ANNUAL REPORT 2006

Seven & i Holdings Co., Ltd.

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

The Company has seven core operational areas – convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services. With a total of about 31,000 stores around the world and revenues from operations of approximately ¥3.9 trillion, Seven & i Holdings is one of Japan's leading retail groups.

To respond quickly to markets in which the needs of customers continue to change rapidly, and to leverage synergies, Seven & i Holdings is working to maximize its enterprise value and to enhance its operations, principally retailing, by working to create "a new, comprehensive lifestyle industry."

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FINANCIAL HIGHLIGHTS

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEAR ENDED FEBRUARY 28, 2006

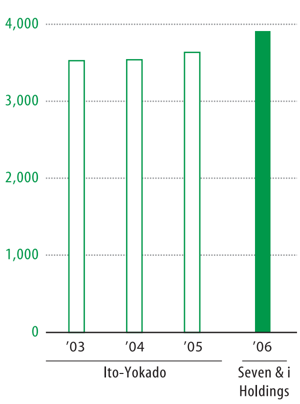
Figures for Ito-Yokado Co., Ltd. and its consolidated subsidiaries for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 are presented for the convenience of the reader.

Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd. became wholly owned subsidiaries of Seven & i Holdings in the fiscal year ended February 28, 2006. The associated decrease in minority interests contributed to the increase in net income.

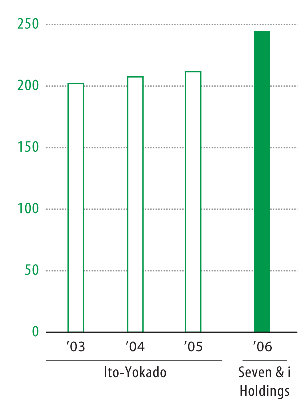
	Millions of yen	Thousands of U.S. dollars (Note A)	Millions of yen		
	Seven & i Holdings		Ito-Yokado		
	2006		2005	2004	2003
For the year:					
Revenues from operations	¥3,895,772	$33,584,241	¥3,623,555	¥3,542,146	¥3,530,317
Operating income	244,940	2,111,551	211,951	207,783	201,302
Income before income taxes and minority interests	178,518	1,538,948	150,833	177,784	176,861
Net income	87,931	758,026	17,205	53,632	46,623
% of revenues	2.3%	2.3%	0.5%	1.5%	1.3%
Capital expenditures (Note B)	185,354	1,597,879	168,725	171,877	182,891
Depreciation and amortization (Note C)	97,811	843,198	95,161	94,985	92,895
At year-end:					
Total assets	¥3,424,879	$29,524,819	¥2,574,817	¥2,461,927	¥2,401,737
Total shareholders' equity	1,603,684	13,824,862	1,144,505	1,138,211	1,111,477
	Yen	U.S. dollars (Note A)	Yen		
Net income per share:					
Basic	¥100.83	$0.87	¥40.73	¥128.25	¥110.67
Diluted	—	—	40.51	128.22	—
Cash dividends declared per share of common stock (Note D)	¥28.50	$0.25	¥34.00	¥34.00	¥34.00

Notes: (A) U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥116=US$1, the approximate rate of exchange on February 28, 2006.
(B) Capital expenditures include property and equipment, intangible assets and long-term leasehold deposits.
(C) Depreciation and amortization is included in cost of sales as well as selling, general and administrative expenses.
(D) In lieu of interim dividends, cash payments upon stock transfer of ¥21.50 ($0.19), ¥16.00 ($0.14), and ¥15.50 ($0.13) per share were paid to shareholders of record, as of August 31, 2005, of Seven-Eleven Japan, Ito-Yokado, and Denny's Japan, respectively.

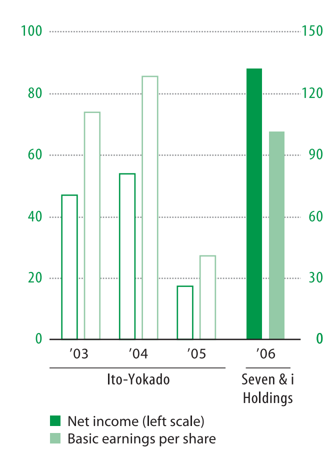
Revenues from Operations



Operating Income



Net Income and Basic Earnings per Share



SNAPSHOT

GLOBAL NETWORK

About 31,000 stores worldwide

REVENUES FROM OPERATIONS

About ¥3.9 trillion

Seven & i Holdings is one of the leading retail groups in Japan

Department Stores

OPERATIONS

7 core operational areas

Meeting the constantly changing needs of consumers

Supermarkets

Seven & i Holdings
Revenues from operations:
¥3,895.8 billion ($33.6 billion)
Operating income:
¥244.9 billion ($2.1 billion)

OUTLINE OF MAJOR BUSINESS SEGMENTS

Convenience Store Operations
Revenues from operations: ¥2,015.2 billion
Operating income: ¥209.8 billion

Superstore Operations
Revenues from operations : ¥1,687.7 billion
Operating income: ¥15.4 billion

Restaurant Operations
Revenues from operations: ¥124.0 billion
Operating income: ¥2.6 billion

Financial Services
Revenues from operations: ¥82.3 billion
Operating income: ¥17.3 billion

CUSTOMERS

About 26 million customers per day worldwide

Superstores

Restaurants

IT/ Services

Convenience Stores

Financial Services

AT A GLANCE

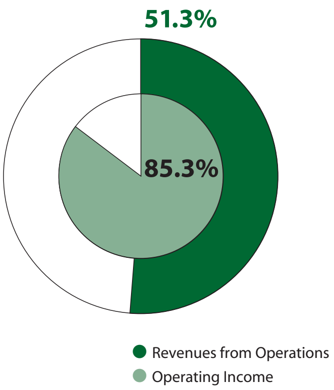
CONVENIENCE STORE OPERATIONS

Principal Subsidiaries

Seven-Eleven Japan (100.0)
7-Eleven, Inc. (100.0)
SEVEN-ELEVEN (HAWAII) (100.0)
SEVEN-ELEVEN (BEIJING) (65.0)

(As of February 28, 2006)

Contribution to Results



(As of February 28, 2006)

Topics

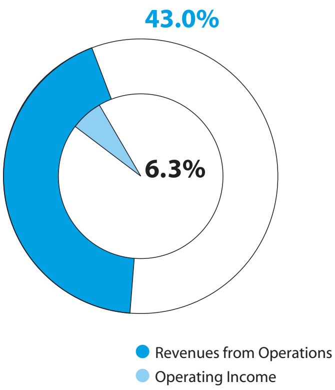
- In November 2005, the foundation for future global growth was strengthened when 7-Eleven, Inc., of the United States, was made a wholly owned subsidiary.
- Seven-Eleven Japan reinforced its position as the largest convenience store operator in Japan, with 11,310 stores at year-end, an increase of 484 stores.
- The total number of 7-Eleven stores around the world increased by 1,979 stores, to 29,706 stores at a fiscal year-end.

SUPERSTORE OPERATIONS

Principal Subsidiaries

Ito-Yokado (100.0)
Hua Tang Yokado Commercial (51.8)
Chengdu Ito-Yokado (51.0)
York-Benimaru (36.3)
York Mart (100.0)

Contribution to Results



Topics

- Ito-Yokado implemented reforms, principally in apparel merchandising, and in February 2006 began to introduce new private brands.
- Three stores in the new "Ario" format of mall-type shopping centers in urban areas were opened during the fiscal year under review.
- In April 2006, Seven & i Holdings announced that it would make York-Benimaru a wholly owned subsidiary through a stock-for-stock exchange.

DEPARTMENT STORE OPERATIONS

Principal Subsidiaries

Millennium Retailing (67.7)
- **Sogo (67.7)**
- **THE SEIBU DEPARTMENT STORES (67.7)**
- **SHELL GARDEN (66.9)**
- **THE LOFT (24.2)**

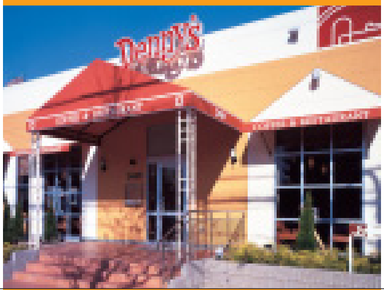
Contribution to Results

For the year ended February 2006, the income statements of Millennium Retailing and its susidiaries were not consolidated whereas balance sheets were consolidated.

Topics

- In January 2006, Seven & i Holdings acquired about 65% of the common stock of Millennium Retailing.
- In June 2006, Seven & i Holdings increased its holdings of Millennium Retailing common stock to 100% through a stock-for-stock exchange.

RESTAURANT OPERATIONS



||| Principal Subsidiaries

Denny's Japan (100.0)
Famil (100.0)
York Bussan (100.0)

FINANCIAL SERVICES

||| Principal Subsidiaries

Seven Bank (50.0)
IY Card Service (94.1)
SE CAPITAL (100.0)
York Insurance (100.0)
SEVEN & i Financial Center (100.0)

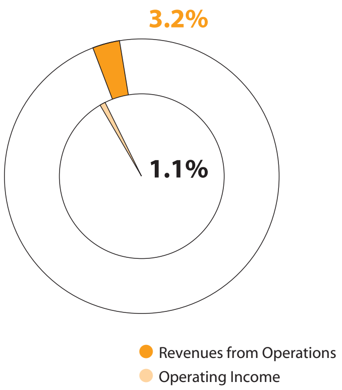
OTHERS

||| Principal Subsidiaries

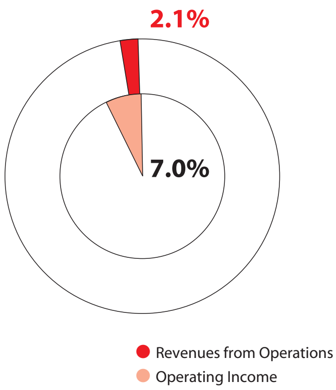
7dream.com (68.0)
Seven-Meal Service (90.0)
SEVEN & i Publishing (100.0)
Mall & SC Development (60.0)
Seven and Y (50.8)
SEVEN & i Life Design Institute (100.0)

Note: Figures in parentheses indicate percentage of equity owned by Seven & i Holdings, including indirect holdings.

