening and the launch of the partnership agreement between SEJ and Nagano Prefecture (p.36), by holding a prize draw event for those who brought their own shopping bags, and displaying the environmental conservation awareness-raising posters that won prizes in the prefecture's contest in the store.



In-store displays of prize-winning posters on environmental conservation

Q How are you addressing environmental concerns in your logistics operations, such as daily product distribution by truck?

A We have reduced the number of distribution vehicles in use per store—eight times fewer than in our founding period.

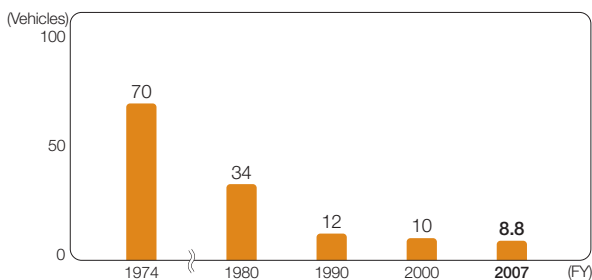
Substantial reduction of delivery vehicle usage through logistics streamlining

At the time we started SEJ, merchandise was delivered directly by suppliers to our stores, which was a typical business practice then. Our stores needed to handle more than 70 delivery visits a day, which affected the stores’ daily operations. Concerns were also raised over adverse impact on neighborhood traffic and living environment. In addition, overstocking occurred in some stores because ordering and delivering quantities were larger than now.

To fix these problems, we at SEJ initiated a “logistics reform” toward leaner and more streamlined operations. We developed a combined distribution system where products from different suppliers are consolidated at temperature-specific combined distribution centers and cross-docked for delivery to stores. With this new system, flexible shipping schedule catering to product characteristics is made possible. For example, shipments of boxed meals and sandwiches are designed to meet the peak demand in breakfast, lunch and dinner hours. As a result, we use far fewer delivery vehicles now: 8.8 trucks per store on average in the areas of highly streamlined operations.

We are also working with our logistics partners toward safer and eco-friendlier distribution. For instance, we use an increasing number of compressed natural gas (CNG) vehicles, and all our delivery trucks have been equipped with in-vehicle terminals since June 2001. Using the data recorded by the terminals, we provide individual guidance to drivers and revise distribution routes, where needed, to facilitate eco-friendlier driving.

Daily number of distribution vehicles per store



Note: The actual figures vary, depending on locations, seasons, etc. The figures in the chart represent the average vehicle number in a highly streamlined location.

Area dominant strategy concentrating store openings in certain locations

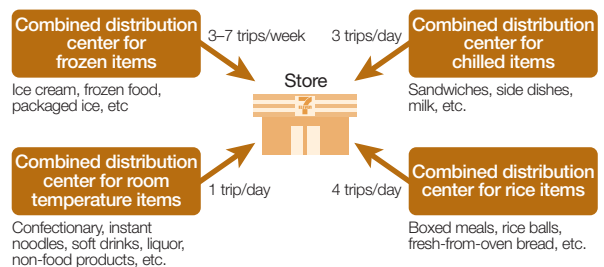
Area dominant strategy—concentrating new store openings in selected areas—is an important underpinning of SEJ operations. In addition to marketing advantages such as higher store brand recognition and efficient advertising activities, this strategy allows us to operate leaner logistics due to dedicated factories established near our stores, and well-planned product delivery, among other things.

Combined distribution system with optimal temperature

In the late 1970s, SEJ started to develop a combined distribution system, where shipments of various products from many suppliers are consolidated and cross-docked for delivery to stores by optimal temperature-controlled vehicles. The system was put into practice in 1980, initially for milk transportation. Since then, we have expanded the system to frozen items (e.g., ice cream and frozen meals), chilled items (e.g., sandwiches and side dishes), rice items (e.g., boxed meals) and room temperature items (e.g., soft drinks and non-food products). With these combined distribution centers in place, merchandise is now delivered to our stores at optimal temperature with optimal frequency.

We are also working with business partners to improve the efficiency of the inbound distribution from suppliers to the distribution centers.

Illustration of the combined distribution system



● **Environmentally friendlier CNG vehicles**

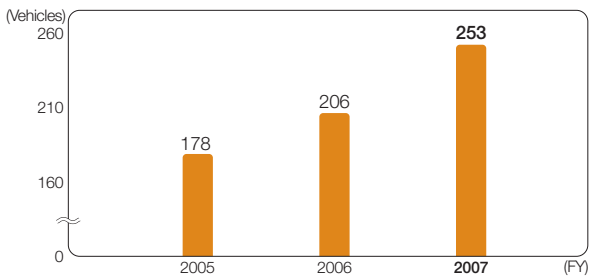
In certain areas where compressed natural gas (CNG) stations are available, we use CNG vehicles to deliver products to our stores. This type of trucks emit little nitrogen oxides (NOx), carbon oxide (CO), carbon dioxide (CO₂) and hydrocarbon (HC), and no sulfur oxides (SOx) or particle matter (PM) during driving.

As of February 29, 2008, 6.1% or 253 units of our vehicles were powered by CNG. They transport our merchandise in Tokyo, Kanagawa, Saitama, Chiba, Yamanashi, Kyoto, Osaka, Hyogo, and Fukuoka prefectures. We plan to introduce more CNG vehicles on an ongoing basis in the areas having CNG stations.



CNG vehicle

Number of our CNG vehicles



● **In-vehicle terminals to quantify driving patterns**

Environmental impact of logistics operations depends on not only the number of vehicles used but also vehicle maintenance and driving conditions. With this recognition, all our distribution vehicles transporting products from combined distribution centers to SEJ stores have had new terminals installed since June 2001. 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

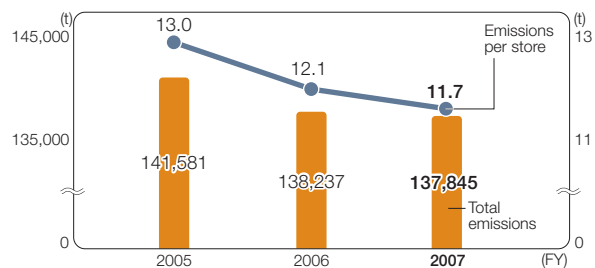
and then analyzed to use for individual guidance to drivers and for possible revision of driving routes.

As a result, with greater recognition among the drivers that “safe driving is environmentally friendly,” our logistics-related CO₂ emissions per store have been declining steadily, despite the increase of aggregated travel distance by all vehicles.



In-vehicle terminal equipment

Total and per-store logistics-related CO₂ emissions



Note: These data include CO₂ emissions related to the operations of combined distribution centers.

● **Rail freight containers for collection and recycling of used lights**

Each year SEJ and Ito-Yokado jointly replace fluorescent lights for sales floors, refrigerators and freezers, signage, and other equipment in stores. As the lights contain mercury, we collect and recycle them properly. During FY 2007, the two companies collected and recycled some 1.1 million fluorescent lights.

Collected lights are shipped in cargo containers by train to JR Kitami Station, the nearest railway station to the recycling facilities. This combined transportation emits 82 tonnes less CO₂ than truck-only method.



Annual replacement and recycling of fluorescent lights

TOPICS

Transforming used cooking oil into bio-diesel fuel

In SEJ stores, we started to offer in-store fried products, such as fried chicken, from June 2007. We are working to develop a mechanism to collect the waste cooking oil used for these products, and recycle it to make livestock feed, soap, paint and others.

As a part of this effort, we had a three-month experiment to produce and use bio-diesel fuel (BDF). From June to August 2008, BDF was made from used cooking oil collected from SEJ stores in and around Sapporo City, Hokkaido, and blended with gasoline (5% BDF) to run 58 delivery vehicles. Approximately 43 tonnes of CO₂ emissions were saved during the experiment.

Based on further study of this experiment, we intend to provide our findings on the challenges and issues related to the introduction of bio-diesel fuel to the government and relevant organizations.



Collecting waste cooking oil

Waste Reduction

Q Are all your unsold boxed meals dumped into garbage bins?

A We compost them to grow vegetables for product ingredients.

Promoting an expired product recycling network

The Food Waste Recycling Law revised in December 2007 requires food retailers, including convenience store operators, to achieve a 45% recycling rate of their food waste by 2012.

At SEJ, effective use of expired food products and unused parts of ingredients was high on the agenda even before this legal requirement came into effect. In March 2003, we started to collect and recycle expired products in the central Tokyo area. Contract waste management companies collect expired products from our stores, and then separate food from containers to make compost and livestock feed at recycling facilities. The recycling network has been expanding to outside of the central Tokyo area: currently 1,677 stores participate in this circle (as of February 29, 2008).



Recycling facility in Kyoto making livestock feed

Building networks to achieve a sustainable recycling loop

In our sixth year of recycling food waste, we receive many positive comments from farmers using the compost made from unconsumed food about the compost's usefulness in producing quality agricultural products. In turn, our contract farmers have also begun using the compost to grow vegetables for our Daily Products, including "Kanto-san Spinach *Gomaae* (boiled spinach with sesame sauce)," which has been available at SEJ stores in Tokyo metropolitan area since October 2006. We also launched our original carrot juice and tomato juice in June 2007, using carrots and tomatoes grown with such compost, through our meal delivery service, Seven Meal Service.

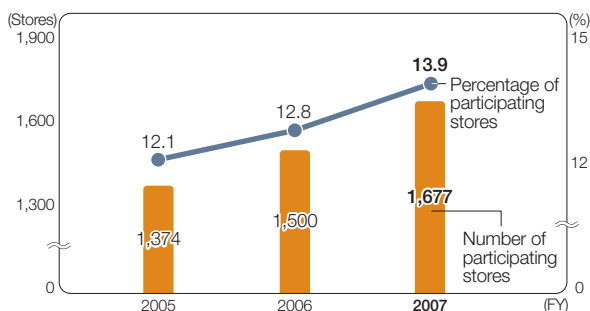
Such a "recycling loop" system—starting from collection of food waste from stores, making compost and livestock feed, and producing vegetables and livestock, and coming back to stores as products—is a recommended practice in the Food Waste Recycling Law, revised in December 2007.

We at SEJ will continuously expand our sustainable recycling network, communicating the benefits of our recycling loop system to agricultural producers. For instance, the livestock feed is high in quality as our boxed meals meet our rigorous quality standard and contain no preservatives or artificial colors. In addition, food waste is separated into many detailed categories, enabling compost and livestock feed to be made from suitable materials.



Kanto-san Spinach Gomaae

Food waste recycling network



Q While appreciating their convenience, I am concerned about waste associated with boxed meals and plastic bags.

A We use increasingly thinner plastic bags and containers, and invite customers to join our waste reduction efforts.

Reducing total consumption by 30.9% from the FY 2000 level with thinner and better-sized plastic bags

Japanese consumers use roughly 30 billion plastic bags a year, according to statistics by Japan Poly Olefin Film Association. Aiming to reduce this heavy consumption and ultimately reduce overall waste disposal and resource usage, Japan enacted the Amended Container and Packaging Recycling Law in April 2007, requiring businesses to report their weight-based plastic bag consumption to the government periodically.

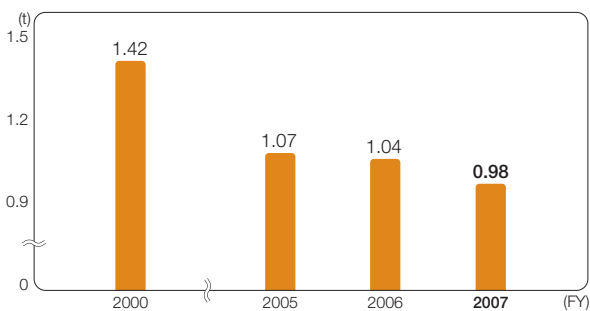
As a result of our longtime efforts to make our plastic bags thinner and in better sizes, and reduce the consumption itself, our current plastic bags have become 28.1% thinner from the 1999 level, and our total weight of consumed plastic bags per store in FY 2007 was reduced by 30.9% from the FY 2000 level.

However, these efforts alone are insufficient to meet the industry's reduction target set by the Japan Franchise Association, i.e., a 35% reduction of the total weight of consumed plastic bags per store over FY 2000 levels by FY 2010. We therefore look to customers' cooperation in reducing plastic bag usage. In our stores displaying an awareness-raising poster, we ask customers at the checkout about the necessity of a plastic bag.



Poster for reduced plastic bag consumption

Total weight of consumed plastic bags per store



From wrapping to taping of boxed meals

In December 2007, we started to change the way of fastening boxed meal containers. We are phasing out the use of shrink wraps that cover the whole containers, and instead have started to tape up the meal boxes at four points. This change is expected to reduce the consumption of plastic (material for shrink wraps) by some 570 tonnes a year.



Taped up boxed meal

Halving the size of plastic bottle labels

We have halved the label sizes of the three types of our house-brand soft drinks in June 2008. The production of the new labels requires less plastic film and less energy use, resulting in an estimated annual reduction of CO₂ emissions of about 5,000 tonnes.



Reducing the size of plastic bottle labels

Changing chopsticks material to fast-growing bamboo

Toward more effective use of resources and less environmentally impactful operations, we started to offer bamboo disposable chopsticks to shoppers of boxed meals and some other food products from November 2006. Previous chopsticks were made from white birch, which requires over 30 years of growing. In contrast, bamboo grows fully within 3 to 4 years and requires no replanting.

Giving Back to Our Communities

Q We expect positive community contributions from SEJ stores encompassing more than 12,000 locations across Japan

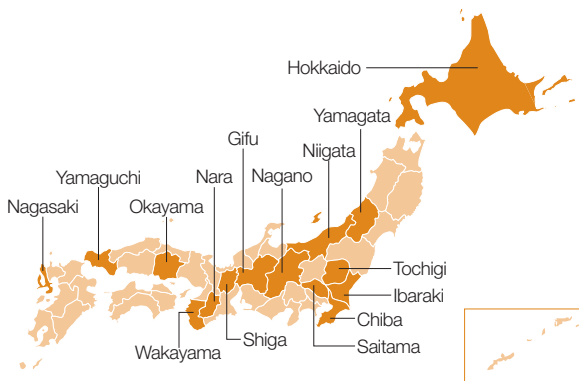
A Centering on partnership agreements with local governments and the Safety Station activities, we are building and strengthening ties with local communities.

Partnering up with local governments for better public service and community revitalization

SEJ has entered “Local Revitalization Comprehensive Partnership Agreements” with many prefectural governments, aiming to support the communities where we operate in their public service improvement and community revitalization efforts. Initially with Wakayama Prefecture in 2004, we are currently in partnership agreements with a total of 15 prefectural governments (as of October 31 2008): Hokkaido, Yamagata, Niigata, Nagano, Tochigi, Ibaraki, Saitama, Chiba, Gifu, Shiga, Nara, Wakayama, Okayama, Yamaguchi, and Nagasaki.

Details of the agreements, such as in which areas and themes we will collaborate, are determined based on discussions with respective local governments. Our current focus includes the development of “region exclusive” products in collaboration with the JA agricultural cooperatives and local farmers. This project is expected to contribute not only to energizing the

Prefectural government partnership agreements



Examples of partnership activities

Promotional campaigns and sale of regional specialty products; sale and use of local agricultural, forest, fishery and their processed products, and local craft items; wellness promotion and food education; support for the elderly; support for children and youth; tourism promotion and sightseeing information provision; environmental management; safety and security of the community; disaster preparedness; and other actions to vitalize the local community and improve public service

local communities but to reducing logistics-related CO₂ emissions through local production and local consumption, and shorter transportation distance. We will continue offering many more suggestions to our partner governments.

● Tochigi Prefecture: “Rediscover Tochigi” campaign

SEJ stores in Tochigi ran the “Rediscover Tochigi” campaign in February 2008 to commemorate the launch of the agreement with the prefectural government. We offered 11 food items using high-quality, made-in-Tochigi ingredients, such as *Tochiotomoe* strawberries, pork and milk from the Nasu area, and *kakina* leaf vegetable. These products were made in factories within the prefecture by using choice ingredients and following locally popular recipes.



Rediscover Tochigi section

● Nara Prefecture: “Food Education with Nara Local Food” campaign

Nara Prefecture and SEJ made a partnership agreement in April 2008. Our stores in the prefecture had a campaign called “Food Education with Nara Local Food” from April 18 to May 11, 2008. We sold boxed meals and other local food items, such as “*nara-nameshi*” (rice with local *Yamato* green tea) and “*nara-noppe*” (a local dish with cooked vegetables). As a more ongoing-based service, our stores in Nara always make the restroom accessible to tourists to the prefecture.



Nara-noppe section

● Yamagata Prefecture: “Delicious Yamagata” campaign

Two companies of our Group, SEJ and York-Benimaru, entered a partnership agreement with Yamagata Prefecture in October 2008. During the campaign, we offered our original five products using locally produced food. Examples include *Yamagata Umaimono Bento*, a boxed meal made with high quality ingredients coming from farms, forests and sea in Yamagata.



(From right) SEJ President and COO Yamaguchi, Yamagata Governor Saito, and York-Benimaru President and COO Ohtaka



Yamagata Umaimono Bento section

Safety Station activities as a base of local safety and security practices

As a provider of time-convenience, SEJ stores are open around the clock. Even after midnight, the store lights are on and our employees are working inside. To make the most of such business nature, we are functioning as a base of safety and security for local communities. These are called the “Safety Station activities.”

This program was originally started by a request from the National Police Agency, calling on the Japan Franchise Association (JFA) to cooperate in nurturing a sound environment for young people and creating safe and secure communities. Displaying an identifiable poster on the store front, our stores take various actions such as: (1) strengthening crime prevention measures to keep the stores crime-free, (2) taking care of those who rush in the store for help, including women and lost children, (3) assisting the elderly and people with disabilities, and (4) making emergency calls to report accidents and other emergency situations. We have also tightened age verification practice to prevent the sale of cigarettes and alcohol to minors.

Stores performing well are recognized by the JFA’s annual review conference on the Safety Station activities.



Award ceremony

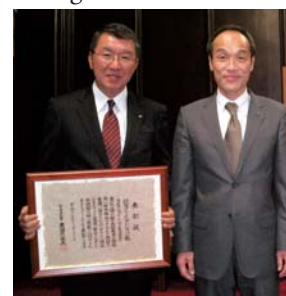


Activity mascot “Esuzou-kun”

Improved store facilities with greater shopper-friendliness

To deliver a comfortable shopping experience to all customers, we have continually improved our store facilities, for example by eliminating steps at the store entrance, and displaying merchandise in a way that enables people in wheelchairs to check and pick products without difficulties. As an extension of this approach, we have adopted universal design considerations, especially in designing new stores, since FY 2004. Example features include accessibility by wheelchairs and strollers, installation of a potty seat and baby changing facilities in the restroom, and introduction of safer shopping carts, which can remain stable even when the user’s bodyweight is placed on the handles, eliminating concerns of senior and pregnant customers.

These efforts were recognized externally in November 2007 when our Ootsu-Ooginosato Store in Shiga became the first retailer that received the Oumi Universal Design Award from the prefectural government. In the following December, our Tadeike-Nanbaru Store in Miyazaki also received a gubernatorial award (the facility development section) that recognized the contributions to creating a community with people-friendly welfare systems.



Award by the Miyazaki Governor



Safer shopping carts



Spacious aisle



Multi-use restroom

TOPICS

Semiannual cleanup event by all SEJ stores in Japan

We believe each individual’s small improvements will lead to environmental conservation. Therefore, all our stores across Japan, together with the headquarters staff, have cleaned up the neighboring areas twice a year since 1999.

Since June 2006, this nationwide cleanup activity has attracted wider participation from other Group companies’ staff, such as employees of Ito-Yokado, Sogo, Seibu, York-Benimaru and Seven & i Food Systems. The latest event in October 2008 was joined by a total of some 30,000 employees from about 10,000 stores of the Group.



Keeping the communities clean as a part of broader green initiatives

SEVEN-ELEVEN MidorinoKikin

Promoting environment-focused societal contributions through the fund

As a project celebrating our 20th anniversary, we at SEJ established our green fund, named Seven Eleven Midorino Kikin, in 1993 to facilitate joint environmental efforts by our franchisees and the headquarters. Based on the contributions from customers through in-store donation boxes and from SEJ, the fund provides financial support to environmental projects by civil society organizations, and conducts a variety of activities on its own, such as nature conservation and protection, community beautification and awareness improvement.

In FY 2008, a total support of ¥119,268,981 was provided to ongoing projects from FY 2006 and new 180 projects. Recipients were determined based on the application document screening by external experts and ourselves.

In parallel with the financial aid, we also offer a leader development program. Selected present and future leaders in environmental civil society activities visit environmental NPOs abroad to improve their skills in organizational management and green activities. From the launch in February 2002 to October 2008, the program had sent an aggregation of 51 green leaders to New Zealand, Australia and Germany. In the latest 10-day tour in October 2008, four final applicants visited a Germany-based environmental organization called the BUND and other organizations, and learned about fundraising, staff development and other expertise.



Study tour to Germany

Recipient and support amount by project type (FY 2008)

Project type	Financial support provided		% of total financial support
	Projects	Amount provided	
Nature protection	58	¥ 43,446,762	42.4%
Biodiversity protection	8	¥ 8,555,925	8.3%
Hands-on environmental education	28	¥ 19,332,750	18.9%
Promotion of eco-friendlier lifestyles	21	¥ 14,299,608	13.9%
Planting flowers	41	¥ 13,507,565	13.2%
Community cleanups	24	¥ 3,389,799	3.3%
Total	180	¥ 102,532,409	100.0%

● Kujuu Furusato Nature School

In addition to providing the aforementioned financial support to environmental organizations, Seven Eleven Midorino Kikin aims to make direct contributions to protecting precious nature and ecosystems in Japan. To this end, the fund created Kujuu Furusato Nature School in Kokonoe-cho, Oita, in April 2007, with a fundamental philosophy of “learning from nature about coexistence and co-prosperity with natural environment and local communities.”