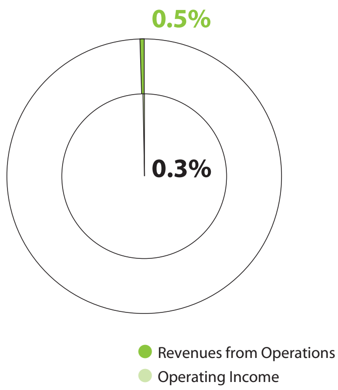
Restaurant Operations — ||| Contribution to Results



Financial Services — ||| Contribution to Results



Others — ||| Contribution to Results



Restaurant Operations — ||| Topics

- In June 2005, Denny's Japan introduced a new restaurant system as one facet of the Group information system integration project.
- To ensure a high level of service, Denny's Japan is assigning to all restaurants specialized staff members who provide attentive service.
- Denny's Japan introduced regional menu items to meet needs that vary by restaurant.

Financial Services — ||| Topics

- In December 2005, we announced that the issuance of *nanaco*, our own electronic money, and the introduction of point service would start in spring 2007.
- At the end of March 2006, Seven Bank had 11,484 ATMs, an increase of 1,503 from a year earlier, and installation had been completed at about 95% of domestic 7-Eleven stores. Average daily transaction volume per ATM rose to 88, from 77 a year earlier.

Others — ||| Topics

- In February 2006, Seven and Y, an Internet retailer of books and other media, was made a subsidiary.
- Seven-Meal Service's delivery services will be expanded to all 7-Eleven stores in Japan in 2006.

TO OUR SHAREHOLDERS AND FRIENDS

Toshifumi Suzuki
Chairman and Chief Executive Officer

Noritoshi Murata
President and Chief Operating Officer

SEVEN & i HOLDINGS' FIRST FISCAL YEAR

On September 1, 2005, Seven & i Holdings Co., Ltd., was established through the stock transfer method as the holding company for Seven-Eleven Japan Co., Ltd. (SEJ), Ito-Yokado Co., Ltd., and Denny's Japan Co., Ltd., marking a fresh start for these companies under a new organizational structure. We would like to express our gratitude to our shareholders for their support of this initiative.

This is the first annual report issued by Seven & i Holdings, and we hope that it helps our shareholders, investors, customers, and other stakeholders to deepen their understanding of our new management policies and strategies.

ESTABLISHMENT OF THE HOLDING COMPANY

In recent years, as a result of rapid globalization and trends toward fewer children per family and an aging population, the pace of change in Japan's economic and social conditions has accelerated. Domestic markets are characterized by consumption saturation and a surplus of material goods, and consumers are looking for more than just low prices. With the economy recovering, the deflationary trend seems to have bottomed out, and now consumers increasingly want products with superior quality and products with a level of value that was not previously available. One distinctive characteristic of the retail market in Japan is that the income differential is comparatively small, and customers choose different types of stores in accordance with their intended purchases.

Under the slogan *Responding to Change while Strengthening Fundamentals*, the Group has worked to provide products and services from the customer's point of view and to raise enterprise value. However, to respond to rapid, ongoing changes in economic and social conditions and in the purchasing behavior of customers, who utilize a variety of store formats, we decided that we needed not only to provide high-quality products and services but also to establish a holding company that would facilitate the implementation of responsive, flexible management and help us to enhance the scope of our activities, centered on retailing.

With the establishment of the holding company, we set up seven core operational areas – convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services. With the holding company structure, we have reinforced our position as one of the leading retail groups in Japan and made progress toward the creation of "a new, comprehensive lifestyle industry" through the enhancement and strengthening of operational fields and the pursuit of synergies.

RESULTS IN THE YEAR UNDER REVIEW AND DEVELOPMENTS FOLLOWING THE BUSINESS INTEGRATION

In the year under review, Seven & i Holdings posted consolidated revenues from operations of ¥3,895.8 billion and operating income of ¥244.9 billion. If compared with the consolidated performance of Ito-Yokado – the former Group parent company – in the fiscal year ended February 2005, revenues from operations increased 7.5% and operating income grew 15.6%, and both figures are considered record highs. This strong performance was primarily attributable to growth in convenience store operations in Japan and North America and to rapid expansion in financial services.

Since making the transition to a holding company structure, we have moved forward aggressively, taking such steps as establishing core operating companies in our major fields of business and working to leverage synergies. As one facet of our initiatives regarding core operating companies, in November 2005 we made 7-Eleven, Inc., of the United States, a wholly owned subsidiary with the aim of further improving profitability in convenience store operations. As a result, we established a framework from which to raise the profitability of convenience store operations in North America and boost the competitiveness of 7-Eleven as a global chain. In superstore operations, we have begun to revitalize core operating company Ito-Yokado, with special attention to improving apparel merchandising and rebuilding the store network. In department store operations, in January 2006 we acquired about 65% of the shares of Millennium Retailing, Inc., and in June we acquired 100% of the stock of Millennium Retailing, which, as of the end of February 2006, operated 30 department stores under the Sogo and Seibu banners with revenues from operations of about ¥960 billion in the fiscal year then ended. As a result, Millennium Retailing, which is in the top ranks of Japan's department store sector, joined Seven & i Holdings. In financial services, Seven Bank, Ltd., is recording strong growth, and in spring 2007 we plan to begin issuing our own electronic money. Leveraging our distinctive position as the only retail group in Japan that includes both a bank and a credit card company, we will use retail operations and financial services in tandem, thereby increasing customer convenience and raising sales and profits. In IT/services, we are drawing on our nationwide network of more than 12,000 stores to promote our operations. For example, we have already made Seven and Y Corp., an Internet retailer of books and other media, into a subsidiary, and we are considering a comprehensive tie-up with Yahoo Japan Corporation. Furthermore, in April 2006 we announced the acquisition of all of the shares of York-Benimaru Co., Ltd., which will become the core operating company in our supermarket operations. We will make York-Benimaru a wholly owned subsidiary in September 2006.

In strengthening our operations, we are implementing a range of measures to maximize the synergies from cooperation among Group companies, and we are aggressively creating stores that will earn the support of customers.

Specific measures include the enhancement of Group merchandising, the integration of Group information systems, and the integration of administrative departments to bolster the provision of high-value-added services and increase efficiency. In particular, in Group merchandising, we have promoted the sharing of infrastructure among the Group's operating companies, such as product development, product and raw material procurement, distribution systems, and production facilities, thereby creating a framework for the provision of higher-quality products at lower prices. Furthermore, by advancing system integration and the sharing of information within the Group, we are working to improve merchandising accuracy, benefit from economies of scale, and reduce investment and operating costs.

RETURNING PROFITS TO SHAREHOLDERS

Seven & i Holdings, in addition to overseeing the operating subsidiaries, is responsible for maximizing enterprise value for shareholders and other stakeholders. In particular, our policy for providing a return to shareholders is to distribute profits in accordance with their growth. For the year under review, we paid shareholders of SEJ, Ito-Yokado, and Denny's Japan as of the end of August cash payments upon stock transfer of ¥21.50, ¥16.00, and ¥15.50 per share, respectively, in lieu of interim dividends. At the end of the fiscal year, we declared a dividend of ¥28.50 per share, including a commemorative dividend of ¥7.00.

For the future, the Company has set benchmarks of ¥50.00 per share for annual dividends and 35% for the consolidated payout ratio.

DEVELOPMENTS REGARDING THE SHARES OF GROUP COMPANIES

As of the end of February 2006, the Company had a total of 1,346,383 thousand shares issued. At the general shareholders' meeting held in May 2006, a decrease in additional paid-in capital was approved, and the Company plans to cancel 427,509 thousand shares of treasury stock in July 2006.

This treasury stock resulted from the establishment of Seven & i Holdings through the stock transfer method, which entailed the allotment of Seven & i Holdings shares to the shares of SEJ and Denny's Japan that were held by Ito-Yokado as the parent company. In March 2006, Ito-Yokado was split into a holding company and an operating company, and the holding company merged with Seven & i Holdings.

Furthermore, to make Millennium Retailing a wholly owned subsidiary, a stock-for-stock exchange was implemented. On June 1, 2006, 18,317 thousand new shares were issued. In the same way, a stock-for-stock exchange will be implemented to make York-Benimaru a wholly owned subsidiary, and plans call for 30,580 thousand new shares of stock to be issued on September 1, 2006.