The school is striving to conserve local nature and its ecosystems. Specific activities include the conservation of Bogatsuru and Tadewara-Shitsugen wetlands (the sites are under the Ramsar Convention) and Kujuu Mountains, as well as the protection of community forests and farmland mainly by cultivating fallow rice fields and terraced paddies, growing organic rice, and making charcoal to help reforestation.

To encourage more visitors and residents in Kokonoe to watch, experience and participate in its activities, the school also offers various participatory programs for adults and children, such as pesticide-free rice growing, as well as nature watching and trash collection in mountains.



Bird watching



Charcoal making

● Restoring typhoon-hit forests near Lake Shikotsu-ko

Forests near Lake Shikotsu-ko were devastated by a powerful typhoon in 2004. The steering committee to lead restoration activities was established jointly by Seven-Eleven Midorino Kikin, the local government, environmental organizations, businesses and community groups. As “foster parents” of the forests, local citizens planted and have been “nurturing” a total of some 100,000 trees across the 100-hectar land. In addition to a donation of ¥ 60 million, our fund operated in-store donation campaigns and invited participation in the restoration program. In recognition of these activities, our fund was honored with the Environmental Minister Award for Global Warming Prevention Activities in FY 2007.



Afforestation program



Award ceremony



Pursuit of coexistence and co-prosperity with franchisees as Japan's largest franchise chain

Offering full range of franchisee support

Success in retail business rests with the store's capability to offer products and services that meet customer needs at any given time. Retailers need to go to the great lengths to make this happen, by carefully developing their store plans, providing locally tailored product assortments, educating and rewarding store staff properly, and doing much more.

We at SEJ support our franchisees in a multifaceted and continuous manner so that our franchisees are able to focus on managing stores and serving customers. SEJ is responsible for offering product information, expertise, logistics and sales infrastructure. Such a genuine joint business is what makes the nationwide network of Seven-Eleven stores tick.

Special counselors to support store openings and operations

To support our franchisees, we offer consultation by Recruit Field Counselors (RFCs) and Operation Field Counselors (OFCs). RFCs support prospective franchisees in detailed store planning and OFCs support in the post-opening phase.

OFCs visit stores at least twice a week and provide a range of operational advice: e.g., how to improve order placement and merchandise display. Through such advisory provision, these counselors work with franchisees to increase the stores' sales and profitability. To support locally tailored stores operations, OFCs also advise on the introduction of local products that are originally developed or exclusively available within the region. Furthermore, they are a liaison between franchisees and the headquarters. By informing SEJ's policies and programs to stores, and reporting franchisees' concerns and issues back to the headquarters for rectifying actions, OFCs facilitate close communication between the two parties.

In addition to such consultation support, we hold our semiannual Product Exhibitions in 10 locations to introduce our new products, as well as store display and operation ideas.

Mutual aid compensation program to support stable business

A typical SEJ franchise store is operated by 20 to 30 regular and part-time employees and the store owner. To support those who strive for the success of SEJ stores, we launched a mutual aid compensation program for franchisees in 1980. In this program, franchise owners are entitled to cash out reserved funds in case of emergency, and receive medical benefits and condolence money. Franchisee staff can receive occupational injury benefits with regard to accidents during work or commuting. 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.

Our mutual aid compensation program

	Condolence payment	Medical benefits	Reserves, etc.	Employee injury benefits
Franchise owner	●	●	●	—
Spouse	●	●	—	—
Regular employees	●	—	●	●
Part-timers	—	—	—	●

Occupational safety for store staff

As a participant in the Safety Station Activities (p.37), we have further strengthened our efforts to prevent store crimes. We are also working to protect store staff safety, as it is an important responsibility of the franchise headquarters. Our safety measures include: provision of security precautions through OFCs; installation of crime reporting systems; and provision of emergency response information through Product Exhibitions, in-house magazine "Seven-Eleven Family," and other opportunities.



We strive to meet each and every customer’s needs as a “Life Base” of local communities.

Ito-Yokado operates a network of 176 supermarkets across Japan (as of February 29, 2008), offering a wide-range of daily products from food to apparel and household goods.

In addition to our traditional mainstay of general merchandise stores targeting highly populated markets, we have recently focused on opening different types of stores in order to meet diversifying customer needs.

Such new store formats include “Ario” comprehensive shopping stores in large trading areas, which consist of Ito-Yokado stores (anchor stores) and a wide range of specialty stores; and “neighborhood shopping centers” in smaller trading areas, which mainly offer food products.

We will continue exploring optimal styles of our stores, best suited to locations, trading areas and local needs.

Three formats of Ito-Yokado stores

Comprehensive shopping centers

Mall-styled stores featuring various retailing and amusement facilities



General merchandising 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



Our CSR focus

● Bolstering quality and safety control

As most of the merchandise at Ito-Yokado stores, including food, apparel and household goods, has direct impact on customers' health and safety, we believe executing rigorous quality and safety control is the basic, yet the most important responsibility of ours. We therefore are stepping up our efforts to this end with a particular focus on food products in response to many recent fraudulent origin labeling and quality-related incidents in Japan. For instance, we have expanded our KAOGA-MIERU-SHOKUJIN fresh food products, whose places of origin, production methods and distribution processes can be traced and disclosed. We have also started to sell more local produce, which can maintain freshness and quality more easily.

● Reducing CO₂ emissions by installing energy-efficient equipment and taking many other actions, while increasing store sizes

To prevent our focus on opening larger shopping centers from leading to the increase in our total environmental

impact, we have been introducing energy-saving equipment in many stores, such as ice thermal storage systems and small-sized, gas-powered cogeneration water heaters.

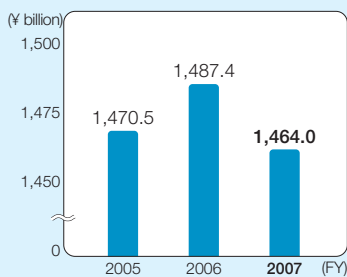
● Active dialogues to become a welcomed neighbor

As a community-based business, we have been engaged in active dialogues with local communities. When planning to open a new store, key employees of the store relocate to the intended area approximately one year in advance, develop a store plan catering to local needs and characteristics, and meet and talk with neighboring residents. As we position our stores as a Life Base of local communities, many Ito-Yokado stores operate the Maternity and Children's Education Centers and the Reliable Support Shops to help local parents and seniors.

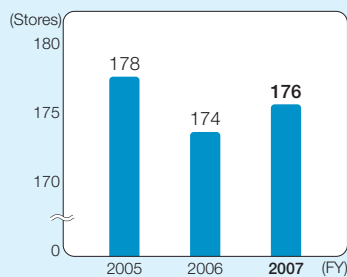
Corporate profile (as of February 29, 2008)

Establishment:	April 1, 1958	Paid-in capital:	¥40.0 billion
Headquarters:	8-8, Nibancho, Chiyoda-ku, Tokyo 102-8450, Japan	Total sales:	¥1,464.0 billion
Nature of business:	Operation of superstores selling food, apparel and household products	Number of employees:	43,013
		Number of stores:	176

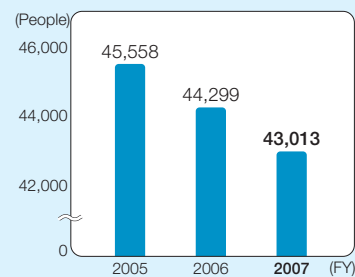
Total sales



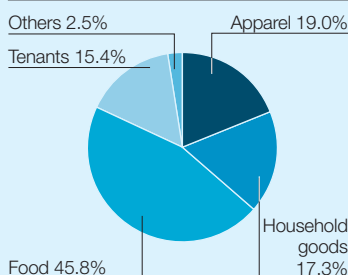
Number of stores



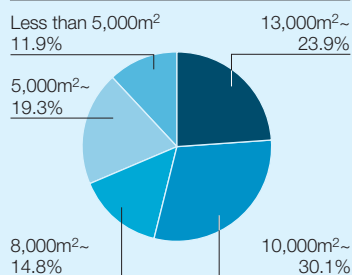
Number of employees



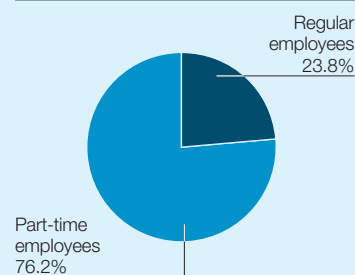
Sales by product category



Stores by floor size



Employees by type



Offering Safe and Reliable Products

Q I hope food safety is the first priority of my daily grocery store.

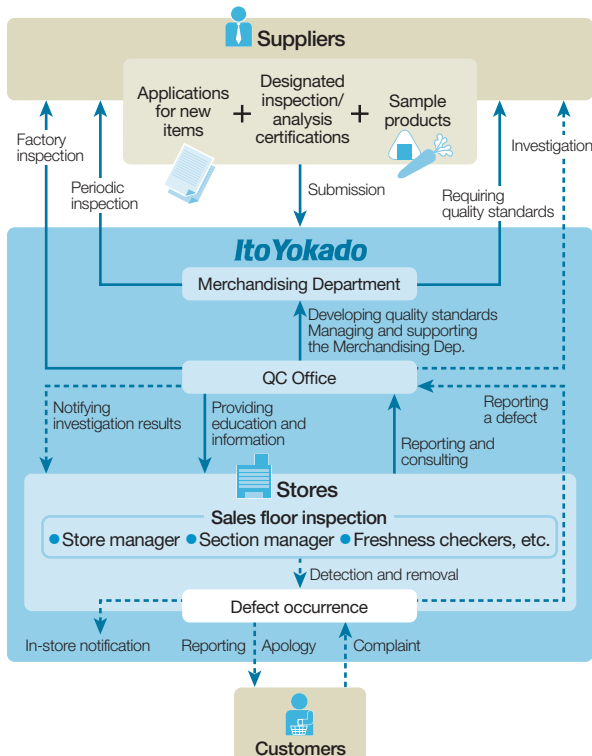
A We implement strict quality and safety controls of our products, while paying careful attention to their ingredients, origins, manufacturing process, and many other elements.

Rigorous quality and safety control throughout the processes from sourcing, displaying to selling

Ito-Yokado is committed to offering safe, quality food to customers. At the time of signing deals for purchase, we require suppliers to submit inspection and analysis certifications or their equivalents which prove the ingredients and additives concerned are properly controlled and meet our quality standards. To ensure the quality of new items, we may conduct on-site inspections, if necessary, at suppliers' factories in Japan and abroad.

On the store level, Freshness Checkers keep their eyes on their relevant food sections. In addition, Freshness Checking Patrols, consisting of non-food section employees, were organized in February 2007 to scrutinize the merchandise from the customers' viewpoint. We have also focused on key employee training to make these systems function effectively. Store managers and assistant store managers learned about our rules on expiry date management and on product labeling in February and May 2008, respectively.

Food management system



Expanded "KAOGA-MIERU-SHOKUHIN" items that can trace product origins and production processes

We responded to customers' growing demand for more reliable food by launching a house brand of "KAOGA-MIERU-SHOKUHIN" in FY 2002. The items of this brand are selected with a particular focus on the places of origin, production processes and traceability. Expanding its lineup year by year, the brand now covers all fresh food categories: vegetables, fruit, meat, eggs and fish.

We aim to build customers' trust and confidence in this brand through: (1) standardized production methods and quality requirements, (2) credibility through independent audits, and (3) open relationships through information disclosure.

For transparent disclosure, we have created an exclusive page of this house brand on Ito-Yokado's website. The main features include product origin information, Ito-Yokado staff's journal on visits to producing farms, and recipes using the brand items.

We also strive to increase the reliability of the brand and its products. The farms and the processing facilities as well as Ito-Yokado are subject to annual audits by third-party certification organizations. In FY 2007, a total of 108 audits were conducted.

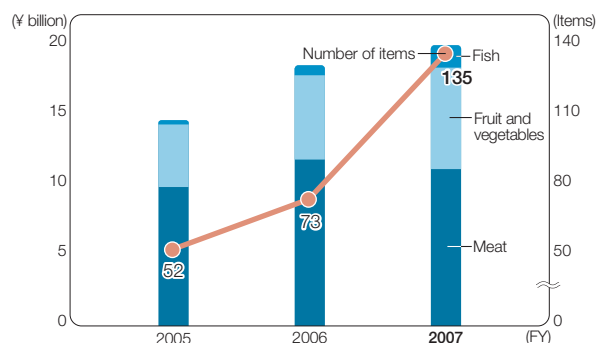


KAOGA-MIERU-SHOKUHIN webpage



KAOGA-MIERU-SHOKUHIN section

Sales and lineup of the KAOGA-MIERU-SHOKUHIN



Working more closely with neighboring farmers to expand the lineup of locally grown products

Agricultural products are crucially important in that their freshness and quality can be a defining factor of the store's reputation. In recent years, the popularity of fresh local produce is growing, partly due to increasing interest in "food miles," i.e., the distance needed to deliver the food to the stores. To meet such demand, we have signed contracts with local farmers (including farming groups and corporations) and offer fresh fruit and vegetables from the neighboring farms.

We place emphasis on close communication with the local producers and support them in producing quality products in a well-planned manner for continuous and stable sourcing.

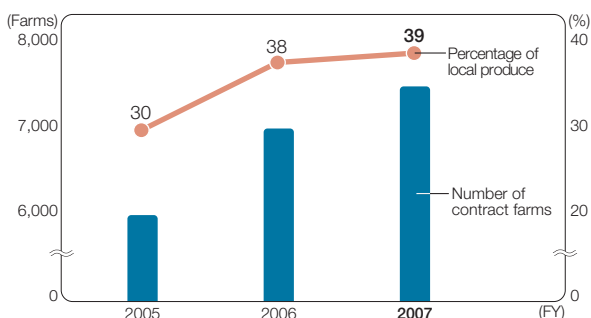
We also work to raise the appeal of locally grown produce to customers. Organizing harvest tours is among such examples. Major tours during the FY 2007 include: a tour to the Tsumagoi area, Gunma; a cucumber picking tour to the Tatebayashi area, Gunma; and a joint tour with JA Irumano, Saitama to harvest taro tubers.

As a result, the sales of locally grown produce increased, accounting for about 39% of the total vegetable sales in our fresh produce department as of February 29, 2008. We will continue working with the local producers to broaden the lineup. We are also planning to develop new items, such as locally produced gift fruits.



Harvest tour

Transactions of locally grown produce



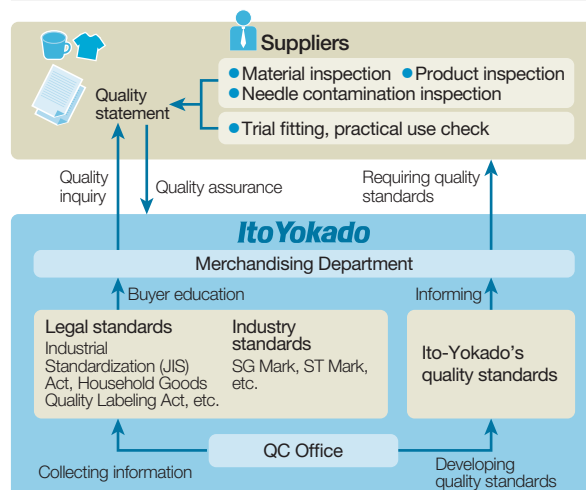
Stringent controls on apparel and household products under our quality standards

To deliver easy-to-wear comfortable clothes, and safe and convenient household products, we implement rigorous quality control before and while the products are displayed on our shelves, and willingly improve product quality based on customers' feedback.

Many product-related incidents during FY 2007, typified by a social issue of lead-tainted toys, provide a stark reminder of the importance of quality control on apparel and household products. Even before these problems were surfaced, we at Ito-Yokado had established our quality standards (materials, appearance, functions, labeling, etc.) applicable to all the sourcing transactions, whether with Japanese or overseas suppliers. New items need to go through an even stricter process. Before starting business with us, the suppliers are required to submit a quality statement with a verification document prepared by a designated inspection organization. With regard to our store brand products, all the items are subject to third-party quality inspections.

In FY 2007, we improved our factory checklist which is applicable to all the factories producing our house brand products. The revised list consists of 115 items, including new CSR and environment-related requirements, together with existing basic items, such as on production process and quality control. During the year, we also conducted site visits to 44 overseas factories which manufacture our directly imported products. In addition, our apparel and household products departments separately held the semiannual Quality Improvement Conferences in spring and fall. Many suppliers attended the meetings to discuss how we should work together toward better quality and fewer product defects. The meetings also provided an opportunity to communicate customers' feedback, including requests and complaints, to our business partners.

Apparel and household products management system



Combating Global Warming

Q I wonder if larger store sizes have led to an increased environmental impact.

A We take many actions to improve the environmental efficiency of our store operations, such as installation of energy-saving equipment and periodic facility maintenance.

Installing appropriate energy-efficient equipment catering to individual store conditions

In 2008, the first commitment period under the Kyoto Protocol finally commenced, calling for a 6% average reduction of green house gas emissions from 1990 levels by 2012. Our industry organization, Japan Chain Stores Association, has also established its target of a 4% improvement of energy consumption per unit from FY 1996 levels by FY 2010.

To achieve these targets, we at Ito-Yokado have been working to curb our environmental impact. We have opened large mall-styled shopping centers—typically consisting of our own floors and 100-200 tenant stores—at an aggressive pace since FY 2005, to meet diversifying customer needs. To prevent such expansion in floor area and store numbers from increasing our environmental impact, we have taken many steps such as installation of energy-efficient equipment and periodic maintenance of store facilities.

As a result, our CO₂ emissions in FY 2007 decreased 1.8% from the previous year to 700,535 tonnes. Our emissions per basic unit (operating hours x total floor areas) were also reduced about 1%.

We have also started other new green initiatives. In Ario Otori opened in March 2008, for example, we introduced solar panels, and low-power, long-life LED lights.

Through the installation of such energy-saving equipment in a growing number of our stores, we aim to reduce the impact of our operations on the environment.

Ice thermal storage system using nocturnal electricity

To reduce the energy use for air-conditioning, we have introduced “ice thermal storage” air-conditioners in Ario Kawaguchi opened in November 2005 and other Ario stores opened since then. Using ice made during off-peak night hours when a lower percentage of electricity is generated from fossil fuel, these devices emit approximately 5% less CO₂ per year than the air conditioners in other stores.

Currently, the equipment is available at five Ario stores and will be installed in newly opening stores.



Ice thermal storage system

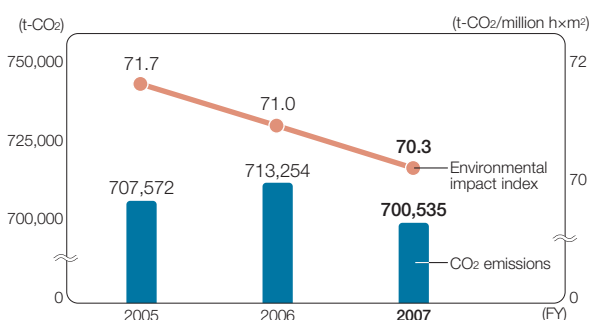
Small, natural gas-fueled cogeneration unit providing electricity and hot water

We have started to install a small-sized cogeneration unit called “Gene-Light” in our stores since FY 2006. The system generates electricity with a natural gas-powered engine and recovers the exhaust heat to provide hot water. Providing both electricity and hot water from a single source, Gene-Light is highly energy- and cost-efficient. Compared with an electricity-powered water heater, it is estimated to emit approximately 15% less CO₂. By the end of FY 2007, the cogeneration system had been installed in 23 stores.



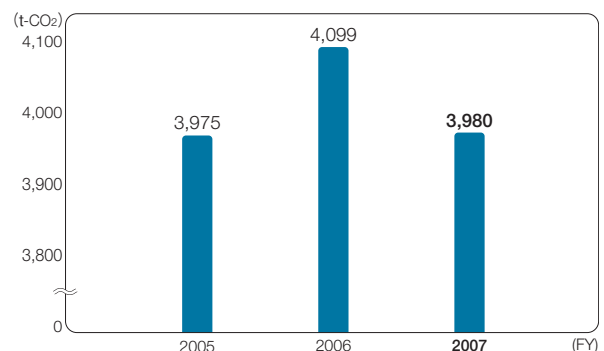
Small cogeneration water-heating system

CO₂ emissions and environmental impact index*



* Total CO₂ emissions/ (total floor areas x operating hours)

CO₂ emissions per store



● **Heat pump water heaters using natural refrigerant**

Our Yokodai and Kofu-Showa Stores have been using heat pump water heaters since August 2006. These devices apply the principle that when air is compressed, its temperature will rise, and vice versa. Using the natural refrigerant of air, the equipment can convert electrical energy to three times more heat energy. The introduction of this system has enabled Kofu-Showa Store to reduce annual CO₂ emissions by some 190 tonnes.

● **On-site electric generator using natural gas**

Our large stores have been supplied electricity from power companies via high-voltage electric transformers. This method has some disadvantages, such as substantial installation costs and space.

To address these problems, we introduced an on-site electric generator in our Akashi Store in September 2004. Compared with a conventional special high-voltage transformer, this natural gas-based system reduces not only installation costs but CO₂ emissions. Currently, such an in-house power generator is available in Akashi, Utsunomiya, Omori and Misato Stores.

● **Continuously adjusting lighting equipment correcting uneven brightness**

We at Ito-Yokado have taken many steps to minimize the electricity use in our store operations. For example, store layout as well as windows' sizes and locations are designed to admit maximum natural light, and light intensity standards are established on a section-by-section basis (e.g., 1,000 lx for apparel section; 1,200 lx for food section). We have also reduced the lighting level and the number of lamps in store backrooms to avoid unnecessary brightness.

In addition, all new stores opened in and after June 2000 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. We are planning to install this energy-efficient system in new stores on an ongoing basis.



Continuously adjusting lighting equipment

● **LED lights**

In Ario Otori opened in March 2008, low-power, long-life LED lights are installed in its customer restrooms and in-store displays. By using LED lights, rather than conventional lighting equipment, we can reduce electricity consumption in the store by 83,625 kWh and CO₂ emissions by 29 tonnes each year.

Other highly efficient lamps are also introduced in the store, such as 50W lamps that are equivalent to conventional 70W

ceramic metal halide lamps (113,880 kWh less electricity consumption and 40 tonnes less CO₂ emissions each year), and 100-watt lamps that are equivalent to conventional FHT42W-4 fluorescent lamps (116,100 kWh less electricity consumption and 41 tonnes less CO₂ emissions each year).



LED lights

● **Solar panels generating electricity from sunlight**

In the outdoor parking lot of Ario Otori, we have installed solar panels to use a natural energy source for in-store lighting. The system produces electric output of 6.24 kW, generates roughly 7,000 kWh a year, and reduces CO₂ emissions by two tonnes.



Solar panels in the parking lot

Availability of energy-efficient equipment

Type of equipment	Stores	
Ice thermal storage system	Ario Kawaguchi, Ario Kameari, Ario Yao, Ario Nishiarai, Ario Otori	
Heat pump water heaters	Yokodai, Kofu-Showa	
Cogeneration systems	Natural gas-based	Chitose, Yachiyo
	Energy supply (Natural gas or heavy oil)	Akashi, Utsunomiya, Omori, Misato, Ario Sapporo
	Gene-Light	Tsurumi, Yokohama-Bessho, Musashisakai-East Bldg., Omiya-Miyahara, Omiya, Hachioji, Kasai, Nokendai, Nishikicho, Higashiyamato, Tateba, Yamato-Tsuruma, Shonandai, Makuhari, Kokuryo, Higashimurayama, Shinurayasu, Takenozuka, Kawasaki-Minatocho, Espo Kawasaki, Ario Soga, Tama-Plaza, Kaminagaya
NaS batteries	Koga, Oyama, Maebashi, Wako, Mishima, Ario Kawaguchi, Ario Kameari, Ario Nishiarai	
LED lights	Ario Otori	
Solar panels	Ario Otori	
Continuously adjusting lighting equipment	All stores opened in and after June 2000	



Q I hope to see reduced use of transportation vehicles, while maintaining your broad product assortment.

A Through our “logistics reform,” we are reducing the number of distribution vehicles in use and CO₂ emissions.

Reduced environmental impact and greater product assortment through leaner logistics

To simultaneously ensure that our stores offer wide-ranging products which can meet customers various needs and that these products are distributed with less environmental impact, we at Ito-Yokado have been reforming our logistics operations aggressively.

Examples of such reform include the establishment of “Category Centers” starting in FY 1997, where shipments from suppliers (processed food, apparel and household merchandise) are consolidated, sorted out and packed according to store and floor section destinations, and shipped directly to designated sales floors. These distribution centers are operated in 77 locations across Japan (as of February 29, 2008). We also work to reduce the number of distribution trips to stores. For instance, we operate temperature-specific distribution centers across the nation and consolidate shipments in local areas by practicing combined distributions.

In addition, we have been working to use fewer cardboard boxes, and saved 54.5 million boxes in FY 2007. To reduce the consumption, most products are shipped in reusable plastic containers; certain apparel items that are hung up in store are shipped on hangers; footwear items are transported in carts rather than individually boxed; and Japanese-style bedding is shipped in special reusable bags.



Merchandise shipped in reusable plastic containers

● New distribution centers

To reduce logistics-related CO₂ emissions, we are aiming at: (1) fewer distribution vehicles in use and shorter travel distance by implementing combined distribution, (2) shorter travel distance and time by decentralizing distribution centers and (3) fewer distribution vehicles in use by introducing multi-temperature trucks.

During FY 2007, we opened our new fresh produce distribution centers in Ota district, Tokyo in June; Kawagoe City, Saitama in July; and Edogawa district, Tokyo in September. Using these distribution centers that centrally purchase products from markets allows us to reduce annual travel distance by 85,045 km.

● Eco-friendly driving with in-vehicle terminals

Aiming for safe and more fuel-efficient logistic operations, we started to install in-vehicle recorders in our delivery trucks and use the obtained driving data to train our drivers.

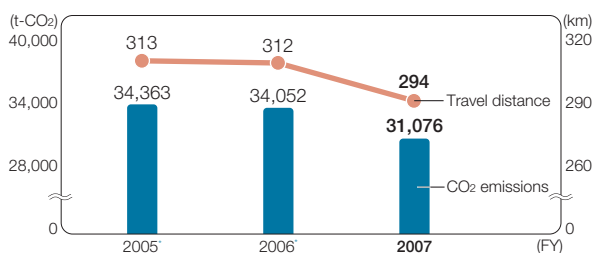
We also held a seminar to encourage “eco-friendly driving” in November 2007, focusing on CO₂ reductions and safe driving. As a result of these efforts, fuel efficiency of our delivery vehicles improved 5% in February 2008 from six months earlier.

Furthermore, we launched the Environmental Task Force with our distribution center operators and contract distribution companies in April 2008 to strengthen our green logistics efforts.



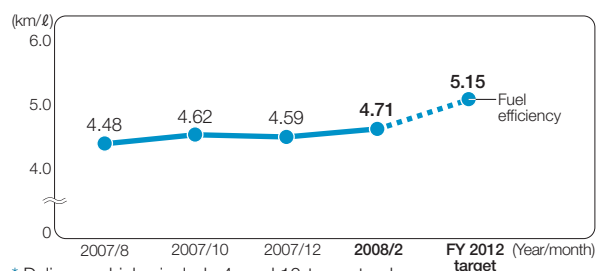
Eco-friendly driving seminar

Distribution-related CO₂ emissions and travel distance per store



* Calculations of the FY 2005 and FY 2006 figures are based on the FY 2007 actual fuel efficiency of 4.18 km/L.

Fuel efficiency of delivery vehicles*



* Delivery vehicles include 4- and 10-tonne trucks.

Waste Reduction

Q How do you dispose of unsold food products?

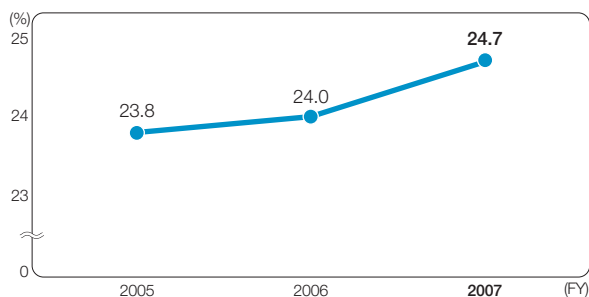
A Together with our contract waste management companies, we recycle them to make compost and livestock feed.

Reducing and recycling food waste to achieve a recycling target of 45%

Under the Food Waste Recycling Law revised in December 2007, food retailers need to achieve a food waste recycling rate of 45% by 2012. Ito-Yokado believes achieving this legal target and making contributions to creating a recycling society is a part of our important responsibilities. We thus have been working to generate less, and recycle more, food waste.

We have established food waste recycling systems in 32 stores (as of February 29, 2008), where unsold food products are used to make compost and livestock feed, or treated by using accelerated biodegradation methods (liquefaction, volume reduction). Our food waste recycling rate in FY 2007 improved 0.7 percentage

Food waste recycling rate



points from FY 2006 to 24.7%.

We are planning to expand the food waste recycling system to a greater number of our stores, especially in the Kanto region.

● Food Waste Recycling Financial Support Program covering part of recycling costs

To promote food waste recycling, we have offered the Food Waste Recycling Financial Support Program from FY 2002. In this program, we cover a part of recycling costs incurred by our contract food waste disposal companies. A total of 23 stores used this system as of February 29, 2008.

● Reduced cooking oil usage by prepared food section

Our prepared food section offers various in-store cooked items, including deep fried food. The section strives to reduce cooking oil consumption by developing and following its own rules, which specify how to use fryers and control cooking oil quality and temperature, and so on.

During FY 2007, we also improved the method of straining the used oil and adopted narrower fryers that use less oil. These actions helped us to reduce cooking oil consumption by 600 tonnes from the previous year to 2,890 tonnes, and waste cooking oil disposal by 396 tonnes.

TOPICS

Offering fresh, safe and reliable vegetables grown in a “recycling loop”

Ito-Yokado is working to develop a recycling loop to help reduce food waste and create a recycling society. In this system, food waste generated by our stores is used to make compost. The compost is then applied to soil to grow vegetables, which come back to our stores as products.

In July 2007, in cooperation with contract waste management companies, we started to make compost from food waste collected from our selected stores in Chiba, i.e., Anesaki, Ichihara, Makuhari, Usui, Yotsukaido and Yachiyo Stores, and sell cabbage and corn grown with this compost in our Anesaki and Ichihara Stores. Vegetables grown in such a process are popular among local customers because these locally produced products are reliable and farm-fresh.

In FY 2008, we are expanding this recycling loop network even further, e.g., inclusion of Odawara Store in Kanagawa in the participating stores, and launch of our agricultural production corporation (p.17).



Vegetables produced in a recycling loop

Eco-friendly Products and Service

Q How can I make a difference for the environment through my daily life?

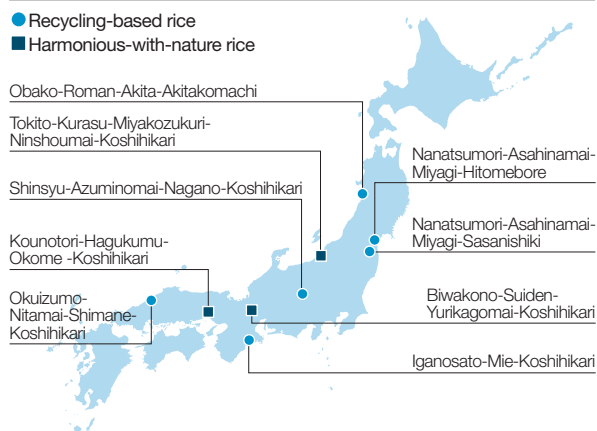
A We offer a variety of products that have low environmental impact and contribute to natural conservation.

Safe, eco-friendly rice grown by using recycling-based and biodiversity-conscious farming methods

Our house brand rice *Atataka* offers safe and quality choice to our customers. Since October 2006, new items have been added to this brand: rice grown in a recycling-based agricultural method. To cultivate such rice, compost and livestock feed made from rice straw and bran are used to grow vegetable and raise cattle, and then cattle manure and vegetable scraps are used to make organic, fully mature compost, which is applied to rice paddies.

From September 2008, we offer additional eco-friendly rice products sequentially. These new products

Location of “recycling-based” and “harmonious with nature” rice farming



are produced in a “harmonious way with nature.” The cultivation not only uses less pesticide and chemical fertilizer but also aims to conserve biodiversity by using rice fields which can be wildlife habitats. Part of the proceeds from these products will be used to improve the environment of the rice-producing regions.

Fair trade and eco-friendly products

We actively promote environmentally friendly products to meet growing customers’ awareness of environmental issues. Examples of such products include Rainforest Alliance Certified coffee, which have been offered in our stores since FY 2007. Rainforest Alliance is a New York-based nonprofit organization, which certifies coffee, bananas and other agricultural products grown in rainforests that satisfy its standards, such as appropriate payment to the producers and nature-friendly farming. Selling such products will help consumers’ contribution to rainforest protection and Fair Trade promotion. We also offer Bird Friendly Coffee, another certified coffee brand aiming for environmental conservation.

To support our customers’ purchase decision, we also created an organic food section in the food department of selected stores (16 stores as of September 30, 2008), where various organic food items, including coffee, juice, jam, sugar, black pepper and other condiments, are available.

TOPICS

“ecoRIBBON” campaign for collaborative green efforts with customers and local communities

From FY 2008, Ito-Yokado’s environmental activities are called ecoRIBBON campaign, aiming to take our environmental activities across our operations—including product and service offering, store equipment and operations, and logistics—to the next level.

The word “ribbon” in ecoRIBBON represents connection. Connected with customers, we aim to promote “environmental activities in our daily lives.” In line with this policy, ecoRIBBON label is marked on our products and activities that meet the standards we have established in consultation with three external advisors (experts in consumer affairs, CSR, environmental issues). The first ecoRIBBON products were organic cotton T-shirts and casual shirts, available in our stores from April to July 2008. Part of the proceeds from these shirts are donated to an environmental nonprofit organization named Fujisan Club. We have also prepared booklets of ecoRIBBON for customers and employees respectively to introduce ideas of eco-friendly daily lives and provide environmental education.



Q Have your plastic bag reduction efforts been making progress?

A We are encouraging our customers to bring their own shopping bags to save resources and prevent global warming.

Introduction of paid-for bags and other various steps to reduce plastic bag use

Among retailers' environmental agenda, the reduction of plastic bag consumption is a particular focus of public attention. To this end, the Japan Chain Stores Association has set an industry-wide target, i.e., a 30% plastic bag refusal rate by the end of FY 2010.

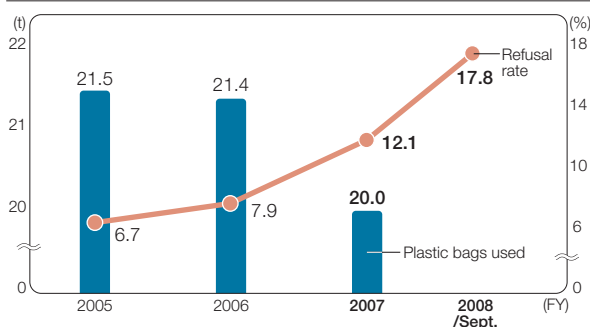
We at Ito-Yokado have been taking various steps toward this goal. For instance, we established and follow our detailed criteria for plastic bag distribution. We offer "No Plastic Bags" cards at checkout stands and a "stamp card" program, where a card with 20 accumulated points (each purchase without receiving plastic bags earns one point) can be used as a shopping certificate. We also sell our original reusable shopping bags in our stores.

Furthermore, we experimentally started to charge fees for plastic bags in Wakabadai Store in Yokohama City in June 2007, which has currently been expanded to 14 stores (as of October 2008). These experiments have proven that charging a fee is a very effective approach; average refusal rates in the test stores have been somewhere between 80 to 85%.

We also work to give back to local communities through these experiments. In the Wakabadai Store, we purchased environmental education materials with the proceeds from the plastic bag fee and donated them to local elementary schools.

As a result of all these efforts, our plastic bag consumption in FY 2007 was reduced by 263 tonnes from a year earlier to 3,576 tonnes. Customers' refusal rate of plastic bags has also improved to 17.8% (as of September 30, 2008).

Plastic bag refusal rate (food section) and consumption per store



Material and application improvement to reduce food packaging consumption

Our reduction efforts are not limited to plastic bags. We have worked to consume less packaging materials that are used for prepared boxed meals and side dishes, fresh food, and other food items. Through the adoption of thinner containers and the promotion of unpackaged or sell-by-weight sales, our food packaging materials usage in FY 2007 was reduced by 34 tonnes from FY 2006 to 2,298 tonnes.

Meanwhile, we have been using more paper containers, which have less impact on the environment than plastic ones. In FY 2008, we aim to reduce our total food packaging consumption by another 5%.

● Food trays with "detachable" surface film

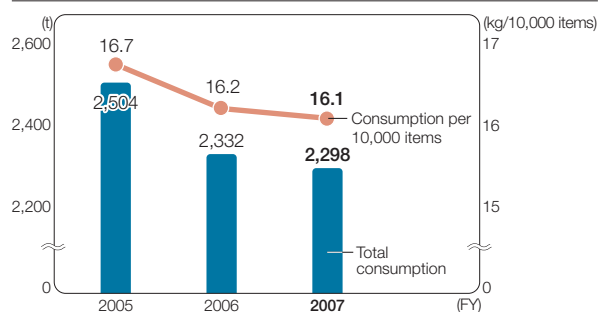
We have adopted "Hagaseru (detachable) trays" since FY 2001 to improve our recycling rate of food trays. The surface film of the trays, usually with color and patterns, is easy to detach.

Introduction of such trays to 22 food items (as of February 29, 2008) has allowed us to recycle 83% of the trays we use in our stores, including plain white ones.



Hagaseru tray
An eco-friendly tray whose surface laminate film is easy to detach. The resulting white tray can be recycled.

Food packaging consumption



Safe and Comfortable Stores

Q I hope your stores provide a comfortable shopping experience to everyone.

A We have incorporated many universal design principles as well as safety measures into our store facilities.

Preventing escalator-related accidents and keeping stores injury-free

We strive to maintain a safe store environment to protect our customers from any injuries in our stores.

In FY 2007, we strengthened safety measures for escalators in response to many escalator-related accidents occurred in commercial facilities in Japan. All escalators in our stores are now equipped with a device to prevent riders' heads and other body parts from getting caught. We also alert customers to the danger of riding escalators wearing certain types of sandals by posting signs and playing PA announcements. In addition, escalators in eight stores operate at a slower speed (as of March 31, 2008), based on the findings and recommendations of the Tokyo Fire Department's study group report regarding the prevention of escalator-related accidents in March 2005.

Furthermore, our annual safety measure training provides opportunities for all the employees of our stores and their tenants to reinforced their understanding of our escalator safety rules, such as how to make an emergency stop; where the sensor is located; the necessity to advise children to stop playing around the escalator; and employee's regular safety inspections by using the escalators during store hours.



Escalator safety training

Universal Design Project to increase safety and convenience of our stores

Ito-Yokado welcomes various customers to our stores every day. To provide a comfortable shopping experience to all customers, our newly opened and remodeled stores have been introducing barrier-free elements since 1994, including wheelchair-accessible parking space and fitting rooms, and Braille signage. Aiming for the next level, our Kiba Store opened in November 2000 and subsequent new stores have incorporated universal design (UD) features into their store facilities, equipment and fixtures.

Ario Otori, opened in March 2008, has promoted UD elements through a cross-sectional project team, representing the department responsible for store equipment and fixtures and each of the other departments. With advice from a UD expert, many UD facilities are introduced in the store, such as intercom systems for universal use, wheelchair-only car parking spots, and multi-use and audio-guided restrooms.

To communicate our UD efforts to, and receive feedback from, local communities, we also invite senior and disabled neighbors to our new stores before their official launch.



Multi-use restroom

TOPICS

Communicating the importance of the environment and universal design through the special exhibition section in Ario Otori

Shoppers in Ario Otori can visit the "Eco and UD (Universal Design) Section," created on the theme of "becoming earth-friendly and people-friendly." In addition to presenting Ito-Yokado's related activities, this exhibition section offers educational experiences. In October 2008, four hands-on study events for local elementary school students were held in partnership with Sakai City's Board of Education. The students learned about environmental protection and universal design through a booklet and our explanation on related facilities and equipment in the store.



Hands-on study event for local elementary school students

Giving Back to Our Communities

Q As well as merchandise, I would like to receive useful everyday life information and service.

A We have created exclusive sections of maternity and parenting consultation service and of senior customers' products and service in our stores.

Listening to future neighbors from a planning phase to contribute to the communities' further growth

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, we develop our store plan catering to local needs and characteristics. We also meet with local residents, in accordance with the Large-scale Retail Store Location Law, to explain the overview of the new store and planned measures to address possible concerns, such as traffic, noise and waste. Received feedback at the meetings is incorporated in our store plan, through which we aim to become a welcomed new member of the community.

In the explanatory meeting for Ario Otori opened in March 2008, many neighbors voiced their concern about traffic congestion and crime. In response, we have developed and implemented our traffic control plan (e.g., new road construction and alleviated opening hours congestion by our traffic controlling and guarding program) under guidance from the local government and police, to facilitate the convenience and safety of local traffic systems. A police patrol office was also established in the store front to guard the local community.

The opening of Ario Otori is more than just an addition to our store network: it contributes to community revitalization and renewal. The neighboring area, adjacent to the south of Sakai Otori Station, is among designated areas of the nation's urban redevelopment program. The launch of the store was proposed and implemented in this context. Within the area, a range of city facilities have also been newly developed, or are under development, such as a park with emergency response facilities, a nursery, housing facilities for senior citizens, and three condominium towers.



Ario Otori



Police patrol office

Maternity and Children's Education Centers supporting local parents

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. Overload of child raising information also makes it difficult for many parents to decide which advice to follow. We reach out to such parents at our Maternity and Children's Education Centers, which have been operated within our stores' Baby Rooms since FY 1975.

Customers can casually drop by the center during their shopping trips to receive complimentary consultation from our qualified counselors, who offer 2-9 advisory sessions on prenatal health care and parenting each month. During FY 2007, a total of 310,769 visits were paid in 133 stores.

The Centers also provide parenting classes and socializing forums for parents. During FY 2007, aggregated 6,700 families participated in 876 events on various themes, including potty training (one of the major headaches for parents), and touch therapy and baby exercise to learn about the importance of touching and physical contact between parents and babies.

In addition, our counselors visit local governments regularly to promote the Centers' activities, and receive updates on public service for parents and children to be used for future advice. These visits have helped the Center to earn greater recognition and trust from the local communities. Some customers came to us for counseling or body measurement with referrals from public health centers and other public authorities.

Our efforts through the Centers were recognized by the Ashitano Nihon-wo Tsukuru Kyokai foundation with its FY 2008 community contribution award program. Ito-Yokado received the Chief Cabinet Secretary Award in the corporate citizenship section of the program.