PERFORMANCE FORECASTS FOR FISCAL YEAR 2007 AND OBJECTIVES FOR FISCAL YEAR 2009

For the fiscal year ending February 2007, we forecast consolidated revenues from operations of ¥5,200.0 billion, an increase of 33.5%; operating income of ¥300.0 billion, up 22.5%; and net income of ¥150.0 billion, an increase of 70.6%. With revenues from operations in excess of ¥5 trillion, we will become the largest retail group in Japan, where the retail market is more fragmented than the markets in Europe and North America. When we established the holding company, we announced objectives for the fiscal year ending February 2009 of ¥340.0 billion for consolidated operating income, including synergy effects, and 10% for consolidated ROE. However, in consideration of the acquisition of 100% of the stock of Millennium Retailing, we have changed the objective for operating income to ¥380.0 billion while leaving that for ROE at 10%.

These performance forecasts and three-year objectives do not reflect the effect of the transition of York-Benimaru to a wholly owned subsidiary.

CREATION OF "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY" AND MAXIMIZATION OF ENTERPRISE VALUE

Our operating environment will remain challenging, but in accordance with the purpose of the establishment of the holding company, the entire Group will strengthen and expand its core business fields, pursue synergies, and advance global development. We will strive to create "a new, comprehensive lifestyle industry" that will support the achievement of comfortable lifestyles for all generations of consumers, from young to old, and thereby maximize enterprise value. We will also work to further strengthen and expand our seven core operational areas and build a solid position as a global, integrated retail group.

At the same time, as the listed company that represents the Group, Seven & i Holdings will bolster corporate governance and communicate with stakeholders while efficiently directing the investment of funds into growth fields. In this way, we will strive to offer products and services that accurately meet customer needs. We are poised to make sustained progress toward the establishment of "a new, comprehensive lifestyle industry."

We will continue striving to meet the expectations of our shareholders, investors, customers, and other stakeholders by making further efforts to maximize enterprise value. As we endeavor to achieve ongoing growth in the years ahead, we would like to ask for your continued support.

June 2006

Toshifumi Suzuki

Toshifumi Suzuki
Chairman and Chief Executive Officer

Noritoshi Murata

Noritoshi Murata
President and Chief Operating Officer

On September 1, 2005, we opened the door to a new stage of growth. The establishment of Seven & i Holdings marked a major step toward the creation of an entirely new retail structure. To respond to diversifying, continually changing customer needs and maximize enterprise value, Seven & i Holdings was established as the holding company for Seven-Eleven Japan, Ito-Yokado, and Denny's Japan.

Creating "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY"

Following its establishment, Seven & i Holdings has set up seven core operational areas, centered on the retail industry. Since its establishment, the Company has rapidly implemented new initiatives, such as making 7-Eleven, Inc., of the United States, into a wholly owned subsidiary and implementing a business tie-up with Millennium Retailing, a major department store operator in Japan. As a result, we have further reinforced our position as one of Japan's leading retail groups.

In this section, we will present key topics in our creation of "a new, comprehensive lifestyle industry," from the establishment of Seven & i Holdings to initiatives in the year ended February 2006 and plans and challenges for the years ahead.

ESTABLISHMENT OF THE HOLDING COMPANY

(Background and Purpose)

1 OPERATING ENVIRONMENT

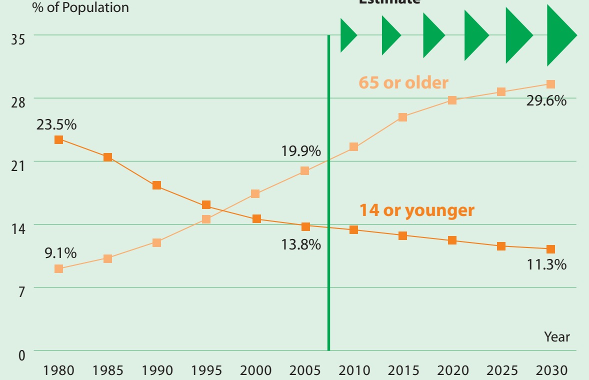
Currently, domestic markets are characterized by consumption saturation and a surplus of material goods, and consumers are looking for more than just low prices. They increasingly want products with superior quality and products with a level of value that was not previously available. With the economy recovering, the deflationary trend has gradually bottomed out, and we expect demand for value – rather than price – to increase even further.

In recent years, the pace of change in Japan's economic and social conditions has accelerated. In particular, the trends toward fewer children per family and an aging population are exerting a significant effect on the retail industry, and these trends are the focus of growing attention. According to data from Japan's National Institute of Population and Social Security Research, in 2005 13.8% of the population was 14 or younger, while 19.9% was 65 or older. By 2030, those 65 and older are expected to account for about 30% of the total population.

Older customers include many who enjoy a comfortable level of economic resources, and, in comparison with younger customers, they are a source of greater demand for high-quality goods and services. The advent of an era marked by an aging population and fewer children has the potential to stimulate further reorganization and consolidation in the retail industry, but on the other hand, for the companies that respond to changes the fastest and meet customer needs, there is the potential for significant growth in new business opportunities.

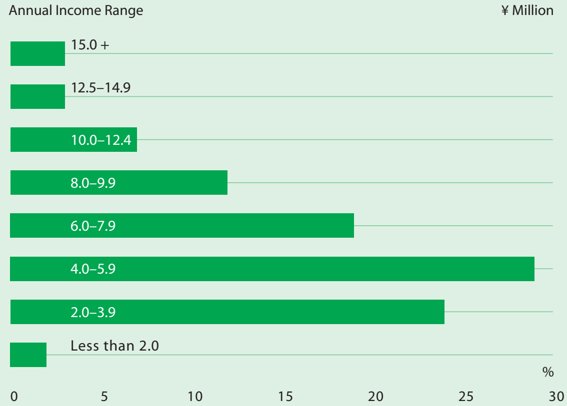
One distinctive characteristic of the retail market in Japan is that the income differential is comparatively small. Customers tend to choose different types of stores – such as convenience stores, superstores, department stores, and specialty stores – in accordance with their intended purchases. Accordingly, in the domestic retail industry, it is necessary to provide high-quality products and services through a broad range of store formats and to provide a comprehensive response to customer needs.

Japan's Population by Age



Sources: National Institute of Population and Social Security Research, Population Statistics of Japan; Ministry of Internal Affairs and Communications, Statistics Bureau

Japanese Households by Annual Income



Source: Ministry of Internal Affairs and Communications, Statistics Bureau, *Family Income and Expenditure Survey*

2 REASONS FOR ESTABLISHING THE HOLDING COMPANY

We chose to establish Seven & i Holdings in order to strengthen our business portfolio, which is centered on retailing, by accommodating rapid changes in economic and social conditions and the distinctive purchasing behavior of consumers in Japan as well as to maximize enterprise value by leveraging synergies among business fields.

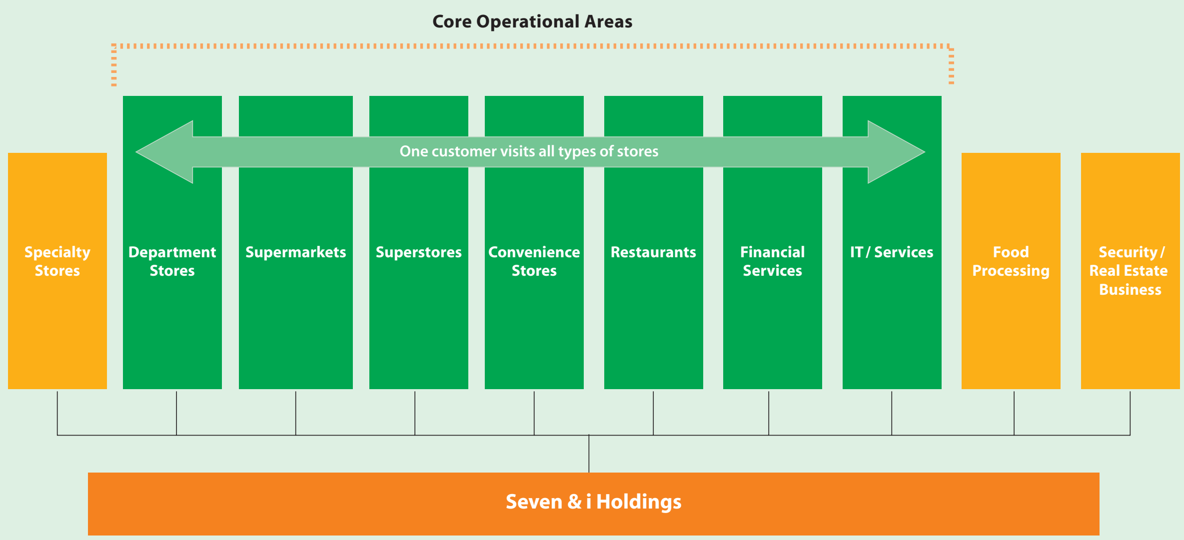
Specifically, as a global, integrated retail group, we will further strengthen our core operational areas – convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services. We will strive to create "a new, comprehensive lifestyle industry" that supports comfortable lifestyles for all generations, from young to old, and establish an operational foundation that can support sustained growth.

3 THE ROLES OF THE HOLDING COMPANY AND THE OPERATING COMPANIES

As the listed company that represents the Group, Seven & i Holdings is responsible for management strategies for the Group as a whole. Specifically, we plan and formulate Groupwide management strategies, take overall responsibility for corporate governance for the Group, communicate with shareholders and other stakeholders, evaluate the profitability of the operating companies, and efficiently allocate funds to new fields with high growth potential.

In contrast, the operating companies have complete responsibility within their business fields, where they focus on such tasks as growing and expanding their operations and raising the quality of products and services provided to customers while acting independently in pursuit of higher profits and greater capital efficiency. Their basic policy for capital investment is to conduct investment within the limits of the cash generated by their own operations.

Core Operational Areas of Seven & i Holdings



STRATEGIES FOR CREATING "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY"

1 FISCAL 2006 INITIATIVES

Even prior to the establishment of the holding company, we were one of the leading retail groups in Japan, with revenues of approximately ¥3.6 trillion in the fiscal year ended February 2005. With the transition to the holding company system in September 2005, we have implemented a range of initiatives targeting the expansion of our fields of business to take further advantage of new opportunities and growth potential.

Moreover, to leverage synergies among Group companies, we have worked to implement full-fledged Group merchandising activities in joint procurement of products and raw materials, distribution, and product development and to move ahead with an information system integration project. We have also begun building a framework to make shopping even more convenient for customers. Examples include our plan to issue our own electronic money and to offer a point service that allows points to be used Groupwide.

2 ESTABLISHMENT AND STRENGTHENING OF CORE OPERATING COMPANIES IN EACH OPERATIONAL FIELD

1. Overview

Since the holding company was established and set up seven core operational areas, we have announced and implemented a number of strategies targeting the establishment or further strengthening of core operating companies in each field.

Specifically, we have positioned Ito-Yokado, which had previously served as an operating holding company, as the core operating subsidiary in superstores, thereby paving the way for Ito-Yokado to focus on rebuilding our superstore operations. In November 2005, we further strengthened our convenience store operations overseas by making 7-Eleven, Inc., of the United States, a wholly owned subsidiary. In January 2006, we implemented a business tie-up with Millennium Retailing, and in February 2006 we made Seven and Y, which is engaged in Internet sales of books and other products, a subsidiary. On September 1, 2006, we will make York-Benimaru a wholly owned subsidiary and position it as the core operating company in our supermarket operations. And in spring 2007, we will issue our own electronic money, *nanaco*. With this series of measures, we have already increased the speed of our implementation of strategies as a holding company.

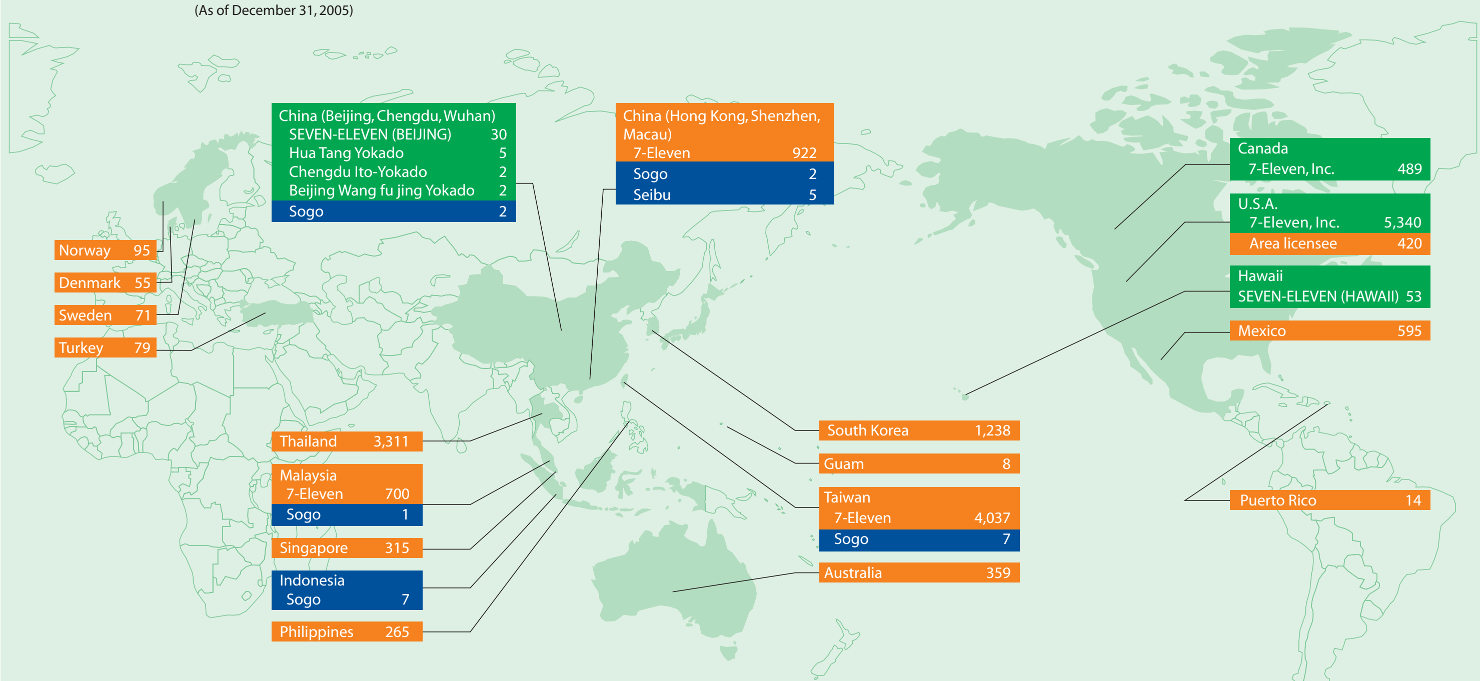
As of the end of February 2006, the store networks of core operating companies were as shown on page 13.

Key Initiatives by Seven & i Holdings

Operational Field	Core Operating Companies	Initiatives following Establishment of Holding Company
Convenience Stores	Seven-Eleven Japan, 7-Eleven, Inc.	7-Eleven, Inc. made wholly owned subsidiary
Superstores	Ito-Yokado	Steps being taken to improve profitability
Department Stores	–	Business tie-up with Millennium Retailing
Supermarkets	York Mart, York-Benimaru (affiliate)	York-Benimaru will be made wholly owned subsidiary
Restaurants	Denny's Japan	–
Financial Services	Seven Bank, IY Card Service	Introduction of electronic money and point service announced
IT / Services	7dream.com, Seven-Meal Service	Seven and Y made subsidiary Began discussing tie-up with Yahoo Japan Corporation

Seven & i Holdings' Worldwide Store Network

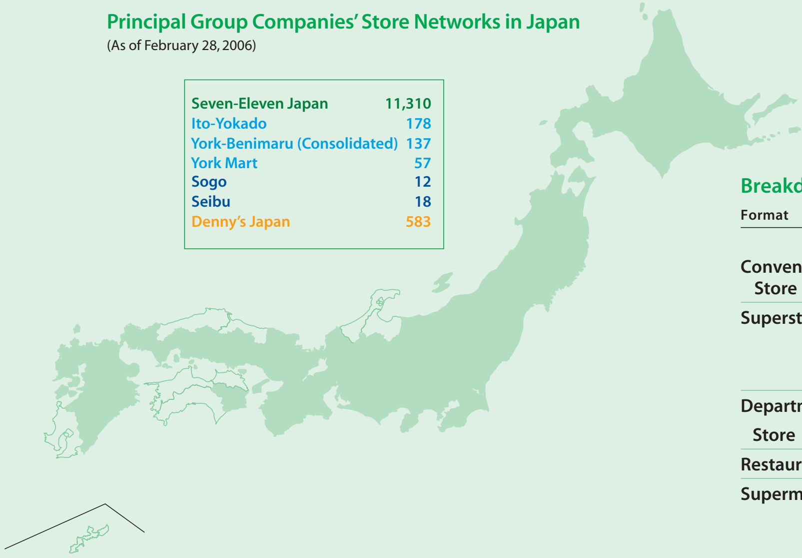
(As of December 31, 2005)



■ Number of stores operated by subsidiaries of Seven & i Holdings
■ Number of stores operated by 7-Eleven, Inc.'s area licensees
■ Number of stores operated under trademarks licensed from Millennium Retailing

Principal Group Companies' Store Networks in Japan

(As of February 28, 2006)



Breakdown of Store Network by Brand

Format	Brand	Number of Stores: Japan	Number of Stores: Overseas
Convenience Store	7-Eleven	11,310	18,396 (of which, area franchise: 12,484)
Superstore	Ito-Yokado	178	–
	Hua Tang Yokado	–	5
	Chengdu Ito-Yokado	–	2
Department Store	Sogo	12	19*
	Seibu	18	5*
Restaurant	Denny's	583	–
Supermarket	York-Benimaru (Consolidated)	137	–
	York Mart	57	–
	Beijing Wang fu jing Yokado	–	2

* Number of stores operated under trademarks licensed from Millennium Retailing

2. Strengthening Core Operations – Rebuilding Superstore Operations

Ito-Yokado is taking steps to create sales areas that meet customer needs, such as revitalizing existing stores by reforming apparel merchandising and sales areas and developing mall-type shopping centers in urban areas. Ito-Yokado has also revised its cost structure in a range of fields and worked to build a highly profitable store network.

Reforming Apparel Merchandising

Improving apparel merchandising is a key part of the revitalization of our superstore operations. These reforms were initiated as a project, led by SEVEN & i Life Design Institute Co., Ltd., which was established in April 2005, targeting the fundamental reevaluation of Ito-Yokado's apparel operations, the establishment of new private brand merchandise, and the creation of sales areas that customers find appealing.

In sales area reform, we changed from sales areas based on type of clothing to sales areas organized by brand and actively instituted coordinated displays, thereby enhancing our ability to appeal to the target customers for each brand. In private brand products, we have already reevaluated all apparel brands from the basic concept level and are consolidating existing brands for which target customers overlap while, at the same time, launching new brands. Specifically, in February 2006, we launched new brands of apparel for men and women in their 30s and a casual wear brand for men in their 50s. We have also launched three brands of suits for businessmen, whose tastes differ by age group.