Reliable Support Shops developed from senior customers' feedback

According to the Cabinet Office's FY 2008 white paper on Japan's aging society, the elderly population aged 65 and older in the nation was 27.46 million people as of October 1, 2007, which is the highest ever. This age bracket accounted for over 21.5% of the total population. A total of 4.251 million people or 16% of the senior citizens were registered as "those who need nursing care and support," as of December 31, 2004.

As these figures indicate, Japan's population is aging rapidly. Given this, supporting seniors is one of our important responsibilities at Ito-Yokado in that we aim to serve as a Life Base of local communities. In line with this belief, we launched a senior care product section in our Oimachi Store in 1997. However, subsequent communication with customers taught us that there was room for improvement in this section, including: (1) the section offered senior care products only, thus did not meet the needs of many senior customers, who face declining physical abilities but do not need nursing care, (2) many customers were unsatisfied with the products' style, such as color, pattern and design, and (3) many seniors sought someone to consult with, for example someone who can explain how to use senior care products.

Based on such feedback, we opened "Reliable Support Shops" within our stores in August 2004, offering not only senior care products but apparel, household and food items that can satisfy style-conscious senior customers. In the shops, two to three qualified employees, who passed the governmental certification program on senior care products, listen to and talk with customers to assist their shopping (the availability depends on time of the day).

Reliable Support Shops are located within our 101 stores across Japan (as of February 29, 2008).



Reliable Support Shop

Health Care Stations supporting customers' health management

In recent years, Japan's health care systems have been revised dramatically in response to increasing number of patients with lifestyle-related disease, and the aging society. The latest changes include the introduction of a new health checkup and guidance program for 40 to 74 year-old insurance policy holders in April 2008. The program, subject to medical insurance coverage, is designed to early detect existing and soon-to-be patients of metabolic syndrome and to encourage balanced diet and regular exercise. Against this backdrop, we support our customers' health management at our Health Care Stations in selected stores (Matsudo, Inuyama and Ichihara Stores), where customers can check their body condition, e.g., blood pressure and body fat, and receive dietary consultation.



Health Care Station

Health and Comfort Reliable Support Shop supporting seniors' lives both by products and service

Leveraging on our experience in the Reliable Support Shops and the Health Care Stations, we started an innovative section to meet a wide range of needs of senior customers and society, named "Health and Comfort Reliable Support Shop," within our Ichihara Store in March 2008.

The shop aims to provide a place of holistic support for seniors, primarily through the sales of senior care products, operation of a fitness facility, information provision of local nursing care service, and health check and dietary consultation. Restroom equipment for ostomates and wheelchair-accessible fitting rooms are also available within the Shop.



Fitness facility for seniors



Dietary consultation counter



We are building and maintaining good relationships with part-timers who are roughly 80% of our employees, and with approximately 6,500 business partners.

Career Promotion Choice Program enabling flexible working styles

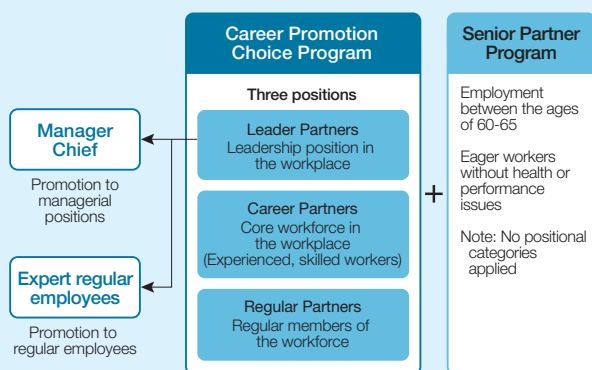
At Ito-Yokado, part-timers account for approximately 80% of the total workforce (as of February 29, 2008) and increasingly play important roles in overall store operations, from sales and customer service to employee education and management. At the same time, part-time employees have wider-ranging objectives, needs and availability with regard to their jobs. Therefore, developing a HR system that can accommodate these facts is important for us.

Given this, we have a new HR system in place from March 2007. Key changes in the new system include: (1) part-time employees can select their working styles through the “Career Promotion Choice Program,” (2) employees are evaluated and rewarded in a more performance-based manner, and (3) employees can continue working until the age of 65 through the “Senior Partner Program.”

Under the Career Promotion Choice Program, 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. Employees can therefore choose to opt out of promotion if they wish.

Using this new program, approximately 250 part-timers had become regular employees (“Experts”), and about 1,650 and 2,400 part-time employees had been promoted to Leader Partners and Career Partners, respectively, by March 1, 2008.

Career Promotion Choice Program and Senior Partner Program



Skill Contest for Perishable Department Part-Time Employees to nurture higher skill levels

At Ito-Yokado, we actively support our employees’ voluntary efforts to enhance their professional skills and mindset.

In the perishable department, where improved staff skills directly contribute to greater product competitiveness, we have conducted the Annual Skill Contest since 2005 for the part-time employees working in the sections of meat, fish, sushi, and prepared food. Finalists, selected as a result of store-level screening and regional zone-level preliminaries, compete with each other, demonstrating their food preparation skills by actually making their major products in the Contest.

In line with this event, we also focus on employee training, mainly on skill development. Various training opportunities are provided, such as on-the-job training under the guidance of managers, on-site education by our trainers who travel around stores, and group training based on skill levels. Approximately 1,900 employees participated in these training programs during FY 2007.

Fair Trade Committee for fair working relationships with business partners

As declared in our corporate creed, Ito-Yokado aims to be a “sincere company that our business partners trust.” Therefore, we strive to ensure fair business, and develop and maintain trusting relationships with business partners, under the leadership of the Fair Trade (FT) Committee and the FT Committee Office, created in 1999.

The FT Committee Office regularly inspect our trading practices to see if there is any abuse of dominant bargaining positions, such as improper demands for product returns/discounts and personnel dispatch, refusal to receive ordered products, and purchases at unreasonably low prices. This organization also focuses on training of Buyers (sourcing representatives) and Distributors (personnel responsible for product assortment propositions, inventory level decisions, and distribution). Other initiatives by the Office include the development and distribution of easy-to-understand guidebooks on regulatory requirements regarding fair purchase and sales practices.

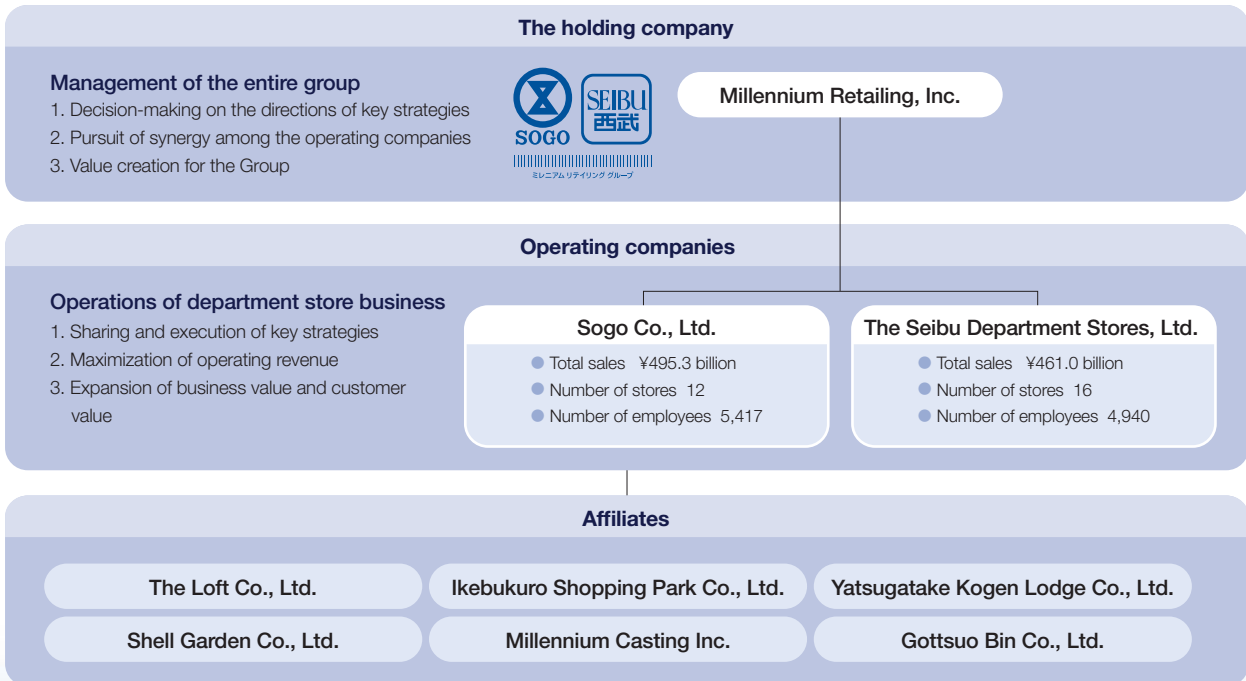


With a wide selection of quality merchandise meeting customers' expectations, we strive to satisfy each and every customer's needs.

Millennium Retailing Group was created in June 2003 as a result of the integration of Millennium Retailing, Inc. (formerly, Sogo, Inc.), Sogo Co., Ltd. ("Sogo"), and The Seibu Department Stores, Ltd. ("Seibu"). Within this new department store group, Millennium Retailing functions as the headquarters of the entire group, while Sogo and Seibu, 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 addresses diversified customers' needs 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.



Our CSR focus

● Delivering differentiated, department-store-specific value through our merchandise

We offer wide-ranging merchandise, from apparel to home design products and food, in Sogo and Seibu stores. We examine the quality of these products using various methods in order to ensure all our products deliver appropriate value that meets customers' expectations. We take heed to food safety in particular as the issue is of growing public concern. We voluntarily inspect our food products against our hygiene control standards, which are stricter than regulatory requirements. In addition, we receive external inspections by a third party to check the sanitation levels of all our stores' food-related facilities. Furthermore, we hold relevant explanatory meetings for business partners to ensure their appropriate hygiene control practices in our stores.

● Offering a safe, comfortable shopping experience with enhanced facilities and customer service

Many Sogo and Seibu stores are adjacent to train station facilities, and various types of customers visit our stores

every day. To make sure all customers enjoy a safe, comfortable shopping experience, we have started to adopt barrier-free facilities and Automated External Defibrillators (AEDs) in our stores. Universal design approach can be found in our customer service too. For instance, our store staff are encouraged to become qualified "Customer Care Advisors" to deliver better shopping assistance.

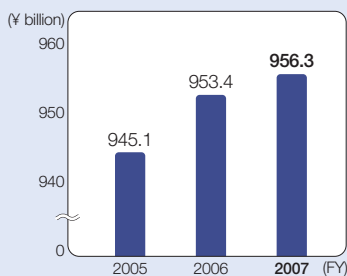
● Rigorous personal information management

Managing personal information appropriately to prevent its leakage, theft and misplacement is one of our key priorities, especially given that many customers use their membership cards and credit cards in our stores. As a part of our efforts to this end, we established "Seven Prohibited Actions" with regard to employees' personal information treatment, and ensure our employees' compliance with these rules. We also work to ensure appropriate information management by business partners by providing related training and requiring the submission of "commitment statements."

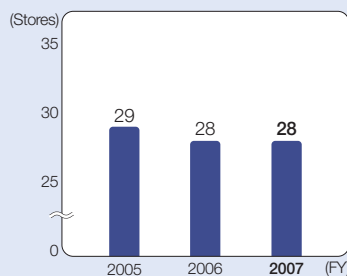
Corporate profile (as of February 29, 2008)

Establishment:	July 1952 (as the founding entity of former Sogo, Inc. The current group was established in June 2003)	Paid-in capital:	¥37.7 billion
Headquarters:	1-30, 2-chome, Kudan-Minami, Chiyoda-ku, Tokyo 102-0074, Japan	Total sales:	Sogo: ¥495.3 billion; Seibu: ¥461.0 billion
Nature of business:	Supervision of, and auxiliary activities pertaining to, the operating companies, including department stores.	Number of employees:	Sogo: 5,417; Seibu: 4,940
		Number of stores:	Sogo: 12; Seibu: 16

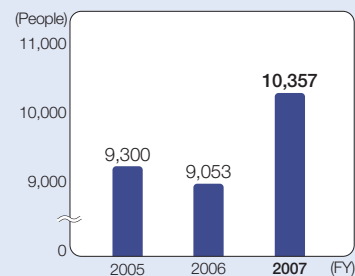
Total sales



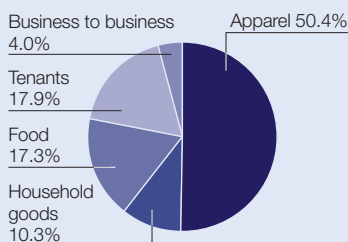
Number of stores



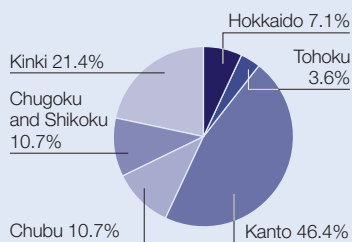
Number of employees



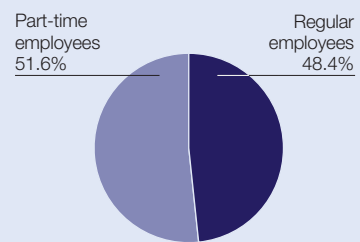
Sales by product category



Stores by region



Employees by type



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

Offering Safe and Reliable Products

Q As department stores offer wide-ranging merchandise, I wonder how thorough your quality control is.

A Together with our business partners, we have strengthened quality control systems to offer safe products.

Quality Control Committees for further rigorous labeling, hygiene and quality control

We regret to report that our FY 2007 year-end gift shopping catalog included a piece of incorrect product information.* The incident spurred us to strengthen our quality control system. In March 2008, we created the Millennium Retailing Quality Control Committee in our headquarters and the Store Quality Control Committees in our stores. The missions of these organizations are to ensure all the stores consider and practice appropriate labeling, food hygiene and quality control from a customer standpoint, and make such controls part of the stores' normal activities. Specifically, the committees are working to: 1) ensure the entire Millennium Retailing group and each individual store always implement appropriate product labeling and sanitation control, 2) review and improve, if needed, our business partner management, product information presentation and merchandise selection, and 3) build a mechanism to ensure legally compliant operations.

The Millennium Retailing Quality Control Committee meets quarterly and the Store Quality Control Committees meet monthly to report the status of ongoing activities, share identified issues and discuss rectifying measures.

To reinforce such quality control systems, we have also provided employee training on store-level food hygiene management, and similar seminars for business partners since FY 2008.

* Chinese pasteurized (disinfected at low temperatures) caviar was labeled as Russian fresh caviar.

Quality control system



Employee education and enhanced inspection to ensure appropriate labeling

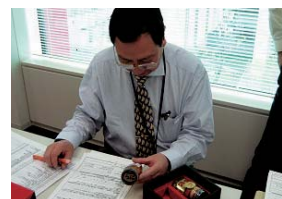
To avoid a recurrence of any inappropriate labeling, we are focusing on employee education to increase their knowledge of appropriate labeling, product information presentation and expression, as well as on establishing a strong system to inspect actual labeling, presentation and expression in our catalogs and products.

For instance, our employees attended our food hygiene management training from April to May 2008 (p.57), to learn about improper labeling examples and other related information regarding the Act against Unjustifiable Premiums and Misleading Representation. A total of 519 employees, including Store Quality Control Committees' members, and managerial staff overseeing the food section and tenant restaurants, took the courses. We are planning to provide further specialized training in the future.

To implement more rigorous labeling inspections, we have also taken the following three steps:

- (1) Additional proofreader: The Administrative Department's product and quality control personnel, together with existing reviewers of the Sales and Planning Department's Advertising and Planning Manager and the Merchandising Department, check the drafts of catalogs and other communication media;
- (2) "Merchandise Inspection Meetings" for gift products: We examine labeling, appearance, volumes and other elements of gift products, including farm direct products' origin certificates ;
- (3) Improved data accessibility: Product origin data is made available at all our seasonally available gift sections, which has enabled quick responses to inquiries from customers.

By making such efforts steadily and consistently, we aim to provide appropriate, reliable product information to our customers.



Merchandise Inspection Meeting for gift items

Internal and third-party inspections as part of strict food hygiene management

While many food-related incidents occurred, including fraudulent labeling of product origin, we at Millennium Retailing have been working to improve our food hygiene management system. Our stores voluntarily inspect their hygiene conditions against our control standards. In addition, we periodically receive third-party examination, and focus on employee education. Having gained momentum by the creation of the Quality Control Committees in March 2008, we are aiming for further strengthened hygiene control systems in FY 2008.

● Voluntary inspection and management based on our Hygiene Control Standards

We manage the temperatures of refrigerators, showcases, and other equipment in our stores' food floors and kitchens, as well as product information presented by following the Hygiene Control Standards formulated in June 2003. These internal standards are more stringent than statutory requirements.

● Third-party hygiene inspection and guidance

Our food sections are also subject to external quarterly inspections by BML Food Science Solutions, Inc. ("BML") to verify the appropriateness of our stores' internal inspections and management. If noncompliance is found, we promptly tell relevant employees to correct the situation and provide related training, as well as inspecting and providing guidance to suppliers and manufacturers. When our store holds a food-related event, the store also receives external sanitation control inspections on the first day of the event and takes corrective actions, if necessary.

● Special food hygiene inspection

We made unannounced visits to six Sogo and six Seibu stores from July 23 to August 6, 2008 to inspect the hygiene control levels (both staff and facilities) of their kitchens.

BML and Millennium Retailing's Quality Control Manager and the Food Department's buyers jointly checked the store kitchens before opening hours. Inspection results, as well as corrective measure requests, if relevant, were reported to our business partners, which subsequently reported back to us with corrective actions taken and the resulting status.



Special inspection

● Food hygiene training for employees and business partners

We provide regular employee training on food hygiene to increase their attention. The training in FY 2008 took place from April to May at 12 Sogo stores and 15 Seibu stores. In total, 2,877 employees—consisting of the Store Quality Control Committees' members, related departments' managerial staff and food sections' personnel—learned about necessary hygiene considerations in daily operations, together with real life examples of food incidents and their causes, from merchandise and quality control staff of Millennium Retailing's Administrative Department.

We also held two "Business Partner Conventions on Food Quality Control" in July 2008 to ensure the same levels of understanding and commitment to sanitation control by explaining the legal and regulatory requirements applicable to our food sections and so on. In total, 237 people from 197 firms participated in the seminars.



Food hygiene control training

Quality control of apparel and household products under category-specific standards

At Millennium Retailing, the quality of apparel and household products is also strictly controlled. The Merchandise and Quality Control Division has primary responsibility in this area, and works with the Merchandising Department to examine products. Business partners are required to take corrective actions if a defect is found in their products.

Quality inspections of apparel include the testing of color permanence, durability and wash-fastness, as well as checking sewing quality against our category-specific standards (e.g., suits, business shirts and sweaters). In addition, BML visits our fashion floors to check products' quality. When it comes to household merchandise, monthly quality inspection is conducted on a sampling basis by BML. Products subject to the Product Liability Act and formaldehyde-related legislation are the main targets of such external examination.

In addition to these regular activities, we immediately conduct rigorous inspection of the products, about which customers brought up issues. The Merchandising Department informs our stores and relevant business partners of the inspection results and identified issues and asks for improvement.



Thorough quality control of apparel products

Combating Global Warming

Q How are your department stores reducing CO₂ emissions?

A In addition to more efficient use of lighting and air-conditioning equipment, we started to introduce garden roof systems to make the most of our spacious facilities.

Aiming to reduce energy use by installing more efficient equipment and reducing the use of air-conditioners and lighting

As a member of the government-led carbon reduction initiative named the “Team Minus 6%,” and of the Japan Department Stores Association (JDSA), which aims to achieve its voluntary environmental action plan, Millennium Retailing is working to reduce CO₂ emissions by installing energy-efficient equipment and taking many other actions.

We particularly focus on the reduction of electricity consumption, which accounts for roughly 90% of our total energy use. To facilitate extensive, detailed electricity management, we have set criteria for electricity consumption management, and daily

consumption targets for all stores. We have requested some of our tenants to work toward our consumption targets.

In FY 2007, Sogo used electricity of 268.0 GWh (99.0% of the FY 2006 level) and Seibu consumed 267.7 GWh (102.0%). Sogo emitted CO₂ of 163,222 tonnes (101.9%) and Seibu emitted 143,883 tonnes (105.8%). Extraordinary hot summer and increased lighting use due to nocturnal construction work for large-scale remodeling affected these results.

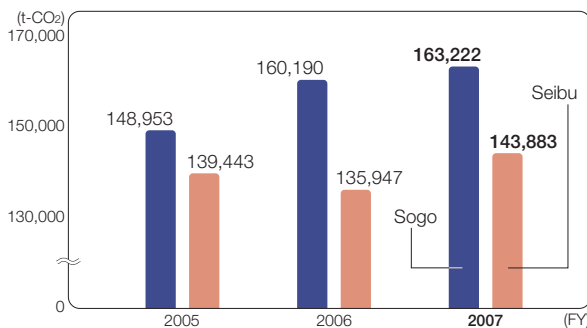
● Facility improvement at Seibu Ikebukuro Main Store

In Seibu Ikebukuro Main Store, substantial improvement of its electricity-related facilities (e.g., generators) and heat source facilities (e.g., freezers and boilers) is scheduled as part of its remodeling plan to be completed in 2010. Improved facilities in the remodeled store would consume 27.4% or 48,695 GJ less energy, and emit 2,881 tonnes less CO₂ each year than the existing counterparts.



Replacing with new electric generators

CO₂ emissions



TOPICS

Strengthened environmental management at Sogo

Seibu is one of the first department store operators to acquire the ISO 14001 certifications in April 1999, and has built an advanced environmental management system based on these standards. Using Seibu’s system as reference, Sogo started to develop an organizational environmental management system by launching the Environmental Management Committee in June 2008.