One aspect of these merchandising reforms is the reevaluation of the merchandising system. Moreover, we are not just simply swapping in new merchandise. We are taking steps to enhance visual merchandising, such as creating sales areas that make it easy for customers to select merchandise and improving product display methods. And we are reevaluating the use of flyers and other media in sales promotions and implementing reforms for sales areas overall, such as educating sales staff and improving customer contact skills. In these ways, we are working to boost sales.

In parallel with those initiatives, we are working to expand the percentage of consignment products, for which inventory risk is low. Highly specialized products and products with short selling seasons, such as formal wear, informal summer kimono, and swimwear, will be the focus of our efforts to increase the percentage of consignment products. In this way, we are bolstering our initiatives to reduce markdown losses while maintaining our product lineup.

Rebuilding the Store Network

We are developing mall-type shopping centers in urban areas as a new store format. We opened "Ario" mall-type shopping centers in Soga, Sapporo, and Kawaguchi in the year ended February 2006 and one in Kameari in March 2006. In addition to core tenant Ito-Yokado, the range of tenants includes many popular shops and restaurants, and we are targeting a wide range of customer age groups, from senior citizens to new families.

In addition to new store openings, we have begun to rebuild our store network with a focus on profitability. Some existing stores have suffered from declining profitability due to changes in their service area over the many years since they were opened, while some others have found it difficult to provide a product lineup that meets diversifying customer needs due to limited space. Ito-Yokado closed eight such stores in the year ended February 2006 and plans to close a total of more than 30 by the end of February 2009. Nonetheless, we will decide to close stores only after we take steps to reduce costs, such as negotiating rent. In some locations, we will experiment with continuing to operate food sales areas in the stores while leasing out the remaining store space to tenants, thereby bolstering the stores' earning power. The first store operating under that format is Shokuhinkan-Kamagaya, which opened in April 2006.

Reevaluating the Cost Structure

Cost reductions are another key part of superstore reforms. In the previous fiscal year, we revised our personnel policies, leading to a decline in full-time employees and an increase in the percentage of part-time employees, and reduced depreciation and amortization expense through the application of impairment accounting. As a result, we have built a system that can produce significant cost reductions at the overhead level. In the year ending February 2007, we expect to reduce general and administrative expenses by about ¥10 billion from the year ended February 2006.

3. Strengthening Core Operations – Making 7-Eleven, Inc., of the U.S., a Wholly Owned Subsidiary

In November 2005, Seven-Eleven Japan (SEJ) made 7-Eleven, Inc., which operates about 5,800 stores in the United States and Canada and is the global licensor for 7-Eleven, into a wholly owned subsidiary.

As a result, in the United States and Canada, 7-Eleven, Inc., will rebuild the store network targeting long-term growth and implement aggressive store renovations and investment in new stores. At the same time, the know-how that SEJ acquired through its original product development will be shared with 7-Eleven, Inc., and we will strive to develop differentiated products that meet the needs of consumers in the United States and Canada. Also, through the provision of know-how in the areas of product development, item-by-item management, and distribution management, SEJ will support operational expansion. 7-Eleven, Inc., will aim to establish an operating system that positions fast food and other original items as core products.

In regard to SEJ's relationship with area licensees around the world, SEJ will play the central role in the 7-Eleven chain and will work to strengthen the competitiveness of the global 7-Eleven chain. In particular, in regard to area licensees in Asia, SEJ will supply know-how in the areas of fast food development, distribution, and IT systems; products; and equipment.

3 PURSUIT OF SYNERGIES

1. Overview

Along with the expansion of core operational areas, the pursuit of Group synergies was one of the major objectives of the establishment of the holding company. The operating companies differ in terms of format, but they all are retail companies or companies that offer related goods and services. By drawing on that common core, we will be able to leverage synergies in merchandising, such as product procurement, product development, raw material procurement, and distribution, as well as in costs, through greater efficiency. In the fiscal year ending February 2009, we anticipate increased operating income based on synergy effects of ¥26.0 billion in merchandising and ¥4.0 billion in costs.

2. Synergies in Merchandising

A major point in our growth strategy is the maximization of synergies through the bolstering of Group merchandising. We have implemented Group merchandising for some time, but we were not able to achieve adequate results due to the existence of barriers separating our companies and organizations. However, after moving to the holding company system, Seven & i Holdings has taken the initiative and the operating companies have given their complete cooperation as we have worked to maximize the benefits of Group merchandising. Specifically, the Group Merchandising Subcommittee

Group Merchandising System

1. Aim of Reform: Maximization of Group Corporate Value

- Share and further advance the Group's overall strengths
- Consolidate purchasing (food ingredients / containers): fully exploit planning and purchasing power

2. Reform Advancement System

- Establish the Group Merchandising Subcommittee under the Group Synergy Committee > Progress management and coordination of reform

Pursuing Higher Sales + Enhanced Profit Margins

Measures in Food Products Operations

Group Development Team	Common Infrastructure Development Team	Fresh Ingredients Development Team
Differentiated products / pursuit of absolute quality	Enhancement of production / distribution efficiency (cost reduction)	Quality benchmarks (value standards)
Value-added products / uncompromising pursuit of taste and quality	Production management system	Ensuring of traceability
Expansion of team merchandising	Materials coordination (B2B)	Enhancement of ingredients, production processes, production engineering
Sales promotion, new brand strategies	Joint purchasing body (B2B)	Ingredient quality standards
	Construction of outsourcing structure	Contracted farmers / joint ingredient purchasing
	Maintenance of quality (low temperature distribution)	
	Development of processing centers	

External Support Team

has been set up under the Group Synergy Committee, which was formed after the establishment of the holding company, providing an effective means of controlling and regulating progress in the implementation of reforms.

Above all, an important issue is how the Group utilizes economies of scale to secure improvements in the procurement prices of national brand products. We will promote the sharing of procurement information among operating companies and the revision of the terms on which each operating company transacts its business to ensure consistency in pricing. In the year under review, we standardized product classification codes in superstores and supermarkets, making possible procurement negotiations in accordance with the scale of sales of all companies.

We are also aggressively introducing original products. During the year under review, we launched a series of original products in such fields as daily foods, which include breads, and processed foods and beverages, which include instant noodles, ice cream, and beer. As a result, we have been able to not only differentiate the product lineups of Group stores but also benefit from economies of scale using the purchasing power of the entire Group. Moreover, in the future we will promote joint procurement on a Groupwide basis and work to reduce procurement prices for the fresh foods used in each store format through combined purchasing. For example, convenience stores, superstores, and restaurants use different cuts of pork, so the Group will reduce costs by purchasing entire hog carcasses. Also, a production facility that had previously supplied fast food products exclusively to convenience stores will also supply *sozai* prepared dishes and semi-prepared dishes to superstores. In these ways, we will share production infrastructure in the field of food product manufacturing and processing.

Furthermore, we will build a joint distribution system that transcends the boundaries of operating companies in different store formats, thereby realizing improved quality and productivity, increased administrative efficiency, and lower costs. In regard to the joint distribution system, Ito-Yokado and York-Benimaru have already begun joint use of distribution centers in the Tohoku region, and in the future we will pursue greater efficiency by implementing this type of framework on a nationwide basis.

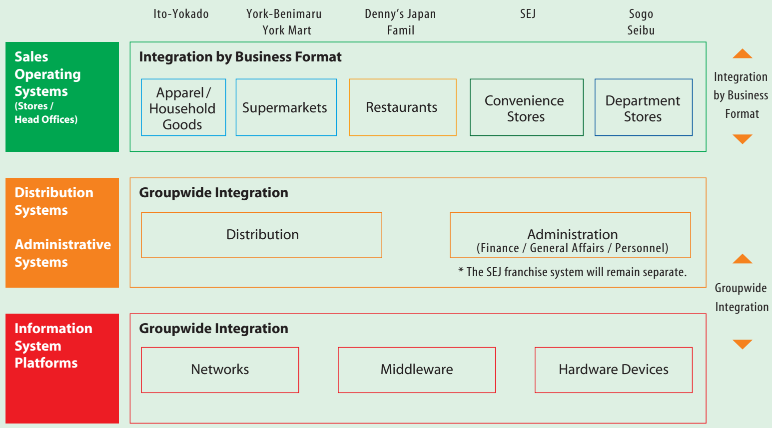
Original products by Seven & i Holdings

3. Information System Integration

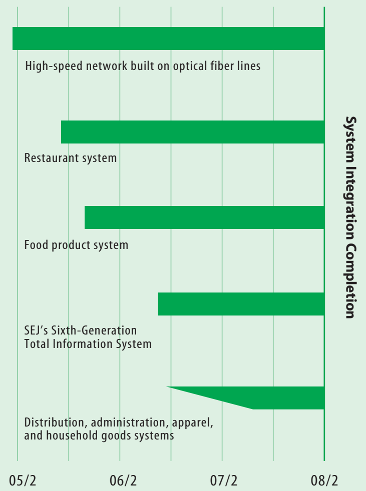
Under the Corporate Group System Integration Project, which was commenced in 2003, we are integrating Group systems by store format to establish a foundation for creating Group synergies. The objectives are to benefit from economies of scale in merchandising by drawing on the purchasing volume of the entire Group through the sharing of sales data, to increase efficiency by sharing distribution infrastructure by standardizing product classification codes, and to reduce hardware development and operating costs by standardizing information infrastructure hardware specifications among operating companies.

We have already begun using on a Groupwide basis a high-speed network built on optical fiber lines. In June 2005, Denny's Japan introduced a new restaurant system, and in September 2005 Ito-Yokado, York-Benimaru and York Mart introduced a new food product system. Under the new food product system, we have integrated product classification to increase efficiency in product development and distribution. In addition, we have bolstered the hardware by such steps as the use of wireless LANs with ordering terminals, thereby improving the ordering system and increasing its usability. SEJ is working to implement an upgrade to its Sixth-Generation Total Information System and at the end of May 2006 began the installation of the core system, a store system. This milestone marked a significant enhancement of the ordering support function. The Corporate Group System Integration Project is scheduled for completion by the end of February 2008, except for Sogo and Seibu.

Integration of Group Information Systems



Group System Integration Schedule



BUSINESS TIE-UP WITH MILLENNIUM RETAILING

Toshifumi Suzuki, Chairman and Chief Executive Officer of Seven & i Holdings (right), and Shigeaki Wada, President of Millennium Retailing (December 26, 2005)

1 PURPOSE OF THE BUSINESS TIE-UP

When the Company was established, we set off on a course of expansion in our operational foundation, centered on our seven core operational areas. Bolstering our department store operations was one of our principal challenges. Through the business tie-up with Millennium Retailing, Inc., which owns Sogo Co., Ltd. (Sogo) and THE SEIBU DEPARTMENT STORES, LTD. (Seibu), the Group was expanded with the addition of department stores having combined revenues from operations of nearly ¥1 trillion. The Company and Millennium Retailing have a great deal in common in such areas as customer strategy, so by integrating the tangible and intangible management resources that we have each acquired in our respective operational fields, we can expect substantial synergies not only in department store operations but also in other fields. In January 2003,

Structure of Millennium Retailing

MILLENNIUM RETAILING GROUP

Sogo Co., Ltd.	THE SEIBU DEPARTMENT STORES, LTD.
Department stores	Department stores

SHELL GARDEN CO., LTD.
Food retail (supermarkets for high-quality foods)

THE LOFT CO., LTD.*
Specialty sundries retail

MILLENNIUM Casting Inc.
Comprehensive human resources service

IKEBUKURO SHOPPING PARK CO., LTD.
Shopping center and parking lot

Yatsugatake Kogen Lodge Co., Ltd.
Hotel and villa management

GOTTSUO BIN CO., LTD.
Gift kit planning and sales

* Affiliate accounted for by the equity method

Major Japanese Department Stores by Revenues from Operations and Operating Income

Fiscal year ended February 2006 ¥ Million

	Revenues from Operations	Operating Income
Takashimaya	¥ 1,031,150	¥ 32,755
Sogo + Seibu	**957,670 ***	**37,181 ***
Sogo	**474,732**	**17,248**
Seibu	**482,939**	**19,934**
Mitsukoshi	842,009	15,272
Daimaru	822,584	30,678
Isetan (fiscal year ended March 2006)	760,038	30,061

* Figures for "Sogo + Seibu" are the sum of the two companies' figures.

Sogo completed reorganization procedures under the Civil Revitalization Law, and in March 2005 Seibu completed its restructuring plan ahead of schedule. In the fiscal year ended February 2006, the two companies had combined revenues from operations of ¥957.7 billion and operating income of ¥37.2 billion, giving them one of the strongest levels of profitability in Japan's department store sector. We expect them to make a stable contribution to our profitability in the years ahead.

2 BENEFITS OF THE BUSINESS TIE-UP

One merit of the business tie-up is the contribution that it will make to accelerating the reform and revitalization of our superstore operations. By introducing Millennium Retailing's marketing methods for high-quality products and services into Ito-Yokado's superstore operations, we will be able to implement reforms under a different conceptual framework than that which characterized our previous initiatives. For example, in apparel merchandising reform, we can effectively utilize the fashion information and know-how of the department stores. Also, in mall-type shopping centers in urban areas, where product lineups and other attributes are similar to those in department stores, we will work to use Millennium Retailing's channels to draw tenants with the power to attract customers and to develop new suppliers.

Moreover, we will complement regional marketing by mutually sharing information with the establishment of a business model that includes the card business and effective use of IT. For example, we expect to sell Millennium Retailing's seasonal gifts through other Group companies and to effectively use in Ito-Yokado's product development data about the purchasing behavior of prime customers, such as wealthy customers and senior citizens. Millennium Retailing, which has had an especially strong track record in one-to-one marketing using customer information cards, will share its card strategy know-how with the Company.

We also expect to undertake joint development of new multipurpose commercial facilities, such as shopping centers. Through the sharing of information and know-how in such areas as tenant operations, sales promotion, planning and execution, customer service, and support operations, we will develop the optimal stores for regional needs and enhance customer service and support.

PLANS FOR FISCAL YEAR 2007 AND BEYOND

1 UPCOMING CHALLENGES

As we continue striving to create “a new, comprehensive lifestyle industry,” the entire Group will work together to strengthen and enhance its principal operational fields. We will strive to further leverage Group synergies and bolster cooperation within the Group in all areas, including product development, raw material procurement, and distribution.

Accordingly, in addition to the business tie-up with Millennium Retailing, we will take aggressive steps in fields that offer new opportunities and growth potential. For instance, we will make York-Benimaru a wholly owned subsidiary, issue our own electronic money, and endeavor to meet the needs of senior citizens. We will maximize synergies by expanding core operational areas and implementing Group merchandising, thereby raising the Group’s enterprise value.

2 MAKING YORK-BENIMARU A WHOLLY OWNED SUBSIDIARY

As mentioned, York-Benimaru will become a wholly owned subsidiary through a stock-for-stock exchange in September 2006 and will be positioned as the core operating company in our supermarket operations, one of our core operational areas.

It has been 33 years since Ito-Yokado and York-Benimaru entered an operational alliance in 1973. Through the exchange of information and the implementation of joint activities in such areas as operational development, procurement, and distribution, the two companies have developed their relationship, and we are confident that the benefits of making York-Benimaru a wholly owned subsidiary will be realized at an early stage. In the future, we will strive to raise enterprise value by leveraging synergies in Groupwide operations, sales networks, cost management, and merchandising and by further increasing management efficiency.

As of the end of February 2006, York-Benimaru and its wholly owned subsidiaries operated 137 stores in five prefectures – Fukushima, Miyagi, Yamagata, Tochigi, and Ibaraki. In the future, York-Benimaru will take aggressive steps to bolster its store network, with the goal of reaching 200 stores.

3 INTRODUCTION OF ELECTRONIC MONEY AND POINT CARDS

Accompanying the introduction of our own electronic money, *nanaco*, which marks the next stage of development in our financial services, SEJ will introduce prepaid electronic money cards with contactless IC chips. We also plan to incorporate point service functions in the cards. The benefits of introducing electronic money include our ability to set fees lower than those for existing electronic money systems and our ability to use the system not only for payments but also to obtain customer data, thereby enhancing marketing initiatives through the effective use of such data in sales promotion efforts.

In the first phase, 7-Eleven stores throughout Japan – about 11,300 stores in all – will accept *nanaco* electronic money cards. Greater efficiency in handling payments will enable us to reduce waiting times at registers, thereby further increasing convenience for customers. IY Card Service will be the issuer of the electronic money, and we expect about 10 million cards to be issued in the first year, placing the service on a par with existing electronic money systems in Japan. Plans call for electronic money terminals to be installed in 7-Eleven stores from fall 2006, utilizing new POS registers incorporating the world’s first multi-reader/writer.

Card Issuance: Progress to Date and Future Direction

Current State of Progress

	Credit cards	Point cards		Cash cards	Electronic money	Millennium Card	Club On Card
Issuer	IY Card Service		SEJ	Seven Bank	–	Sogo	Seibu
Usage	Ito-Yokado, York Mart	Ito-Yokado, York Mart	SEJ	–	–	Sogo, Seibu	Seibu, Sogo
Number Issued	3 million	5 million	1.8 million	320 thousand	–	2.4 million	2.8 million

Future Direction

Toward a multipurpose card based on an electronic money card

	Electronic money and point card	+ credit card	+ cash card
Issuer	IY Card Service		+ Seven Bank
Usage	All Seven & i Holdings stores in Japan and stores of tie-up partners		
Number Issued	10 million (first year target)	–	

+

All types of previously issued cards

In the second phase, all Ito-Yokado and other stores in the Seven & i Holdings Group will accept *nanaco* electronic money. Ultimately, we will facilitate wide-ranging use of the electronic money through tie-ups with companies outside the Group. And by integrating the electronic money card with credit cards and cash cards, we are planning to introduce a multipurpose card that is based on the electronic money card.

In developing the electronic money, Seven & i Holdings entered a tie-up with JCB, the largest Japanese credit card company. JCB had previously developed QUICPay, a post-paid contactless IC card settlement service, and, by applying JCB's know-how to the development of a prepaid system, we will be able to achieve a rigorous level of security, reduce development costs, and speed up the development process.

4 COMMITTED TO SERVING SENIOR CITIZENS IN THE YEARS AHEAD

In Japan, the baby boom generation is on the verge of retirement. The full-scale advent of an aging population will make the seniors market extremely important in the years ahead. Many senior citizens want products that are delicious even if expensive, and the seniors market is expected to record significant growth in terms of sales volume. We will treat the aging of Japan's population as a business opportunity and aggressively work to meet the needs of the seniors market.