From the second half of FY 2008, Sogo will share environmental priorities with Seibu by adopting Seibu’s “Four Pillars and Nine Actions.” At the same time, Sogo will set associated numerical targets to make tangible progress. Sogo will also introduce Seibu’s regular environmental education programs for all employees from September 2008, aiming to imbue each and every employee in Sogo stores with a sense of environmental responsibility.

Four Pillars and Nine Actions

Priorities	
Four Pillars	Nine Actions
Customer communication improvement	Selecting and offering environmentally friendly products
	Promoting appropriate levels of wrapping
	Organizing and strengthening environmental events
Societal and community communication improvement	Harmonious relations with local communities
	Harmonious relations with society (Guide dog support projects)
Environmentally friendlier operations and environmental conservation activities	Addressing global warming
	Promoting a recycling society
	Reducing resource usage
Compliance and risk management	Intensifying compliance and risk management

● **Improving air-conditioning equipment**

Seibu Ikebukuro Main Store has been working to reduce the electricity consumption of its air-conditioning systems. The store therefore installs more efficient equipment at the time of replacement, and uses inverters to slash the electricity requirement of their mounting systems. In addition, a new air-conditioning system has been introduced that keeps the store cool by using outside cool air during spring and fall. We are planning to introduce more similar systems in due course. In FY 2007, four air-conditioning units were replaced with environmentally friendlier ones.

● **Setting store thermostats slightly higher**

We at Millennium Retailing support and implement the Ministry of the Environment (MOE)'s "COOL BIZ" initiative. In summer 2007, the thermostats of our store air-conditioning units were set at higher temperatures in a "moderate cooling" mode. Like in all other JDSA member stores, the temperatures of our stores and backrooms were maintained at 26°C and 28°C, respectively, during the one month period from July 7 to August 6, 2008. We also sought customers' support for these initiatives through posters and in-store announcements.

● **Participation in the "Black Illumination" campaign**

Millennium Retailing has participated in the MOE's Black Illumination campaign since its launch in June 2004, aiming to promote greater public awareness of climate change issues. During FY 2008, we turned off the stores lights for two hours on April 9, June 22 and July 7, resulting in reduced power consumption of 1,210 kWh by Sogo and 792 kWh by Seibu.

From September 2008, this electricity saving practice has become a daily practice in most Sogo and Seibu stores. We turn on the lights of store walls and rooftop signs roughly two hours later or turn them off about two hours earlier than before.



Usual lighting



During the Black Illumination campaign

● **Switch to energy-efficient lighting equipment**

We install energy-efficient lighting equipment, such as compact fluorescent lamps, on the occasion of sales floors' remodeling or light bulb's replacement. Our progress in FY 2007 includes the introduction of compact fluorescent light bulbs in Seibu Tokorozawa and Sogo Hachioji Stores, as well as the installation of eco-friendlier lighting equipment on the ceiling of Seibu Tsukuba Store's escalator sections and in the elevator lobbies of Seibu Higashi-Totsuka Store.

Going forward, we will be introducing low-power, long-life LED lights in remodeled stores. We completed the first LED installation at a 231-m² non-tenant section on the third floor of Seibu Ikebukuro Main Store as part of its remodeling process.



LED lights in Seibu Ikebukuro Main Store



Promoting green walls and roofs, while working with local governments

Greenery in store premises helps mitigate urban heat islands, enhances heat insulation of the building and thus reduces its air-conditioning requirements. Plants in the garden also provide customers with a relaxing and comfortable environment.

With this recognition, we at Millennium Retailing began incorporating green walls and roofs into our stores. Following Seibu Ikebukuro and Funabashi Stores, Sogo Kawaguchi Store opened an approximately 589-m² rooftop garden in October 2008. Using locally developed landscaping technologies, this greenery project was subsidized by Saitama Prefecture. To make the garden a relaxing and recreational place in the local community, we are planning to offer cultural and environmental events there, as well as regular gardening classes in partnership with volunteer gardening groups.



Roof garden of Sogo Kawaguchi Store

Waste Reduction

Q How are your department stores reducing the use of packaging materials?

A We are working toward “Smart Wrapping,” appropriate wrapping levels for intended purpose.

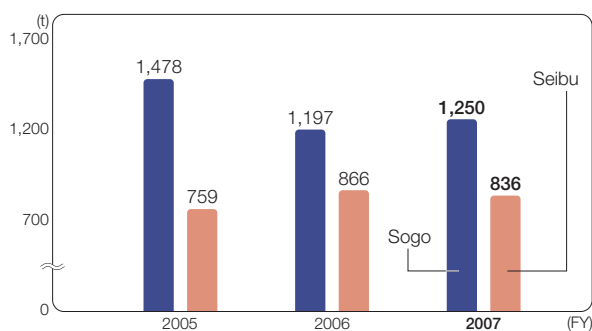
Working with customers to reduce wrapping paper and shopping bag consumption

We are promoting Smart Wrapping to avoid excessive packaging and meet the JDSA’s industry target, i.e., a 25% reduction of paper bag and other paper packaging consumption per basic sales unit from 2000 levels by 2010.

At Seibu, Smart Wrapping was a key focus of employee education during FY 2007. Employees have thought about which wrapping levels are appropriate in their respective sections, and translated their findings into practice. We have also worked to reach out to customers—through in-store announcements, posters and signs, as well as sales staff’s suggestions at the checkout—for their support and participation in this effort. To help salesperson’s smooth suggestion, Seibu has specified how to recommend Smart Wrapping to customers in its basic sales rules, provided related employee training, and made talking point sheets available at checkout counters so that sales personnel can always confirm their understanding.

These efforts led to a 3.5% reduction of Seibu’s packaging consumption in FY 2007 from the previous year to 836 tonnes. Sogo’s consumption increased slightly by 4.5% to 1,250 tonnes, attributed to increase in food sales. Of this total packaging consumption, paper material usage by Sogo and Seibu was 458 tonnes and 250 tonnes, respectively. During FY 2008, we are continuing our efforts to reduce paper and other packaging consumption.

Packaging consumption



TOPICS

Sogo’s initiatives to reduce plastic bag consumption

In July 2008, Sogo started in earnest to work with customers to reduce plastic bag consumption in its 12 stores’ food floors.

In the stores, reduced plastic bag use is encouraged through posters, in-store signs, and message badges on cashiers’ uniforms. At the checkouts, “No Plastic Bags” cards are also made available and store employees ask customers about the necessity of plastic bags. Looking ahead, Sogo is planning to donate part of the cost savings achieved by these activities to environmental organizations.



Appealing to customers through hanging displays and message badges

Reducing food waste by generating less and recycling more

Food waste reduction at Millennium Retailing is two-faceted: reducing waste generation and increasing recycling.

To reduce waste generation, we are taking many actions, including thorough removal of moisture content from food waste before disposal. We also seek cooperation from business partners, such as food suppliers and restaurant tenants, for instance by introducing disposal fees to raise their attention.

On the recycling front, example actions include the introduction of composting equipment in four Seibu stores (Ikebukuro, Okazaki, Higashi-Totsuka and Akita Stores, as of July 31, 2008) to use their food waste effectively. The Ikebukuro and Akita Stores are taking a step further to build a recycling loop, where compost produced is provided to contract farmers and fresh produce grown using the compost is sold in the stores.

As a result, Sogo and Seibu’s food waste recycling rates in FY 2007 improved from the previous year by 6.3 and 5.7 percentage points to 36.6% and 38.3%, respectively.



Composting equipment



Fresh produce grown using compost

Environmental Contributions through Merchandise

Q Eco-friendly features are important, but they should come with style.

A We offer a wide variety of “environmentally fashionable” products, featuring both a stylish look and eco-friendliness.

Offering eco-friendly items with quintessentially stylish looks

We at Millennium Retailing, a trend-setting department store group, deliver environmentally friendly, comfortable and stylish products to our customers.

● Environmentally Friendly Products

We certify and label “Environmentally Friendly Products,” which meet our Criteria for the Selection of Environmentally Friendly Products. As of May 31, 2008, 96 items had such a hallmark, including 14 items added in FY 2007. While the current lineup focuses on food items, such as organic vegetables, soybean paste and soy sauce, non-food organic items have also been expanding. We intend to increase more style-conscious items, such as apparel, in this product group.

● Original “Eco-Bags”

Seibu started to sell its original Eco-bags (reusable shopping bags) in FY 2000, which are now available both in Seibu and Sogo stores. These recycled polyester bags are made from used plastic bottles, and come in many varieties, such as insulated cooler bags and rolling bags. Our Eco-Bag sales in FY 2007 grew 30% from a year earlier, benefitting from brisk sales of mascot bear-featured Eco-Bags introduced in October. We also rolled out “Wrapping Eco-Bags” in May 2008, which are gift-wrapping bags with ribbon strings for fastening the bag and tying a bow. The bags eliminate the use of wrapping paper and the gift recipients can use them as daily shopping bags. The product was developed based on an employee’s design that won the first prize in our internal Smart Wrapping idea contest in October 2007.



Original Eco-Bag



Wrapping Eco-Bag

● “Loving Planet 2008 Stylish Eco Fair” campaign

We carried out the Loving Planet 2008 Stylish Eco Fair campaign from May to June 2008, offering eco-friendly, upscale and stylish lifestyle ideas by our merchandise.

The main features of the campaign in Seibu Ikebukuro, Sogo Yokohama and some other stores included: the “Eco-Beauty Style” sections, offering international environmentally friendly cosmetics; organic clothes boutiques available only during the campaign in collaboration with a fashion magazine; and auction sale of exclusive, environment-inspired *furoshiki* wrapping cloths designed by 11 celebrities from various fields. After the campaign, we donated a total of ¥ 720,595—

proceeds from the auction and two percent of the cosmetic sales—to an environmental organization, Creative Conservation Club.* We will continue our fashionable and eco-friendly activities.



Eco-Beauty Style section

* Creative Conservation Club is an organization established by writers to protect and recover natural environment.

● COOL BIZ fashion show

We participated in the “COOL BIZ + Presentation in Tokyo,” an event by the Team Minus 6%, in June 2008. In line with the fashion show’s theme of “adding (+’ in the show’s title represents this meaning) global warming prevention to the roles of fashion,” our COOL BIZ fashion items and folding, reusable shopping bags were showcased on the runway.



COOL BIZ + fashion show

Creating Safe and Comfortable Stores

Q I am a little concerned about an accident or a disaster in a large-scale, highly populated building.

A We strive to create safe and comfortable stores, introducing barrier-free designs and emergency preparedness systems.

Creating considerate stores, adopting universal design ideas in both facilities and customer service

Offering a wide-range of products, from apparel to food, department stores welcome various customers every day. Therefore, we at Millennium Retailing go to great lengths to provide a safe and comfortable shopping experience to each and every customer.

For instance, facilities and equipment in our stores opened in and after 1994 (three stores as of July 31, 2008) have greater usability and accessibility for senior and disabled customers. These stores are recognized as qualified buildings under the Heart Building Law enforced in 1994 that aims to promote considerations for the elderly and people with disabilities in the designs of specified buildings. An increasing number of the remaining stores have also become barrier-free when remodeled.

We have also been focusing on employee training to offer even better shopping assistance. Seibu in FY 2001 and Sogo in FY 2003 started promoting employees' acquisition of Customer Care Advisors certifications, accredited by the Total Wellness Promotion Foundation. In FY 2007, 71 Sogo employees and 82 Seibu employees became certified advisors, totaling 833 Customer Care Advisors to date. We are aiming at roughly 100 new advisors in FY 2008.



Training for Customer Care Advisor certifications

Emergency preparedness, including facility improvements and fire drills, for appropriate actions during a crisis

We are preparing for potential disasters, such as earthquakes and fires, by improving store buildings and practicing emergency drills. Each store has its Crime Prevention and Disaster Preparedness Committee that develops necessary plans, as well as an internal fire prevention team that leads the store's periodical fire drill operations. In addition, we have defined and are duly implementing necessary daily actions, such as emergency route clearance, safety management system inspections, and crime and disaster prevention system

examinations in busy seasons.

To better manage earthquake risk, we have started to evaluate and improve, if needed, our stores' ability to resist earthquake forces since December 1995, when the Earthquake Resistance Improvement Law became effective. We completed all necessary renovation for this purpose, except the improvement of Seibu Ikebukuro Main Store, which is scheduled to be completed around FY 2010 when its remodeling work is finished. We also started to operate earthquake alert distribution systems in April 2008. The Japan Metrological Agency has started to release such information nationwide since October 2007.

As a preparatory step, we conducted a drill in the preceding January to ensure prompt and effective response to an earthquake warning.



Emergency drill

Automated External Defibrillators (AEDs) in all stores for urgent life-saving treatment

If a person collapses due to heart failure, ventricular fibrillation in particular, removing the fibrillation (i.e., defibrillation) is crucially important to their survival.

To provide immediate life-saving treatment in case of such emergency, we installed AEDs in all stores in FY 2006, primarily at disaster control centers and information desks. In addition, we have our staff take AED training courses by local fire departments. In FY 2007, all our employees responsible for emergency response took such training. As a result, a total of 3,284 Sogo and Seibu employees had received AED training by February 29, 2008.

AEDs actually helped save the lives of customers.

In March 2008, customers who shopped in Seibu Okazaki and Yao Stores suffered heart attacks, and survived after CPR with the use of AEDs. Reminded of the importance of immediate life-saving treatment provision, we will continue promoting our employees to take life-saving training courses.



AED in our store

Giving Back to Our Communities

Q What kind of activities are you implementing to contribute to local communities?

A We listen to local residents and draw on our resources and expertise to best contribute to the communities where we operate.

Continuous support for guide dog development projects to create a “normalized” society

To translate our gratitude to society into concrete actions, we at Millennium Retailing started a supportive initiative for guide dog organizations in 2003 when Sogo completed a court-led rehabilitation program. Seibu joined this Sogo’s initiative in 2004. Our support primarily consists of the following four elements: 1) fundraising campaigns in stores; 2) the Millennium Fund, jointly established by the company and the union; 3) “Bow-wow One Coin Club” for internal fundraising; and 4) “Meet Guide Dogs Campaign” in stores.

In FY 2007, Sogo and Seibu’s in-store donations totaling ¥24.17 million were provided to neighboring guide dog organizations. Another ¥20 million was also donated through the Millennium Fund to nine guide dog organizations across Japan. With part of these contributions, the Japan Guide Dog Association bought two wrapped cars for transporting dogs and staff in December 2007.

In addition, all our stores held the Meet Guide Dogs Campaigns in spring and fall. With the cooperation of five local guide dog associations which sent their dogs and trainers to the events, we provided customers with opportunities to raise their awareness of guide dogs through training demonstrations, simulated walk with a guide dog experiences, and many others.

While continuing these activities, we will work to provide greater shopping assistance and other services for customers with disabilities, and to promote wider application of normalization principles in society.



Simulated experience during the Meet Guide Dog Campaign



Donating wrapped cars

Each store’s community contributions to meet local needs and characteristics

At Millennium Retailing, each store conducts community-based social contribution programs as a good

corporate neighbor. Specific activities vary from store to store but share six underlying objectives: (1) community development, (2) community revitalization, such as the promotion of local production for local consumption, together with local businesses, (3) sales promotion of locally produced products, (4) crime prevention and disaster preparedness in the community, (5) community-based environmental protection and beautification, and (6) creation and maintenance of local employment.

Major community contribution programs by Sogo



Kanagawa Yokohama Children Art Award (Yokohama Store)



One-day hands-on work experience by 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



Uchimizu (water-sprinkling) campaign (Otsu Store)



Work experience at the information desk (Funabashi Store)



Donating the proceeds from our mascot bear-featured Eco-Bags to greening projects (Tokorozawa Store)



Joining the 150th anniversary celebration event of the Port of Yokohama (Higashi-Totsuka Store)



Appropriate privacy management to protect customer information is an important responsibility

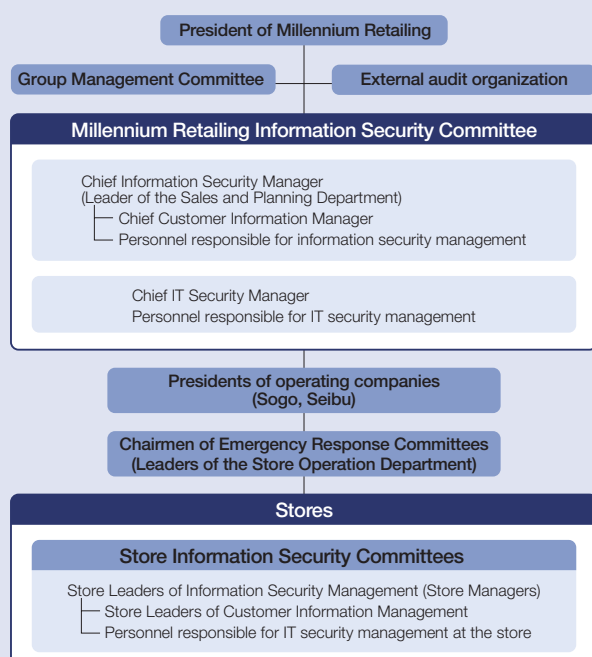
Establishment of “Seven Prohibited Actions,” related training and actions toward appropriate information management

At Millennium Retailing, we pay careful attention to appropriate privacy management, recognizing that personal customer information collected through the processing of purchases with credit cards and membership cards is an important asset of the relevant customers. We have therefore established the Seven Prohibited Actions and taken information security measures toward three major objectives: protection from unauthorized accesses, accurate information and appropriate handling, and development of systems with easily accessible stored information.

Seven Prohibited Actions

1. Sending emails to customers from personal computers
2. Maintaining personal information on personal computers
3. Leaving documents containing personal information unattended
4. Taking personal information outside of the store
5. Maintaining personal information in a location other than designated by the store
6. Sending advertising mails without approval of the Sales Promotion Manager
7. Receiving or delivering personal information without keeping a Personal Information Handling Record

Information Security Committees



● Information security systems

In April 2005, we created organizations to reinforce our information security systems—the Millennium Retailing Information Security Committee in the holding company and the Store Information Security Committees in each store. Each section within a store has also appointed its leader of customer information management. In addition, documents containing personal information are marked with a circled letter P to remind employees of the necessity of careful and appropriate handling.

● Guidance to business partners’ employees working in our stores

Ensuring appropriate privacy management means all the staff, including many business partners’ employees, working in our stores need to handle personal information carefully. Our efforts to make this happen include: (1) Millennium Retailing and business partners agree in writing on customer information handling, (2) all business partners’ employees who deal with our customer information submit their commitments on proper information management, and (3) new business partners’ employees working in our stores learn about our information management rules through the orientation programs.

● Managing information security risk under strengthened systems

In February 2007, all our computers were replaced with new ones, which are configured to refuse connection to external mass storage media, except PCs authorized by us. Furthermore, paper-based credit card account number lists sent from credit card companies are now maintained electronically to reduce risk of misplacement and theft.

As a next step, we are planning to beef up our network security to protect our computers and POS systems from unauthorized access, while continuously promoting greater awareness of information security to our employees.



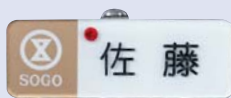
Creating a comfortable workplace for all employees in stores

Internal certification program to honor excellent employees and foster overall employee motivation

We at Millennium Retailing strive to create a motivating workplace for all store staff including regular employees and to create a culture of recognition where everyone is evaluated appropriately. We believe they are important duties and help improve our customer service. Accordingly, Seibu and Sogo launched the “Star Club” membership programs for all store workers, whether regular, part-time, or business partners’ employees, in FY 1997 and FY 2002, respectively.

The membership is granted to store workers who demonstrate outstanding performance, particularly with regard to sales and customer service. Semiannually, high performing sales people are selected based on their sales figures. Among the short-listed candidates who record excellent sales, enjoy great customer confidence, and can serve as role models to other employees, those who are ranked in the top one percent of the relevant section’s sales people across the company are certified as “Corporate Star Club” members; and those who are ranked in the top two percent of the relevant section’s sales people in the store are recognized as “Store Star Club” members.

In FY 2007, Sogo and Seibu had 1,029 and 944 new Star Club members, respectively. Star Club members are identified with a symbolic “star” sign on their name badges. Wearing such special badges provides the employees with a sense of greater responsibility and commitment.



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

Certification ceremonies are held to celebrate new “stars,” attendees of which include senior officials of our business partners. These programs are well-received among these business partners, commenting the certification systems help motivate their employees.

We will continue the Star Club programs, as a key mechanism to motivate and fairly evaluate employees and to build a culture that values customer sales and service.



Certification ceremony

Enhancing and publicizing the parenting support systems to create a parent-friendly workplace

At Millennium Retailing, we started to improve our existing parenting support systems, such as parenting leave and shorter hours, in FY 2007 to build an even more vibrant workplace.

From April 2007, employees can take parenting leave until March 31 immediately preceding the child’s three-year-old birthday, extended from the day before their two-year-old birthday. In addition, employees can divide the entitled leave days to use part of them when children become first graders. Furthermore, from April 2008, employees can opt for shorter working hours until March 31 of the year when the child is in the first grade of elementary school. This shorter-hour program used to be limited to those with pre-elementary school children.

As of March 31, 2008, 43 employees (Sogo: 31 and Seibu: 12) were on parenting leave, and 84 employees (Sogo: 54 and Seibu: 30) were working shorter hours using these systems.



Parenting support system guidebook

We also prepared and distributed a Parenting Support System Guide Book in September 2008 to promote greater recognition and understanding of these systems.