Seven-Meal Service, a subsidiary of SEJ, has already begun to offer a meal delivery service in certain regions, and that service has been well received. We plan to make this service available in all areas where SEJ has stores by the end of 2006.

In the future, we will consider the use of the Group-wide store network. In particular, in addition to SEJ, which has a network of about 11,300 stores, the largest in Japan, near the homes of senior citizens, our wide-ranging store network encompasses a variety of formats, such as department stores operated by Millennium Retailing subsidiaries Sogo and Seibu, which have garnered a high level of brand recognition among senior citizens, and Ito-Yokado and York-Benimaru, which have purchasing power and know-how in the fields of fresh and processed foods. And while leveraging that competitive advantage, we will also consider the use of other frameworks, such as Internet shopping sites and catalog sales. In these ways, we will develop our operations in the seniors market, which is poised to record significant growth in the years ahead.

CONVENIENCE STORE OPERATIONS

Revenues from Operations*
¥2,015.2 billion ▲ 11.6%

Operating Income*
¥209.8 billion ▲ 7.4%

Capital Expenditures
¥102.0 billion ▲ 9.2%

* Before elimination of intersegment transactions

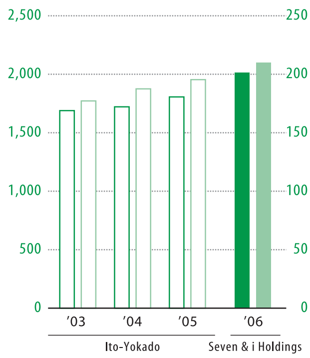
Convenience store operations mainly comprise Seven-Eleven Japan Co., Ltd. (SEJ), 7-Eleven, Inc., of the United States, SEVEN-ELEVEN (BEIJING) CO., LTD., and SEVEN-ELEVEN (HAWAII), INC.

In the fiscal year ended February 2006, the segment's revenues from operations before elimination of intersegment transactions were ¥2,015.2 billion, up 11.6% from the consolidated Ito-Yokado figure in the previous fiscal year, and accounted for 51.3% of total revenues from operations. Operating income before elimination of intersegment transactions was up 7.4%, to ¥209.8 billion, and accounted for 85.3% of total operating income. Capital expenditures were up 9.2%, to ¥102.0 billion, and depreciation and amortization, including intangible assets, was up 1.1%, to ¥64.4 billion. For the fiscal year ending February 2007, forecasts are for revenues from operations of ¥2,220.0 billion, operating income of ¥212.0 billion, and capital expenditures of ¥106.0 billion.

SEJ, our core operating company in convenience store operations in Japan, achieved increases in revenues and profits on a nonconsolidated basis. SEJ recorded total store sales, which comprise corporate and franchised store sales, of ¥2,498.8 billion, up 2.4%; revenues from operations of ¥492.8 billion, an increase of 5.5%; and operating income of ¥177.4 billion, up 1.7%.

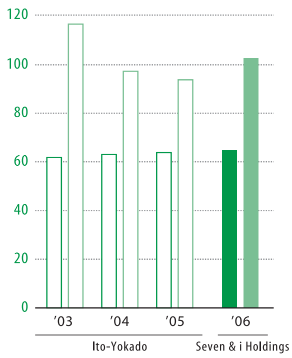
By product category, sales of processed food declined 0.3%, to ¥752.1 billion, and sales of fast food rose 2.4%, to ¥732.1 billion. Daily food sales gained 3.2%, to ¥327.3 billion, and sales of nonfood products increased 5.0%, to ¥687.2 billion. The gross margin on store sales was 31.0%, an increase of 0.3 percentage points from the previous fiscal year. Reasons for the improvement in the margin include economies of scale, stemming from the sharing of procurement information for national brand products within the Group and an

Revenues from Operations / Operating Income from Convenience Store Operations
¥ Billion



■ Revenues from operations (left scale)
■ Operating income

Depreciation and Amortization / Capital Expenditures in Convenience Store Operations
¥ Billion



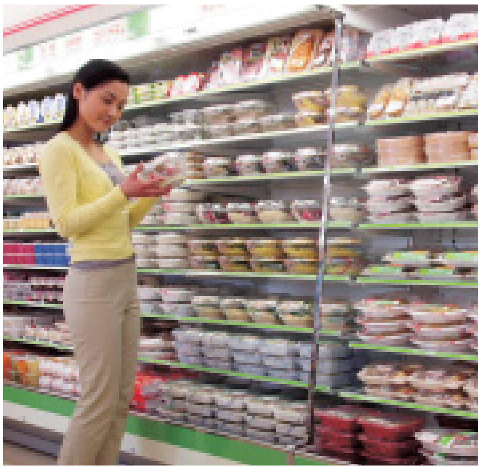
■ Depreciation and amortization
■ Capital expenditures

increase in the number of stores, and the aggressive introduction of original items. Average daily sales per store declined by ¥12,000 from the previous fiscal year, to ¥627,000, for all stores, while rising by ¥9,000, to ¥550,000, for newly opened stores. SEJ continued to focus on quality in opening new stores.

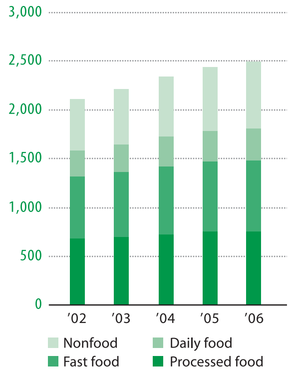
In store openings, in accordance with its fundamental high store density, area dominance strategy, SEJ maintained a rapid pace of new store openings in areas where it has existing stores while relocating some stores in response to changes in local community environments. In the fiscal year ended February 2006, SEJ opened 891 stores and closed 407, for a total of 11,310 stores at the end of the fiscal year, an increase of 484 stores from the previous fiscal year-end, thereby further expanding Japan's largest store network.

In merchandising, SEJ bolstered its offerings of differentiated products that are only available at 7-Eleven or Group stores and regional products that are designed to meet local tastes. To respond to changes in market needs, SEJ worked to create products with superior flavor and healthfulness and at the same time to actively introduce products packaged in small quantities. In store management, SEJ strove to achieve the optimal product lineups and display methods for changing markets, customer strata, and usage styles for each store.

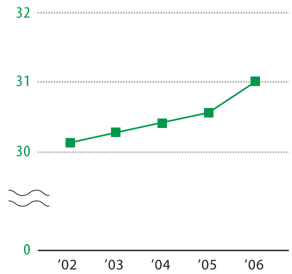
In the fiscal year ending February 2007, SEJ will continue aggressive store openings in accordance with the high store density, area dominance strategy, with plans calling for opening 950 stores and closing 400. In product strategy, to differentiate its stores from those of competitors, SEJ will continue working to develop original items and products that differ by region. At the same time, in response to the aging population, SEJ will work to increase sales by further introducing health-oriented products, expanding the delivery services of Seven-Meal Service to all 7-Eleven stores in Japan, and visiting the residences of customers to take orders. On the other hand, through the introduction of the Sixth-Generation Total Information System, SEJ will strengthen its store operation capabilities and will also lay the groundwork for the introduction of Seven & i Holdings' own electronic money and further increase convenience for customers. For the fiscal year ending February 2007, SEJ is forecasting total store sales of ¥2,620.0 billion, up 4.9%; revenues from operations of ¥530.0 billion, an increase of 7.5%; operating income of ¥182.6 billion, up 3.0%; and 11,860 stores at fiscal year-end.



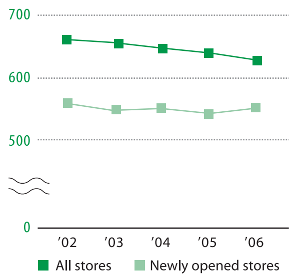
Seven-Eleven Japan
Sales by Product Category
¥ Billion



Gross Margin on Store Sales
%



Average Daily Sales
¥ Thousand



SUPERSTORE OPERATIONS

Revenues from Operations*
¥1,687.7 billion ▲ 2.8%

Operating Income*
¥15.4 billion ▲ 96.8%

Capital Expenditures
¥53.1 billion ▼ 12.5%

* Before elimination of intersegment transactions

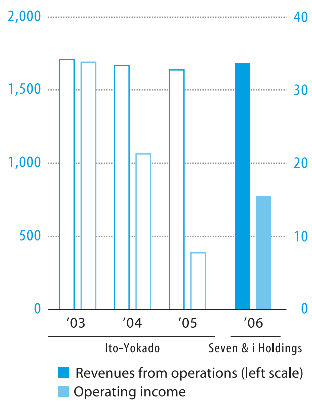
Superstore operations include Ito-Yokado Co., Ltd., which operates superstores; York Mart Co., Ltd., which operates supermarkets; Hua Tang Yokado Commercial Co., Ltd., which operates superstores in Beijing, China; and Chengdu Ito-Yokado Co., Ltd., which operates superstores in the city of Chengdu in Sichuan Province, China.

In the year ended February 2006, the segment's revenues from operations before elimination of intersegment transactions amounted to ¥1,687.7 billion, an increase of 2.8% from the previous fiscal year, and accounted for 43.0% of total revenues from operations. Operating income before elimination of intersegment transactions was up 96.8%, to ¥15.4 billion, and accounted for 6.3% of total operating income. Capital expenditures totaled ¥53.1 billion, down 12.5%, and depreciation and amortization, including intangible assets, was down 6.9%, to ¥20.8 billion. For the fiscal year ending February 2007, forecasts are for revenues from operations of ¥1,750.0 billion, operating income of ¥30.0 billion, and capital expenditures of ¥56.5 billion.