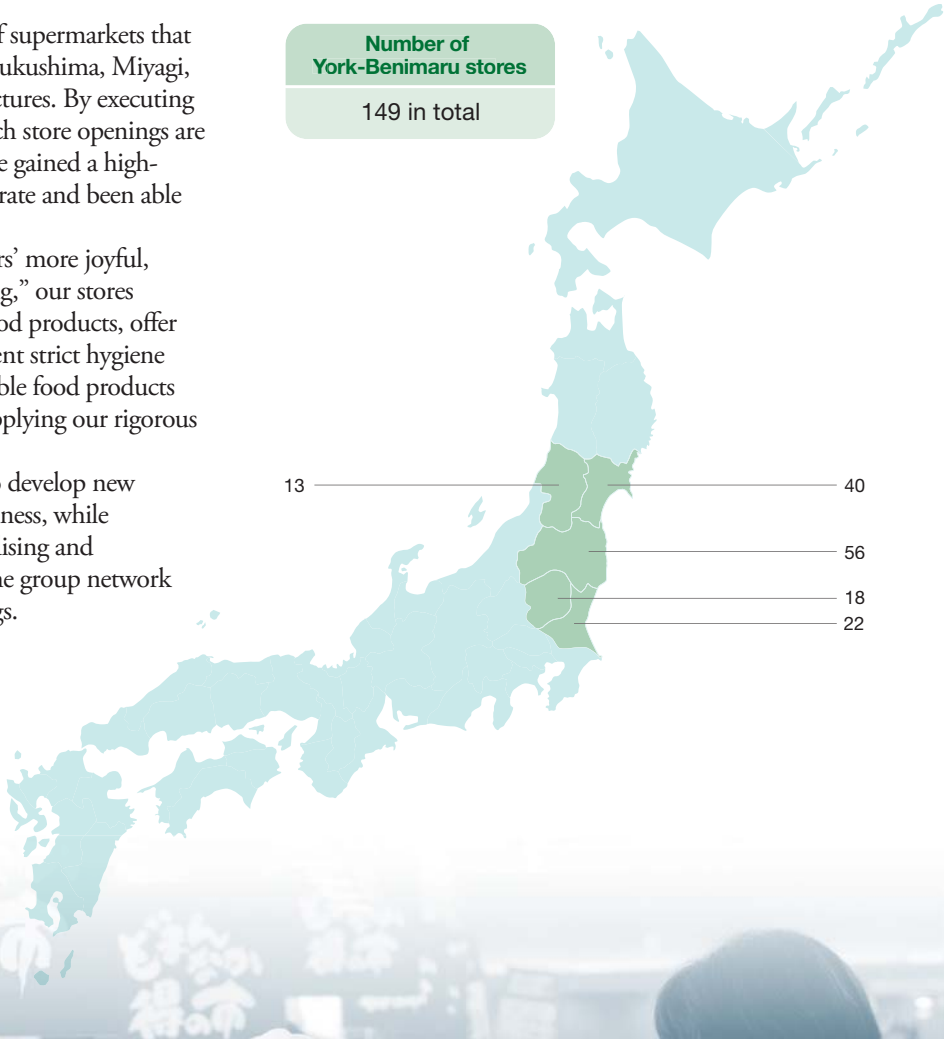
We operate community-based supermarkets that offer safe, reliable products under our strict quality standards.

York-Benimaru operates a network of supermarkets that offer fresh produce and groceries in Fukushima, Miyagi, Yamagata, Tochigi and Ibaraki prefectures. By executing “area-dominant strategy,” under which store openings are concentrated in specific areas, we have 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 also strive to deliver reliable food products by designating their producers and applying our rigorous quality standards.

Going forward, we are planning to develop new formats of our food supermarket business, while continuing to improve our merchandising and management systems by leveraging the group network and capabilities of Seven & i Holdings.

Number of York-Benimaru stores
149 in total



Our CSR focus

● Thorough hygiene control under strict rules

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. To meet such customers' needs and earn their trust, it is imperative to offer safe and reliable products and implement rigorous safety and control on every single item we offer in order to protect the health of customers and their families. Therefore, we at York-Benimaru have formulated strict hygiene control rules and follow them on a daily basis. For example, all perishable department employees are required to submit Health Condition Self-Assessment Sheets. We have also started to sell "Mitsuboshi Vegetables and Fruit" grown without use of agrochemicals to the extent possible.

● Eco-friendly lighting and energy-efficient facilities to help prevent global warming

We have made various efforts to reduce our CO₂ emissions, such as setting different lighting levels for

different sections in our stores and introducing LED lights. We have also started to install energy-efficient equipment in our stores, including inverter-controlled freezers and ice thermal storage systems.

● Eco- and health-themed community activities

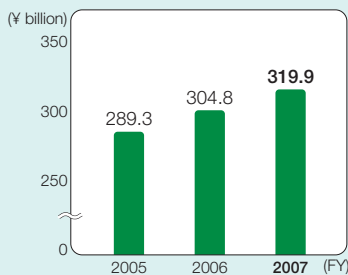
We actively seek opportunities to interact with local communities and organize many events and programs to do so. Each store's "Anniversary Festival" held in its founding month is one of these events. We have also focused on eco-themed events in recent years. To support local citizens' healthier lives, we offer various food education programs to teach children about what constitutes a good healthy diet and the importance of eating fruit and vegetables. We also organize farm visits to our producer's fields where participating parents and children have hands-on experience of harvesting crops.

Corporate profile (as of February 29, 2008)

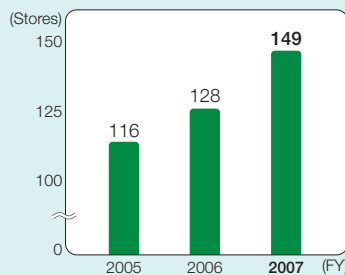
Establishment: June 12, 1947
Headquarters: 18-2, 2-chome, Asahi, Koriyama-shi, Fukushima, 963-8543, Japan
Nature of business: Superstore business selling food products (as main category), apparel and household goods

Paid-in capital: ¥9.9 billion
Total sales: ¥319.9 billion
Number of employees: 12,140
Number of stores: 149

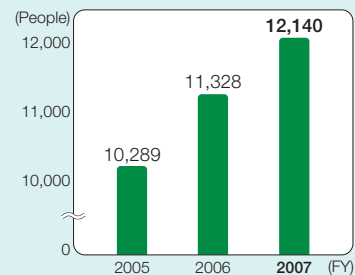
Total sales



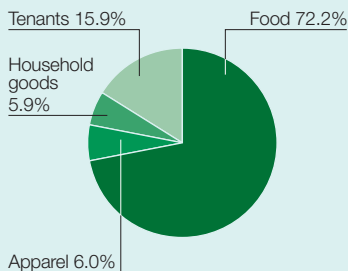
Number of stores



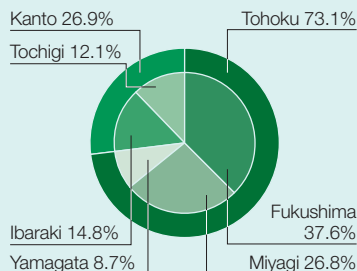
Number of employees



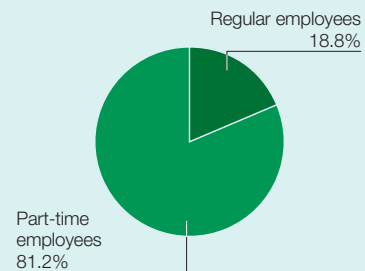
Sales by product category



Stores by region



Employees by type



Food Safety and Reliability

Q Food safety should be your top priority as a food supermarket operator.

A We focus on the development of products grown without using agrochemicals to the extent possible, as well as strict hygiene control and traceability management.

Store cleanliness and rigorous hygiene control

We clean and tidy up our stores every day and strictly control store hygiene in accordance with our Hygiene Control Rules, which are designed to ensure all employees understand and share the importance of hygiene management.

For instance, all perishable department employees are required to submit “Health Condition Self-Assessment Sheets” every day. Such monitoring of employees’ health is part of our efforts to prevent food poisoning viruses from being carried into food processing areas. We also conduct sampling inspections of in-store prepared products every month, and of food processing staff’s hands during summer season.

By thoroughly implementing these regular inspections, we strive to deliver reliable food that our customer can savor with confidence.



Well-maintained backroom



Sampling inspection of employees’ hands

Promotion of “Mitsuboshi Vegetables and Fruit” grown without use of agrochemicals to the extent possible

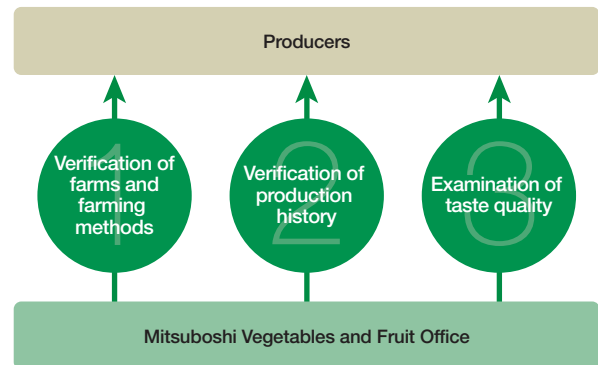
York-Benimaru has offered “*Mukkun Series*” fruit and vegetables since 2003, which are grown using a soil enhancer called *Mukudai* that enables minimization of chemical fertilizer and pesticide use. From March 2008, *Mukkun Series* has become a part of a new brand called Mitsuboshi Vegetables and Fruit products, which are grown using *Mukudai* and other eco-friendly materials and technologies that have little or no negative impact on soil, and are selected based on the Specially Cultivated Crops* qualifications or other similar standards. We hope these Mitsuboshi Vegetables and Fruit will provide stable supplies of delicious, safe, reliable and affordable produce to our customers, and a consistent revenue source to our partner farmers.

We intend to grow this Mitsuboshi Vegetables and Fruit brand further. Our target for FY 2008 is

to increase the brand’s contribution to the total fresh produce sales by 48% from the FY 2007 level.

* Specially Cultivated Crops: In the production process of these crops, the frequency of chemical pesticide application and the nitrogen content in chemical fertilizers applied are reduced by 50% or more compared with the conventional usage levels that the governing prefecture defines based on the national guidelines.

Mitsuboshi Vegetables and Fruit certification procedures



Mitsuboshi Vegetables and Fruit



Prepared food products using Mitsuboshi Vegetables and Fruit

Organic Products Section responding to growing needs for healthy and eco-friendly choices

In addition to offering Mitsuboshi Vegetables and Fruit products, we work to meet customers’ growing interest in health and eco-friendliness by establishing the organic product section. The section offers organic pasta, soybean powder, confectionary, wine and other choice products which are produced without pesticides and chemical fertilizers.



Organic product section

Tracing and disclosing product information such as place of origin and producer

York-Benimaru is earnestly working to ensure product traceability in cooperation with producers and other business partners. With regard to our YORK-BENIMARU-NO-SANCHIGA-MIERU-SHOKUJIN house brand items, we strictly manage their product information, such as origin, farming conditions, and production processes so that our customers can easily obtain those details.

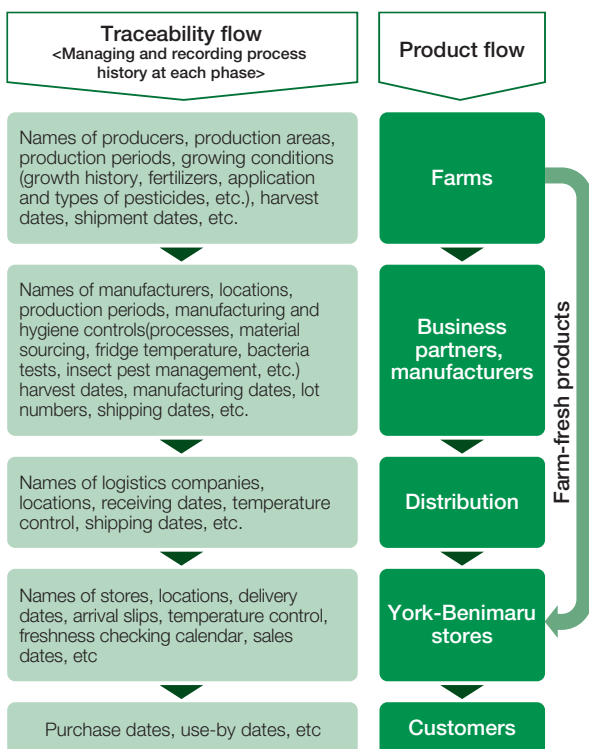
In our stores, explanatory panels are displayed near the relevant products, specifying product names (e.g., “Kuroge-Wagyu Japanese beef, Date-Dori chicken, Umami-Dori chicken, and black pork produced in Miyagi), producers, origin and quality information, among other things.

On our website, we provide more detailed information about perishable food items. For example, visitors of our site can access domestic beef products’ production histories, such as cattle types and dates of birth, by entering individual identification numbers shown on the product labels. We also disclose the production information of other fresh food items, such as fish, fruit and



YORK-BENIMARU-NO-SANCHIGA-MIERU fish section

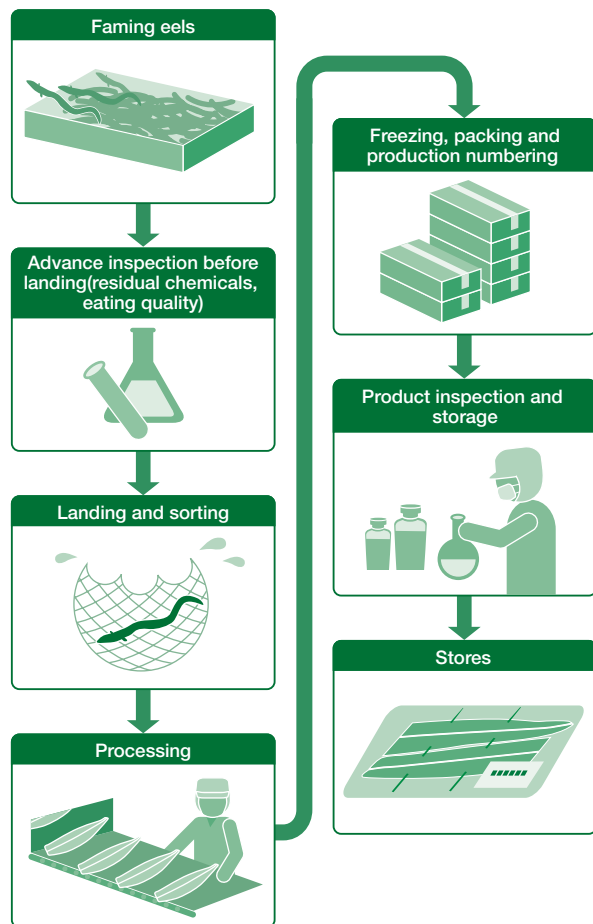
Traceability system flow chart



vegetables, rice, tea and milk, as well as links to producers’ websites where available.

During FY 2007, these online sections had 9,757 hits. To consistently attract more visitors, we will continue working to make timely updates and further improve the site content.

Example case: Kabayaki eel (grilled eel filets with sauce) – from farming to offering to customers



TOPICS

Efforts at our subsidiary, Life Foods

Life Foods Co., Ltd. is a subsidiary of York-Benimaru, manufacturing prepared food items sold in York-Benimaru stores, such as sushi, boxed meals, side dishes, sandwiches and bread. The company recycles its waste deep fry cooking oil into fuels for its factories’ boilers.

Life Foods has also started an experiment of having food waste from its factories composted by contract waste management vendors and using vegetables grown with the compost as ingredients of its products.



Combating Global Warming

Q Have your energy saving initiatives made progress while the number of your stores has been increasing?

A To reduce CO₂ emissions, we are working to increase the energy efficiency of store operations and to streamline logistics.

Accelerating CO₂ reduction efforts by implementing energy-saving measures in stores

In light of aggravation of global warming issues, emissions of carbon dioxide (CO₂)—a primary greenhouse gas contributing to global warming—must urgently be reduced. To achieve this, we at York-Benimaru have been installing energy-saving equipment in our stores and working to reduce logistics-related carbon emissions.

● Optimizing lighting systems

In our new stores opened in FY 2008, we have set lighting from aisle ceilings to a lower intensity level, while maintaining sufficient brightness for product shelves and other necessary areas. We have also halved the number of fluorescent lamps used to individually illuminate freezer and refrigerator shelves, and installed “canopy-style” lights at the top of the showcases, instead. Such new lighting arrangements in the new stores and some existing stores are estimated to reduce CO₂ emissions by a total of 851 tonnes per year.

In these new stores, we also introduced low-power, long-life LED lights to their liquor and ice cream showcases. Compared to fluorescent lamps, LED lights annually emit 54 tonnes less CO₂. We are planning to use these lights for a wider variety of equipment, based on further analysis of their cost and benefit.

● Installation of inverter-controlled freezers and ice thermal storage systems

In our new stores opened in and after August 2008, inverter-controlled freezers and ice thermal storage systems have been introduced. These freezers, controlling engine speeds in accordance with frequencies, consume far less electricity than conventional models which allow only “on” or “off” settings. Introduction of ice thermal storage systems, which use ice made by using discount-rated nocturnal electricity to keep stores cool during daytime, has also reduced electricity use during peak hours.

We will continue to install these new systems in new stores, aiming at further reduction of power consumption.

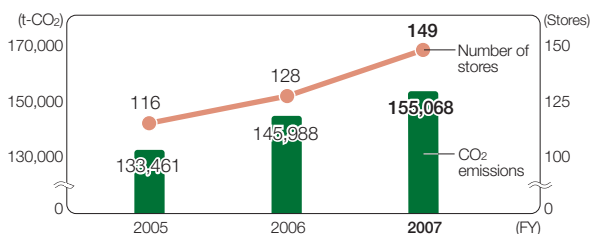
● Introduction of “night covers”

We have installed night covers for the multi-shelf open-top display freezers in our existing stores when remodeling in and after November 2001, as well as new stores opened in and after February 2002. The covers enable reduction of electricity consumption of these freezers, as they provide better insulation during the night time after business hours.

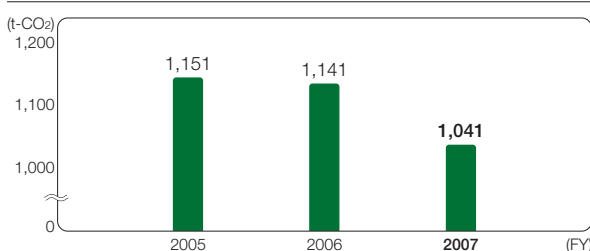


Display freezer with a night cover

CO₂ emissions and the number of stores



CO₂ emissions per store



Streamlining logistics to further reduce CO₂ emissions

We have been working to reduce logistics-related CO₂ emissions by streamlining operations.

We established distribution centers in Koriyama in 2005 and Sendai in 2006 to consolidate shipments of perishable products. In addition, products are now shipped together regardless of their categories, including frozen food items and those for Life Foods (our subsidiary) which used to be distributed separately.

In FY 2007, reusable plastic containers were introduced to the delivery of our fresh meat and Daily products. We are planning to further expand the use of these containers so as to reduce the usage of cardboard boxes.

Waste Reduction

Q How is food waste from your stores disposed of?

A Inedible parts of fish, for example, are processed into poultry feed. Eggs laid by chickens eating such feed are then sold in our stores. We also focus on reducing plastic bag and food tray consumption.

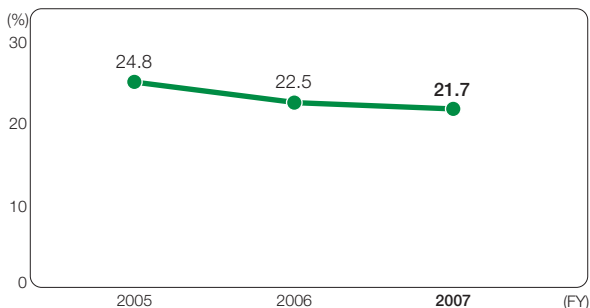
Reducing and recycling food waste toward a food waste recycling rate of 45%

York-Benimaru has been working to reduce and recycle more food waste to comply with the Food Recycling Law.

Originally, the law called for a 20% food waste recycling rate, which our FY 2007 rate of 21.7% satisfied.

However, the law was revised in December 2007, which requires food retailers to achieve a food waste recycling rate of 45% by 2012. To meet this higher target, we are accelerating our efforts to reduce and recycle food waste.

Food waste recycling rate



Producing poultry feed from fish waste and recycling waste cooking oil

We generate various kinds of food waste when processing fish, meat, fruit and vegetables and preparing cooked products in our stores. Among such food waste, inedible parts of fish account for about 20% of our raw refuse. We send such fish waste to our contract waste disposal companies to make poultry feed. Eggs from chickens raised with the feed are sold as our house brand “Kenyo-ran” in York-Benimaru stores.

Food waste recycling is also implemented by our subsidiary named Life Foods. The company recycles all the waste cooking oil produced from stores—approximately 1,007 kilo liters each year—through contract waste collecting companies. The collected oil is decomposed into industrial-use fatty acids, which are used as the ingredients of soap, ballpoint pen ink, and softening agent for tier production.

Requesting customers to avoid using plastic bags and our efforts to reduce food tray consumption

Considering the issues of global warming and possible oil depletion, we need to reduce use of petroleum-based plastic bags and food trays. Reduction of container and packaging material consumption is also a mandatory requirement for retailers under the Container and Packaging Recycling Law revised in June 2006.

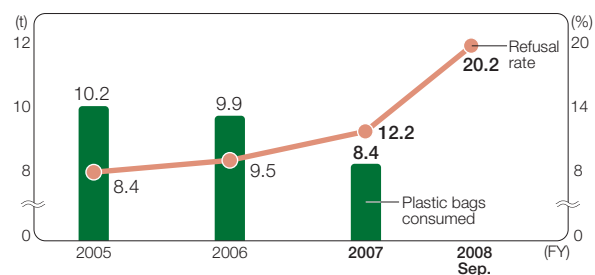
Accordingly, we at York-Benimaru are encouraging customers to use fewer plastic bags. We are also working to reduce packaging material consumption through promoting unpackaged selling and other measures.

Activities to reduce plastic bag consumption

We have taken many steps to facilitate the reduction of plastic bag consumption and ultimately to promote effective use of resources. In addition to reaching out to customers through in-store announcements and posters, we offer special cards to indicate that no plastic bag is needed, and a “stamp card” program where each shopping without using store-supplied bags receives one stamp and 15 accumulated points can be used as a ¥100-value coupon. We also sell various types of reusable “My Bag” and “My Basket” products, the latter of which eliminate the necessity of repacking the purchased items after the checkout.

In addition, we have started to charge fees on plastic bags in 10 stores in Yamagata, 4 stores in Miyagi, and 7 stores in Ibaraki (as of October 31, 2008). More than 75% of customers of these stores choose not to receive plastic bags.

Plastic bag refusal rate and consumption per store





Retailing is a community-based business. With this belief in mind, we are engaged in community contribution programs that are closely connected to our neighbors' lives.

Sharing convivial time with neighbors in Anniversary Festival celebrating the store's founding month

Each York-Benimaru store holds an Anniversary Festival to celebrate its founding month with special events.

Example events in FY 2008 include an eco-themed event by our Hitachinaka Store, which has started to charge fees on plastic bags. During the event, a music band from Hitachinaka City Hall played its original song titled "Let's carry your own shopping bags," and the store's employees demonstrated how to make soap from waste cooking oil used in the store. The crafted soap was distributed to the audience.

In the Anniversary Festival at our Higashine Store in Yamagata, the store members shared pleasant time with local citizens through various programs, such as making bags from used umbrellas and toys from milk cartons, and the distribution of handmade soap made from the stores' waste cooking oil, interacting with guide dogs, and a charity bazaar.

The proceeds from the bazaar totaling ¥39,365 were donated to the local Council of Social Welfare in the form of 360 bottles of 500-ml *Seven Premium* (Seven & i Holdings' private brand) green tea.



Soap made from waste cooking oil

Food and health-themed lectures and in-store events for local residents

In response to recent growing concern about poorly balanced and unhealthy diet among children, York-Benimaru actively promotes children's education on food and health.

● Lectures on food and health

The York-Benimaru Foundation has organized lectures on food and health every year since 2004. The latest

lecture in February 2008 was delivered on the theme that "Physical and mental health management starts with food education" to approximately 100 people, mainly home economics teachers of elementary, junior high, and high schools and parents in Fukushima.

● Food education tours

York-Benimaru has been participating in a nationwide wellness promotion campaign called "5 A DAY" that recommends the daily intake of five portions (350g) of vegetables and 200g fruit.

As part of this campaign, we have been working to increase local people's awareness and actual intake of fruit and vegetables for their better health. We operate fun and easy-to-understand educational events in our stores and farms to teach children about appropriate dietary patterns and the importance of eating fruit and vegetables.

In FY 2008, we organized "Supermarket Tours," where local children visit our fresh produce and other sections, select food items in line with assignments about nutritional balance from dietitians, and enjoy cooking experiences. The objective of these events is to provide opportunities to learn about meals and nutrition, and the joy of cooking. The events enjoy good popularity: a total of some 1,300 children are expected to join by December 2008.

We also operate farm-visit programs for local parents and children. Participants visit our contract farms to eat literally farm-fresh produce, listen to farmers and actually harvest crops. Through such experiences, children can learn how agricultural products are grown, in what kind of soil, and raise their interests in fruit and vegetables.



Harvest tour for parents and children

Sport meets and blood donation events for healthier lives of local communities

We at York-Benimaru have been doing our part as a good corporate neighbor through many continuous programs, such as the sponsorship of children's sport events, promotion of blood donation and international exchange programs.

● "Wellness Running Race for Kids"

York-Benimaru, jointly with S&B Foods, has conducted the Wellness Running Race for Kids for elementary school students in Fukushima each year since 1989. This annual sport event aims to support children's physical strength improvement and sound mental development through running.



Wellness Running Race for Kids

In the FY 2007 event, 1,155 elementary school students joined the race.

● Blood donation campaigns

Wishing to serve people in the local communities, York-Benimaru established a steering committee for local blood giving campaigns and launched "Goodwill Blood Donation Saturday"



Goodwill Blood Donation Saturday

events mainly at our business partners' premises in Fukushima in 1990, when blood was in short supply nationwide. Since then, York-Benimaru and its labor union have been serving as the event's office under the support of Fukushima Prefecture.

Every October, we organize this event in the Big Palette Fukushima convention center. In our 18th year in FY 2007, 267 people donated blood. In total, 7,568 people have participated in this goodwill activity.

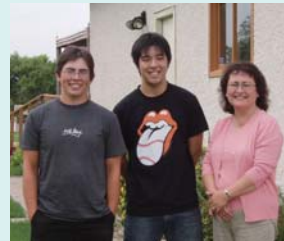
International exchange programs to nurture a global mind among young people of future generations

The York-Benimaru Foundation has been engaged in international exchange activities, such as offering staying abroad programs, to help young people in Fukushima become true global citizens.

In its USA-Canada International Exchange Program, a group of some 20 high school students visit Manitoba, Canada each year and stay with their host families after attending a local language school. Through such hands-on experience of living in a foreign country with different life styles, participants can obtain a better understanding of diversified culture and custom in the world. At the same time, the experience also provides a fresh perspective on and a deeper understanding of Japan and its society. The Foundation thus believes this program is useful to develop global-minded individuals.

In its International Exchange Program for Manitoban Students, the Foundation also invites children of host families in Manitoba to Japan, and the Canadian students stay with their host families in Fukushima. In some cases, friendships nurtured in this program have developed into long-term relationships; For instance, some participants have come back to Fukushima in later years as English teachers.

Recognizing international exchange programs should be bilateral in nature, the York-Benimaru Foundation will strive to promote stronger international friendships through these programs.



The USA-Canada International Exchange Program



The International Exchange Program for Manitoban Students

Overview of Seven & i Food Systems

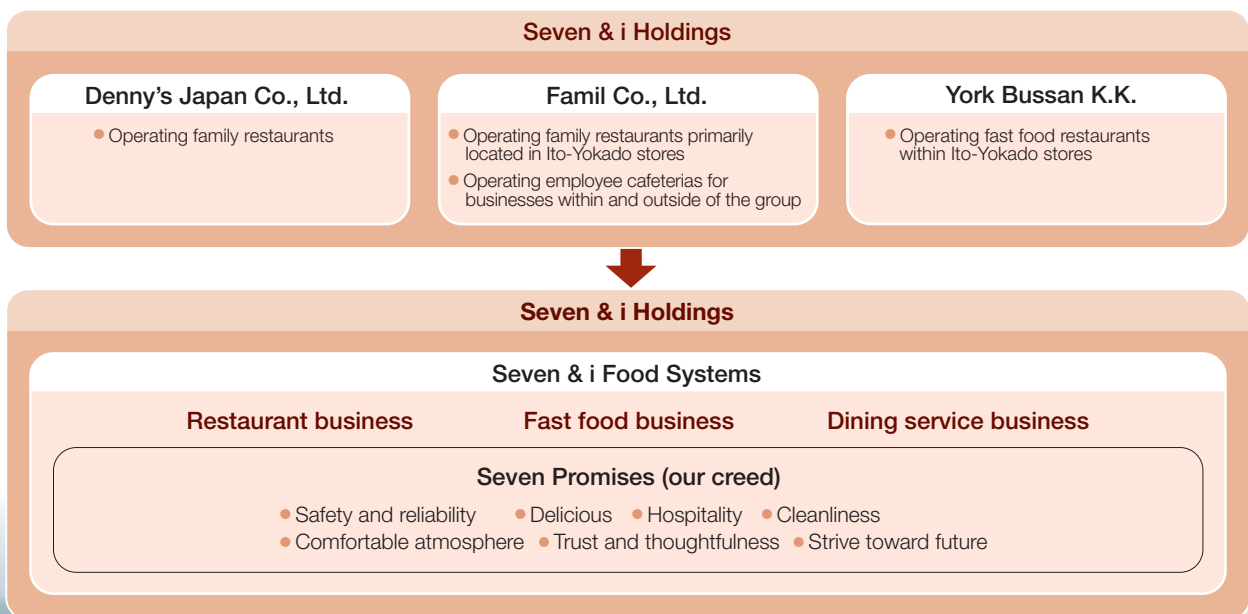
We aim to provide customers with supreme taste, impressive quality service and pleasant dining experiences, continuing to challenge ourselves and drawing on synergies within our group.

Seven & i Food Systems was established in 2007 as a result of consolidation and restructuring of food service operations of the Seven & i Holdings' group into the current three businesses: restaurant business, fast food business and dining service business.

In the restaurant business, we have been focusing on the rejuvenation of existing restaurants. Accordingly, we have been working to improve customer service and pricing to better meet customers' needs, and have started to develop new brands. In the fast food business, we have opened our small, open-front restaurants in the facilities

of non-Seven & i Holdings group, where we sell *taiyaki* (fish-shaped waffles with sweet filling), *takoyaki* (octopus balls) and other fast food items that are cooked in front of the customers. In the dining service business, we have been continuing aggressive expansion of its business outside of our group.

We will pursue tasty and quality meals and superb service that satisfy and exceed customers' expectations, while continuing to challenge ourselves and drawing on synergies within our group.



Our CSR focus

● Developing systems to provide customers with confidence in our meals

Seven & i Food Systems is dedicated to delivering a pleasant dining experience that our guests can enjoy without any concerns. We strictly examine ingredients, additives, allergens, processing and preparing procedures against our quality requirements specified in the Statement of Business Terms. With regard to vegetables served in our Denny's restaurants, for example, we require contract farmers in Japan and abroad to prepare Cultivation Plans, and closely monitor fertilizers and other chemicals' application throughout the entire process until harvest. We also obtained the certification of an international quality control standard ISO 9001, and focus on employee education and hygiene control in our restaurants.

● Introducing all-electric restaurants to reduce CO₂ emissions

Most Denny's dishes are cooked in our restaurants' kitchens to be served in optimum condition. Mainly due

to diversifying menu items, our gas and total energy consumption has been increasing in recent years. To reduce kitchen's energy costs and environmental impact, Denny's has started to introduce all-electric restaurants since 2002, shifting from conventional gas-powered kitchen facilities.

● Reducing and recycling food waste

We recognize each of our restaurants needs to minimize and appropriately dispose of food waste. These are important activities for environmental protection. Denny's has been working to promote appropriate disposal, composting and recycling of food waste by operating food waste recycling system jointly with SEJ (p.34). Famil and Poppo have also started recycling of food waste by using Ito-Yokado's system.

Corporate profile (as of February 29, 2008)

Establishment:	January 2007	Paid-in capital:	¥3.0 billion
Headquarters:	8-8, Nibancho, Chiyoda-ku, Tokyo 102-8415, Japan	Total sales:	¥113.4 billion
Nature of business:	Operation of restaurants, fast food and dining service businesses	Number of employees:	16,883
		Number of restaurants:	1,047

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 chains 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 restaurants

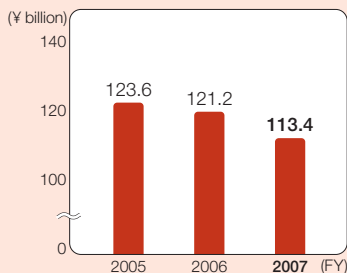
Poppo operates fast food (such as *takoyaki* octopus balls, *imagawayaki* waffles and ramen soup noodles) restaurants mainly located within Ito-Yokado store facilities. Under the themes of customers' health, safety and reliability, we deliver fast food items made from fresh and healthy ingredients together with big smile.

Dining service business

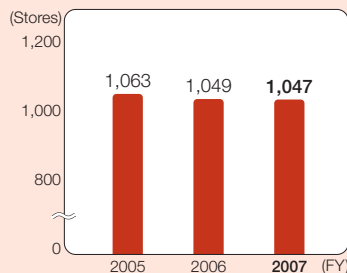
Aggressively pursuing expansion into outside of group companies

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.

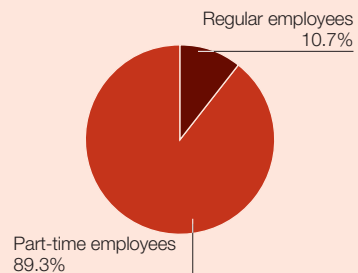
Total sales



Number of restaurants



Employees by type



Notes:

- Sales figures and the number of restaurants for FY 2005 and FY 2006 represent the simple summations of relevant data of Denny's Japan, Famil and York Bussan, which were merged in FY 2007.
- Reclassifications of the three predecessors' FY 2007 semiannual sales were made to calculate the full-year sales.

Food Safety and Reliability

Q My children like to eat out. How safe are the ingredients of your menu items?

A We only purchase safe and reliable ingredients that meet our quality standards in the Statement of Business Terms.

Rigorous ingredient management and hygiene control to ensure food safety and reliability—our top priority

Consumers today have a keener interest in food safety and reliability, and check the production histories, e.g., origins, ingredients and producers, of food items they purchase. In response, businesses need to offer reliable products that can bring higher levels of consumer confidence, rather than merely observing applicable laws and regulations. At Seven & i Food Systems, food safety and reliability has been our first priority as specified in the first item of our corporate creed “Seven Promises” (p.74). As a food-related company, we believe ensuring food safety and reliability is the most important responsibility to the society. We therefore spare no efforts to implement thorough hygiene control, purchase safe ingredients, and serve reliable food that our customers enjoy with confidence.

Strict ingredient inspection using quality standards in the Statement of Business Terms

We purchase a wide-variety of food items from various farms and manufacturers throughout a year in order to offer delicious meals made from fresh, in-season ingredients.

At Denny’s, which uses approximately 600 ingredients, we strictly inspect prospective items against the Statement of Business Terms specifying our quality requirements regarding raw ingredients, additives, allergen-content, processing and preparation procedures, and quality control performance. After this process, we only purchase and use ingredients that are proved to have “Denny’s quality.” In addition, our sourcing and quality control personnel visit suppliers’ factories on a regular basis to monitor the quality and hygiene control during their manufacturing and storage phases. Such on-site inspections are performed approximately 400 times a year in Japan and abroad, including site visits to observe manufacturing processes of new products or by new suppliers.



On-site inspection at a supplier's factory

Building traceability systems based on “Cultivation Plans” and “Cultivation Records for Registration”

Producers’ visibility, or traceability, is an important element of our ingredient sourcing policy at Seven & i Food Systems. Therefore, we are building systems to accurately record and manage product origins, production processes and distribution channels.

For instance, we centrally control the quality and traceability of vegetables to be served in Denny’s restaurants by using Cultivation Plans, and Cultivation Records for Registration. All the producers of these ingredients, whether in Japan or abroad, are required to submit these documents. We review a Cultivation Plan to verify the quality of the ingredient, which includes the overall production schedule plan from soil preparation, seed planting to harvesting; fertilizer application plan; and details of planned pesticide use (purposes, name of pesticides, application timing, and amount, etc.). We then reexamine the ingredient quality using a Cultivation Record for Registration, in which actual processes performed are recorded.



(From top) Cultivation Plans, Cultivation Record for Registration, and Annual Relay Sourcing Schedule

Traceability systems for fresh produce at Denny’s

Fruit and vegetables served in Denny’s restaurants are grown in a safe and well-planned manner.



Freshness maintenance with well-planned sourcing schedule and strict temperature control

Seven & i Food Systems is particular about using fresh, in-season ingredients. To ensure stable sourcing of fresh fruit and vegetables, we source ingredients from our contract farmers in various regions across Japan. Which item is sourced from which region is determined in line with our “Annual Relay Sourcing Schedule,” which is prepared based on the producers’ annual cultivation plans, as well as season and harvesting yields. (Part of our dining service business promotes the local production for local consumption instead.)

To maintain freshness and quality, purchased ingredients are shipped at optimal temperature in the cold chain system and maintained in our restaurants’ storage rooms under strict temperature control. In our restaurant business, for example, we identify each ingredient’s temperature requirement (room temperature, refrigerated, or frozen), and require all related parties, ranging from contract farmers to manufacturing factories, distribution centers, restaurants and distribution trucks, to maintain the required temperature. Furthermore, we monitor temperatures of our shipping warehouses and distribution trucks with automatic thermometers, and regularly check refrigerators and freezers’ temperatures in our restaurants.



Inside of a truck container



Maintaining the container’s internal temperature with a sensor attached to the cooling fan



Monitoring the container’s internal temperature via the terminal installed near the driver’s seat



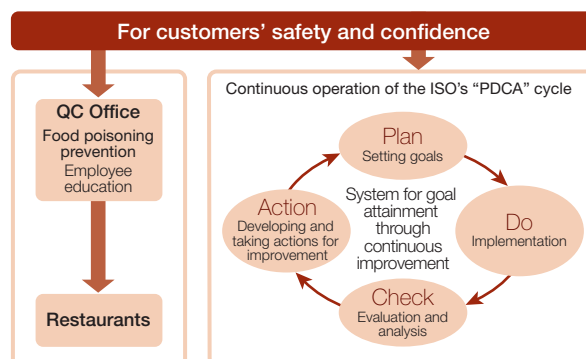
Enlarged image of in-vehicle terminal

Rigorous hygiene control using ISO 9001-based quality management systems

Hygiene control in our restaurants is another key focus at Seven & i Food Systems. Our QC Office, responsible for hygiene control, obtained certification of an international quality control standard ISO 9001 with regard to the planning and service of sanitation control system of food in restaurant store. Using such management systems compliant with ISO 9001 requirements, we are working on hygiene

ISO 9001-based quality control management

(Scope of registration: the planning and service of sanitation control system of food in restaurant store)



control and employee education in our restaurants. As for hygiene control, we place particular focus on freshness management, which is a straightforward task that all staff members can participate in. Every day, restaurant managers and food preparation leaders check the order placement status and inventory levels, and restaurant staff check ingredients’ stock levels and expiration dates during the pre-cooking preparation process. To facilitate this process, fresh and processed ingredients are color-coded with stickers indicating day of the week. On the stickers, package opening time and use-by dates are written by employees. Such a comprehensible system regardless of who put labels on, together with a systematic multi-layered product check system and unannounced third-party inspections underpins our rigorous hygiene control systems.

As for employee education, restaurant managers (responsible for hygiene control in their respective restaurants) and food preparation leaders take a leading role in instructing their staff in related matters, such as hand-washing and grooming rules, use of sanitizing dusters, ingredients’ expiration control and cooking equipment inspection.

In addition to such day-to-day management in restaurants, the QC Office at the headquarters inspects restaurants’ hygiene control and product conditions, provides related advice and instructions to restaurant managers and food preparation leaders, develops awareness-raising posters and training handbooks for employees, and takes other necessary actions.

Furthermore, regional leaders visit restaurants periodically to see if all staff members conduct necessary self-checks, raise their awareness of freshness and hygiene control and ultimately improve each restaurant’s overall hygiene control system.



QC Office member providing advice to the manager



Training handbook

Combating Global Warming

Q I imagine substantial amounts of energy are being consumed in some restaurants operating around the clock.

A We have been reducing energy consumption by introducing highly efficient equipment and streamlining logistics operations.

More energy-efficient restaurant operations with more efficient equipment

Our food service operations, using kitchen facilities and air-conditioning equipment, involve considerable energy consumption. To reduce energy consumption and CO₂ emissions from our operations, we have been replacing restaurant equipment with higher efficiency equipment.

● Expansion of all-electric restaurants (Denny's)

Most dishes served in Denny's restaurants are cooked in their kitchens, enabling us to offer a wide-variety of menu items in optimal condition. To sustain this basic policy, we previously used natural gas-powered kitchen equipment because of its high heating power and low running cost. However, energy consumption in our kitchens has been increasing in recent years, because we augmented the equipment's capabilities to accommodate diversified menu items.

In response, we have started to replace all kitchen facilities with electric ones—such as induction heating (IH) stoves and “Eco-Cute^{*}” water heating system—since 2002, starting with a Denny's in Chiba-Fujimi. These kitchens consume less energy, while achieving compatible heating capability. In fact, such all-electric restaurants have reduced CO₂ emissions by 5.7% per restaurant, compared with existing counterparts using some natural gas-powered equipment.

Introduction of such new kitchen facilities has other benefits. The temperature in an all-electric kitchen is 5°C lower than a kitchen using gas-powered equipment, which also means a better working

environment for employees and less air-conditioning-related energy consumption. From occupational safety and hygiene control perspectives, employees' injury risk has been lowered through the removal of direct flames, and the stoves are easier to clean up because of the flat surface of IH stoves.

In addition, the adoption of industrial Eco-Cute in 2007 has allowed us to solve the issues of installation space and running costs.



All-electric kitchen

As of August 2008,

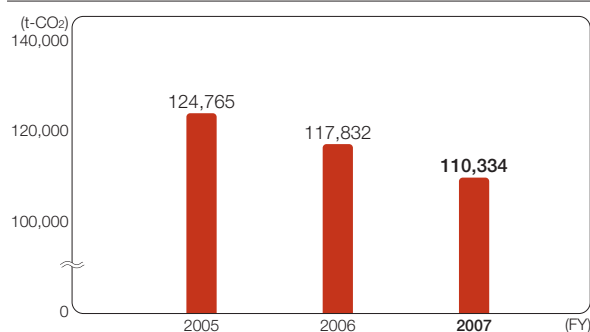
Denny's restaurants in Tsukiji, Hachioji-Asahicho and Myorenji, as well as Chiba-Fujimi went electric completely.

In the restaurants where complete conversion is unfeasible due to space constraints and other reasons, we have started to introduce a combination of electric kitchen equipment and gas-powered water heaters. Denny's in Soga, opened in July 2003, became the first restaurant with such a hybrid kitchen, which has been expanded into 78 restaurants to date, most of which are newly opened ones. Meanwhile, we have also been working to improve the energy efficiency of existing restaurants through the replacement of aging equipment with energy-efficient equipment and the planned installation of energy-saving devices such as inverter-controlled air conditioners and dish washers, and air-cooled ice makers.

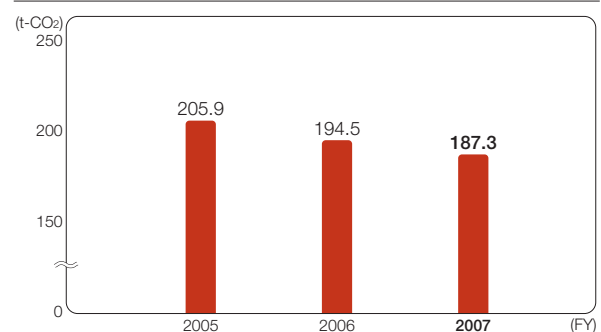
As a result of these efforts, our annual CO₂ emissions per restaurant in FY 2007 reduced by 3.7%.

^{*} Eco-Cute is electric water heating system that uses heat in the air.

Total CO₂ emissions (Denny's)



CO₂ emissions per restaurant (Denny's)



● **Installation of “Eco-Ace” (Famil)**

Famil, operating restaurants within Ito-Yokado stores, have started using Eco-Ace* systems since 2003, which adjust input voltage to reduce electricity use.

To reduce power consumption, 53 Famil restaurants use Eco-Ace (as of August 2008).

* Eco-Ace is equipment for reducing electricity consumption, which controls the fluctuation of input voltage with a micro computer and maintains output voltage at a certain level.



Eco-Ace

● **Using electric kitchen equipment (Poppo)**

All Poppo restaurants, mainly located in food courts, use electric cooking equipment to reduce energy consumption, except at three restaurants using both gas and electricity.

To eliminate any waste in resource consumption, we have also set up each appliance’s running hours by day of the week and check electricity and water meters frequently.



Electricity-powered cooking equipment

Substantial reduction of distribution-related CO2 emissions through streamlined operations

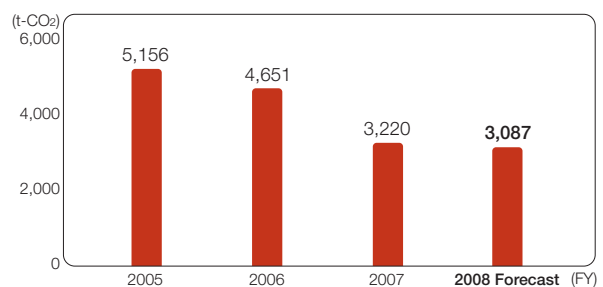
Denny’s has long been working to reduce distribution-related CO2 emissions. In 1982, we launched combined distribution systems, and

separated distributions based on temperature control requirements. As a result, the number of distributing trips to restaurants—which previously was 10 trips a day—was remarkably reduced to one trip a day each by refrigerated and non-refrigerated vehicles, and a few trips per week by freezer trucks. We have also been working to reorganize distribution centers, enhance the accuracy of inventory order placement, and promote mixed-delivery of room temperature and refrigerated goods, aiming to prevent the recent expansion of our restaurant network from leading to additional distribution trips.

In FY 2007, we reduced the number of our distribution trucks by approximately 1,600 from the FY 2006 level, resulting from our thorough efforts to improve cargo loading efficiency by arranging the appropriate number of vehicles to match projected delivery volumes on weekdays and weekends. We also reduced the total travel distance by distribution vehicles by installing digital tachographs in all our distribution trucks to monitor and improve their driving patterns, and cutting down on the number of long-distance shipments by reallocating distribution depots. As a result, our CO2 emissions in FY 2007 were reduced considerably by 30.8% from a year earlier.

We at Seven & i Food Systems will strive toward greater fuel efficiency and lower environmental impacts of our distribution operations, while continuing our efforts to improve logistics efficiency. To this end, we will take a range of measures, such as strict vehicle management using in-vehicle terminals and introduction of environmentally friendlier vehicle parts, like green tires.

CO2 emissions during distribution processes (Denny’s)



TOPICS

Shift to resource-saving, endocrine disrupting chemical-free separated chopsticks

Roughly 35 million pairs of disposable chopsticks are used in Denny’s restaurants each year. Since 1997, all these chopsticks have been made from domestic cedar woods which are either construction lumber remnants¹ or wood from thinnings.² To use such waste wood in the most effective way, our chopsticks are separated individually, not stuck together like common chopsticks. Cedar wood has natural antiseptic properties and thus requires no bleaching for processing. The chopstick covers are made from oriented polypropylene (OPP) which does not generate endocrine disrupting chemicals, considered detrimental to living organisms.

1. Construction lumber remnants are wood waste after milling logs into square (and other shaped) lumbers.
2. Wood from thinnings is from trees felled under planned forest management.

Effective Resource Usage

Q I wonder if your operations produce significant amounts of food waste, such as cooking refuse and leftovers.

A While reducing waste generation, we have been focusing on food waste recycling, especially composting.

Further reduction and recycling of food waste from restaurants

The Food Waste Recycling Law enforced in 2002 requires collective efforts by all food-related businesses toward food waste reduction and recycling. Numerical targets were introduced when the law was revised in 2007, in accordance with which food service operators are required to achieve a 40% food waste recycling rate by 2012.

We at Seven & i Food Systems normally prepare guests' meals in our restaurants' kitchens to serve them in a fresh and tasty condition. This policy inevitably involves food waste generation, such as cooking refuse and customers' leftovers. We are working to minimize such food waste and promote effective use (composting, etc.) of the waste generated to create a recycling society.

● Promoting workable recycling programs

Denny's has joined the network of SEJ's food waste recycling system (p.34) since 1998, aiming to promote recycling and proper disposal. During FY 2007, this food-waste-composting network grew to include 91 Denny's restaurants, recycling 20.4 % of 7,760-tonnes total food waste generated in the chain.

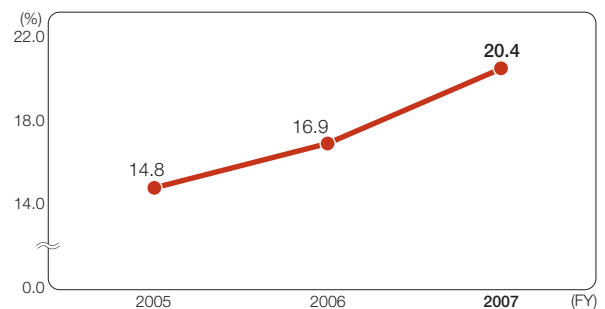
Famil and Poppo have also started to recycle food waste using Ito-Yokado's system. The two companies are planning to expand this composting program to approximately 50% of their restaurants by 2012.

To meet and exceed the statutory food waste recycling target of 40%, Seven & i Food Systems intends to implement such food waste recycling systems in approximately 450 restaurants by 2012, and reduce the size of ingredient shipments to minimize disposal loss.



Collecting food waste from restaurants

Food waste recycling rate (Denny's)



TOPICS

Environmentally responsible uniforms promoting the "3Rs"

Denny's has worked with business partners to develop and use environmentally friendly uniforms, which contribute to the promotion of the 3Rs— reduce, reuse and recycle. Having sought suitable fabric, sewing and cleaning methods, we have developed durable uniforms that can withstand 120 washes. To save water and electricity consumption, uniforms are collected to be washed in bulk by contract laundry service providers, rather than by individual restaurant workers. Following our instruction, the laundry service providers do not use photochemical-smog-causing VOC or other solvent but wash our uniforms with water only, treat the resulting wastewater via microbial activities (absorption and degradation) to avoid producing sludge, and reuse the treated water as cleaning water. In addition, cleaned uniforms are delivered on metal hangers without using common plastic covers, and unusable old hangers are recycled. This Denny's initiative will be expanded into Famil, Poppo and our dining service business in due course.



Denny's uniforms

Giving Back to Our Communities

Q I hope your restaurants will serve as a place for community activities.

A As a good corporate neighbor, we are engaged in many community contribution activities, such as educational and emergency response support.

Wide-ranging community contributions as a community-rooted business

The importance of active interaction among local community members has been reevaluated in recent years with an increasing percentage of nuclear families, declining birthrate and aging population.

As a community-rooted business aspiring to be welcomed and cherished by local residents, and visited by a greater number of guests, Seven & i Food Systems conducts wide-ranging community contribution programs to serve local needs.

● Accepting work experience students

We actively support local junior high schools' work experience programs and accept their students in our restaurants.

This support originated from the schools' request for our cooperation in providing an opportunity for children to think about their future careers. Under the guidance and support of the restaurant manager and all other staff, students have a hands-on experience in actual restaurant operations, such as serving customers and cleaning the premises, and learn about the importance of teamwork and communication and other necessary elements in the workplace.

Some of these programs also serve as an opportunity to teach the importance of a wholesome diet and square meals, and use our original booklets to check daily eating patterns.

In Denny's restaurants, we received 592 students



Work experience program

in FY 2007 and 207 students in the first half of FY 2008. We will continue to offer work experience opportunities to local junior high school students.

● Supporting extracurricular classes and field trips to study corporate activities

In addition to work experience programs, we willingly cooperate with local schools for their extracurricular classes and field trips.

In July 2008, for instance, we accepted a request from a private junior high school in Tokyo to provide its students with greater awareness through a visit and interview with us regarding our environmental activities. This event was conducted as part of the school's civics class to learn about "what should be done to stop global warming by ourselves, companies, communities, and national governments."

During their visit, we presented the outlines of the CSR activities by Seven & i Food Systems with many specific examples. The students subsequently provided us with positive feedback, such as "I was able to understand food recycling programs at Seven & i Food Systems," and "I've learned that energy-efficient equipment has been introduced to protect the environment."

We have received many other requests, such as elementary schools' proposals for office visits and restaurant tours. We would like to meet as many requests as possible on an ongoing basis, to make contributions to local education.



Presentation materials used in the extracurricular program

● Launching a “Children’s Cooking School”

In August 2008, we held our first cooking class for children (from senior preschoolers to third graders), Children’s Cooking School, in our Ichigaya Branch Office.

Objectives of this event were to provide an opportunity for parents and children to share a pleasant time by cooking together in an unusual setting, and to raise children’s interests in food and nutrition, which we believe, is a responsibility of a food-related company.

In the beginning of the class, children studied about nutrition and body development through an easy-to-understand lecture using handmade teaching aids, and then learned about how to use cooking knives and other tools safely and properly. During the subsequent cooking session, the children made their original salad and a sundae for dessert with their families. A total of 43 people from 17 families shared a pleasant culinary experience, through which they enjoyed learning something new, developing ideas, communicating their own ideas, and many more.

We are planning to organize this cooking event continuously as we position this program as a part of Seven-&-i-Food-Systems-specific social contribution programs.



Children’s Cooking School

Strengthened earthquake, fire and other disaster preparedness and response

We at Seven & i Food Systems have been working to improve our disaster preparedness systems so that our restaurants operating in approximately 1,000 locations across Japan can take immediate and appropriate responses, including recovery efforts and community sup-

port, to disaster occurrence, such as earthquake and fire.

Denny’s, having the highest percentage of free-standing restaurants among Seven & i Food Systems brands, formulated its Large Scale Disaster Response Procedures in 1996 and revised them in 2004. The latest version, functioning as Denny’s employees’ code of conduct during emergencies, includes specific instructions on evacuation guidance, rescue and relief activities, and other necessary actions, as well as a clear statement that it is Denny’s responsibility as a member of the local community to resume operations and serve meals as soon as possible in the affected area.

In February 2007, we became the first restaurant operator to enter into agreements with eight prefectural and municipal governments in Kanto region about the support of stranded commuters in the event of a disaster. In September 2008, we also made similar agreements to provide support for disaster-affected commuters with seven prefectural and four municipal governments in Kansai region. In accordance with these agreements, if a disaster occurs, we will provide access to drinking water and restrooms, road and traffic information obtained via radio and other media, and map information, to individuals who need to walk home due to disruption of transportation systems. After making these agreements, our Denny’s restaurants in Saitama, Tokyo and Chiba participated in emergency drills operated by respective prefectural governments to practice supplying drinking water and so on. As a next step, we are planning to conduct a range of training programs at our regional restaurant managers’ meetings.



Sticker for Supporting Stations for Stranded Commuters Returning Home on Foot

Disaster support agreements in Kanto region

- Partner governments: Saitama Pref., Chiba Pref., Tokyo Metropolitan Gov., Kanagawa Pref., Yokohama City, Kawasaki City, Chiba City and Saitama City (eight prefectural/municipal governments)
- Number of applicable restaurants (Denny’s): 344*

Disaster support agreements in Kansai region

- Partner governments: Osaka Pref., Kyoto Pref., Mie Pref., Nara Pref., Wakayama Pref., Hyogo Pref., Shiga Pref., Osaka City, Sakai City, Kyoto City and Kobe City (seven prefectural and four large municipal governments)
- Number of applicable restaurants (Denny’s): 28*

* As of September 2008



New menu items and service to meet growing demand for healthy choices

Offering health-conscious items to support customers' healthier lives

Health management has become of greater interest to our customers, partly due to the introduction of a new health checkup and guidance program aiming to prevent metabolic syndrome in April 2008. In response, Seven & i Food Systems has been working to develop and offer healthy menu items that can contribute to customers' healthier lives.

Examples of Denny's healthy menu items

● Low-calorie dishes responding to customers' demand

In addition to existing calorie information provision and other health-conscious initiatives, customers' demand for more health-conscious meals has been increasing in recent years. We have therefore developed new items which are low in calories but still hearty and tasty—hallmarks of Denny's dishes. We rolled out new calorie-conscious items, such as *ramen* noodles in salt-based soup topped with a lot of vegetables (335 kcal) and soupy rice with steamed chicken, dried plum and dried sardine fry (301 kcal), in spring 2008 to coincide with the launch of the "anti-metabolic syndrome" health checkup program. In addition, a greater number of smaller-sized items have been made available, and small size has been added to rice serving portion since June 2008, together with existing choices of regular and large.

In the following July, a low-calorie dessert item made its debut on our menu: a yogurt dessert served on a plate having less than 100 kcal (cf., a standard commercially available pudding has about 130 kcal per 100 grams). This item is based on fat- and sugar-free yogurt, flavored with avocado oil containing oleic acids that help reduce bad cholesterol levels, and topped with hyaluronic acid and collagen-enriched jelly, which is considered to be beneficial for good skin.



Low-calorie pear dessert

● More meals with vegetables on menu

Vegetables are used in approximately 90 items on our menu, including sides and salads. Examples of such vegetable meals include a fresh salad which allows customers to eat nine different vegetables in one plate.

● Menu items for food allergic children

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 staff in a restaurant to avoid possible secondary contamination.



Low-Allergen Plate

Support customers' wellness management in our dining service business

Our dining service business, serving meals in customers' facilities, offers wellness management service at customers' request. Such service includes advisory provision for the prevention of lifestyle-related disease, including diabetes, high blood pressure, and increased neutral fat levels, on which daily diet has great impact. Based on the evaluation of customers' dietary patterns and caloric intake, registered dietitians provide a range of advice on menu planning, well-balanced diet, and necessary exercises. We will retain more dietitians and expand this service further in the future.

Third-Party Comments



Kikuko Tatsumi

Board Member
NIPPON ASSOCIATION OF
CONSUMER SPECIALISTS

We purchase and consume a wide variety of products in our lives. Although we take these actions casually as a daily routine, aggregated each purchase decision—i.e., which product to buy from which store—will, in effect, shape the future of our planet. However, when we consumers try to take such an important action, namely making a right product choice, we often find that clear and straightforward information about products and stores is hard to come by. With this in mind, I read Seven & i Holdings' CSR Report 2008 in the context of sustainable consumer decisions and will provide the following comments as a third party:

The top management's message includes a strong declaration by the Group, stating that it has launched a more holistic and groupwide CSR activities based on



Yoshiki Midorikawa

Co-chair, the Valdez Society
Director, Green Consumer Research
Group

The three priorities to report products, the environment, and labor issues, featured in the special sections, are timely and in line with the global agenda and the operating companies' respective business characteristics.

With regard to the first featured topic on food, I noted that the Group has established elaborate traceability systems, which support the Group's solid risk management and accountability. The participatory food recycling system through the agricultural production corporation meets today's societal needs and I hope it will grow much further.

The second special feature section on the prevention of global warming introduces the Group's Environmental Declaration, and the Basic Policies Relating to the Prevention of Global Warming. The former is an ambitious statement calling for the involvement of the supply chain and the latter provides

its new environmental declaration and basic carbon reduction policies formulated in June 2008, and that the Group is committed transparent information disclosure.

In the special features sections, three key reporting topics—food safety, carbon reduction from store operations, and creation of a better workplace for part-time employees—are identified and reported based on the data of the operating companies. The subsequent reporting by operating companies is also aligned with these key topics. I noted each of the topics is of high priority based on the analysis of where they are. While the Report focuses on typical and advanced activities in such key areas, it should also provide Seven & i Holdings' specific short- and long-term targets.

When it comes to the overall reporting style, the Report tends to focus on information provision and thus needs to include more stakeholders' perspectives. Through close communication with stakeholders, Seven & i Holdings will be able to send a strong message that the corporate group offers consumers opportunities to select right products toward right future. I expect much of the Group's continuous evolution as it moves forward.

a clear action plan with specific objectives and activities for the entire product life cycle. I hope the Group will put these plans into practice in an aggressive manner.

When it comes to the third item concerning part-time labor, the Report highlights the Group's new development on part-time employment policies in response to the Revised Part-Time Labor Law, together with each operating company's achievements over the years, including the conversion from part-time to permanent employment. Given that the revised legislation has its own limitations, the Group should move beyond these legal requirements and make further progress to ensure that every employee obtains "decent work," i.e., rewarding and humane labor conditions, as advocated by the ILO.

Many reported activities of the operating companies are advanced and forward-looking. Expanding such company-based activities to the entire group, where feasible, would be an important future goal. The holding company improved and relaunched its CSR promotion system from 2007 to 2008. With this enhanced system in place, I hope the company will demonstrate even stronger leadership and create greater groupwide synergy in the future, while working to improve the reporting of the Group's performance evaluations and to more clearly separate responsibilities between the holding company and its operating companies.



Mariko Kawaguchi

Senior Analyst, Management Strategy
Research Department
Daiwa Institute of Research Ltd.

The Report well summarizes CSR activities of the Group's operating companies despite their diversified business operations ranging from supermarkets to convenience stores, department stores and restaurants, as well as their separate and distinct characters and long-standing histories. As a result of such an effort-intensive process, three key topics, i.e., food, global warming and part-time employees, are identified and reported as groupwide priorities. This approach is commendable as it provides the Group's clear manifestation of being a corporate group that is closely connected to consumers' everyday lives. Regarding food-related activities, the Group has taken collective and comprehensive actions, such as the promotion of traceability systems, domestic food consumption, local production for local consumption, food waste recycling, and recycling-based agriculture. As the retail leader, building systems for food safety and recycling can be the most important social responsibility of the Group, especially in light of Japan's imperative need for higher food self-sufficiency rates. As to global warming initiatives, the Report provides

comprehensive coverage of the necessary actions to be taken by operating companies in the course of their store and logistics operations. Giving due considerations to part-time employees is an important task in today's society, where labor conditions for non-regular employees are of societal concern. Individual reporting sections by operating companies describe their respective CSR activities which are well suited to their business characteristics. All in all, the Report is a highly useful reference tool to learn about CSR activities in the Japan's retail sector.

That being said, the Report does not provide the overall directions and strategies, such as top-down visions and groupwide targets, the Group intends to pursue in future. Convenience stores, for instance, have grown to become an important part of logistics, information and community networks, as well as a component of social infrastructure, just like banks, schools and post offices. The stores have brought great convenience to and even changed the lifestyles of Japanese people. However, recent public attention has focus on their environmental and unanticipated issues. Given this, I recommend the Group work to meet public demand by developing clear policies on such emerging issues, and redefine its societal role.

Now that the overall picture of the Group's CSR resources is clarified in the Report this year, from the next Report and onwards, the Group should develop definite strategies to make the most of its resources and generate synergies toward building a sustainable society. I would like to see the Group will play an even more active role in making a difference in society.

Responding to third-party comments

For the three years since we established the holding company, we have been exploring tirelessly how we as a corporate group should pursue our CSR duties in a consistent manner.

In other words, we have been questioning ourselves whether our Group as a whole takes appropriate actions to meet ever-evolving customer and social needs, and each of our operating companies addresses such needs in the course of its business activities.

For this year's reporting, we identified three common agendas, and analyzed and disclosed the operating companies' CSR performances with a particular focus on these issues.

While this attempt may need some future refinement, it has inspired us to take on new challenges toward the next year.

The origin of our CSR reporting dates back to 1995. Since then, discussions over environmental and CSR-related issues have exponentially matured, expanded and been organized. International Organization for Standardization (ISO) has launched the development of future standard on social responsibility (SR).

When looking back our CSR reporting history of more than a decade, I cannot thank enough all the stakeholders who provided us their strong support.

As pointed out in the received comments, our business activities have large impact on society. The missions and responsibilities we assume are quite significant. I believe these missions and responsibilities are firmly espoused by each and every employee of our Group.

The comments also indicate the necessity of that we need to consider even more deeply what our CSR activities should stand for. In the next coming year, we will continue asking ourselves, while seeking the best balance between such social responsibility principles and corporate activities.

Thank you.

November 2008

Minoru Inaoka

Chairman of CSR Management Committee
Seven & i Holdings Co., Ltd.



SEVEN&i HLDGS. Co.,Ltd.

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