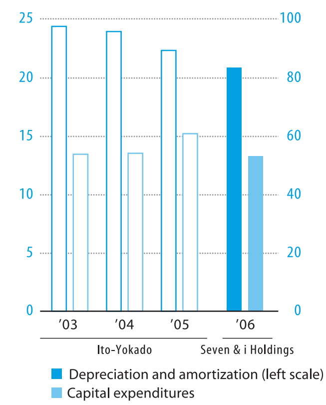
Ito-Yokado, the core operating company in superstore operations, recorded higher revenues and profits on a nonconsolidated basis. Ito-Yokado registered revenues from operations of ¥1,493.6 billion, up 1.4%, and operating income of ¥12.1 billion, an increase of 37.2%. Targeting future increases in profitability, Ito-Yokado recorded special losses totaling ¥44.9 billion, including impairment loss on property and equipment and additional retirement allowance for early retirement.

By product category, Ito-Yokado's apparel sales in the year under review were down 2.3%, to ¥307.3 billion; sales of household goods rose 2.2%, to ¥257.5 billion; and sales of food increased 0.9%, to ¥669.4 billion. The gross margin on store sales declined 0.1 percentage points, to 30.9%.

Revenues from Operations / Operating Income from Superstore Operations
¥ Billion



Depreciation and Amortization / Capital Expenditures in Superstore Operations
¥ Billion

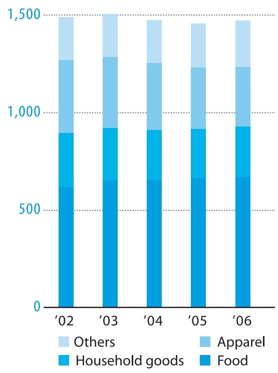


The number of Ito-Yokado stores at fiscal year-end was 178, a reduction of 3 stores from the previous fiscal year-end. Directly managed sales floor space totaled 1,764,519 square meters at fiscal year-end, up 1.2%. Five stores were opened, including three stores in mall-type shopping centers in urban areas. At the same time, Ito-Yokado took steps to improve profitability, closing eight stores, principally unprofitable stores.

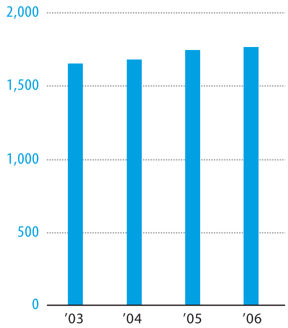
In apparel, in the first year of reforms, centered on model stores, Ito-Yokado focused on narrowing down its brands and creating sales areas that are clearly arranged according to gender and age. In food, in consideration of local market characteristics, Ito-Yokado expanded offerings of fresh local products and introduced original Group products as points of differentiation. Along with other Group companies, Ito-Yokado began to introduce the Group's integrated information system, and, with the new food product system, Ito-Yokado took steps to enhance hardware, such as using wireless LANs with ordering terminals, and worked to improve ordering accuracy and enhance usability.

In the fiscal year ending February 2007, in reforming apparel operations, Ito-Yokado will focus on measures to improve the gross profit margin. Specifically, Ito-Yokado will expand the percentage of sales contributed by private brand products – which have higher gross margins than national brand products – and at the same time work to reduce markdown losses by expanding the percentage of sales contributed by consigned products. Ito-Yokado will also reevaluate costs, such as store and sales promotion costs, and work to improve profitability. In the fiscal year ended February 2006, Ito-Yokado recorded additional retirement allowance for early retirement and took an impairment loss on property and equipment, and as a result costs in the fiscal year ending February 2007 are expected to be lower, including labor costs and depreciation and amortization expense. For the full fiscal year, Ito-Yokado forecasts revenues from operations of ¥1,517.0 billion, up 1.6%, and operating income of ¥25.0 billion, an increase of 107.1%. Ito-Yokado plans to open three stores, including two mall-type stores, and renovate 25 stores. The number of store closures will depend on decisions made in accordance with the profitability of each store.

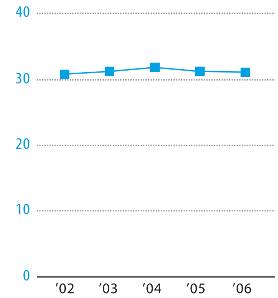
Ito-Yokado
Sales by Product Category
¥ Billion



Directly Managed Sales Floor Space
Thousands of square meters



Gross Margin on Store Sales
%



REFERENCE: York-Benimaru in the Fiscal Year Ended February 2006

Note: For the year under review, York-Benimaru was accounted for by the equity method rather than being consolidated. Accordingly, the figures presented here are for reference only.

York-Benimaru Co., Ltd., which operates food supermarkets, principally in the Tohoku region, is an equity-method affiliate of Seven & i Holdings, which holds 36.3% of York-Benimaru's stock. Life Foods Co., Ltd., Midoriya Supermarket Co., Ltd., and Super Kadoya Co., Ltd., are consolidated subsidiaries of York-Benimaru. Beijing Wang fu jing Yokado Commercial Co., Ltd., which operates food supermarkets in Beijing, is an equity-method affiliate of York-Benimaru.

In April 2006, Seven & i Holdings announced that it planned to make York-Benimaru a wholly owned subsidiary on September 1, 2006. In the fiscal year ending February 2007, York-Benimaru's results for the second half will be fully consolidated in Seven & i Holdings' consolidated results.

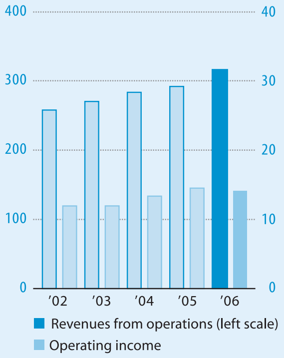
In the fiscal year ended February 2006, on a consolidated basis, York-Benimaru recorded a 7.8% increase in revenues from operations, to ¥314.9 billion, and a 2.0% decline in operating income, to ¥14.1 billion. By product category, food sales were up 9.3%, to ¥252.9 billion; apparel sales rose 2.8%, to ¥20.0 billion; sales of household goods increased 3.9%, to ¥18.8 billion; and sales of other products were down 5.9%, to ¥15.0 billion. The ratio of gross profit to net sales was up 0.1 percentage points, to 28.9%. Eight stores were opened during the year and two closed, and in addition York-Benimaru made Super Kadoya a consolidated subsidiary. As a result, the number of stores at year-end was 137 on a consolidated basis, an increase of 24 from the previous fiscal year-end.

York-Benimaru strives to act in accordance with the concept of offering repeat-visit customers in the small service areas of each store a more enjoyable, satisfying, and convenient range of food products. The company's fundamental policies are "promoting individual store management," "bolstering product development," "thoroughly implementing the four fundamentals of food retailing: friendly service, clean stores, fresh and flavorful products, and prevention of out-of-stock situations," and "increasing productivity through technical innovation." York-Benimaru worked to build stores that are appealing to customers and made progress in establishing the organization and framework needed for a 200-store network. In sales, aiming to establish individual store management, York-Benimaru emphasized sales planning and results analysis on a store-by-store basis. York-Benimaru also took steps to improve the technical training of sales staff and inventory management techniques as well as operational efficiency.

To bolster product development, York-Benimaru responded to growing consumer concerns about food safety by focusing on developing products with superior safety, reliability, and flavor and on regional food products. Moreover, the company provided traceability information on its web site and at sales areas.

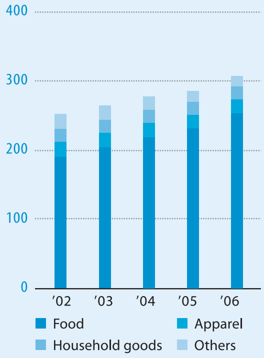
York-Benimaru Consolidated Revenues from Operations / Operating Income

¥ Billion



York-Benimaru Consolidated Sales by Product Category

¥ Billion



In fish, aiming to create sales areas that remind customers of traditional fish markets, York-Benimaru bolstered its sales of whole fish and worked to build a network for the shipment of fish from port regions around the country. In meat, York-Benimaru developed simple, convenient, and delicious products and made them available at all of its stores. In fruits and vegetables, the company enhanced its provision of products grown with the use of a natural soil improvement agent and, at the same time, in accordance with the schedules of producing regions, expanded its lineup from such vegetables as potatoes and carrots to include other products. The company also began to supply new products, such as strawberries and melons, for which the producer or producing region are identified.

In processed foods, York-Benimaru increased the number of items related to fresh foods purchased per customer through the use of standardized sales equipment in all stores. At the same time, the company developed new products through contracts with the overseas plants of food processors. And in daily foods, the company developed original products, such as Japanese-style *sozai* prepared dishes.

Furthermore, Life Foods, a consolidated subsidiary of York-Benimaru that handles *sozai* prepared dishes, undertook the development and promotion of core products. Moreover, the number of stores that handle York-Benimaru's in-house brand of simple, convenient, and delicious foods, such as microwaveable products, increased from 9 at the end of the previous fiscal year to 41 at the end of the year under review.

In apparel, in response to the national campaign "COOL BIZ" to save energy by reducing the use of air conditioning, York-Benimaru developed dress shirts and other products with superior functionality. Moreover, in certain stores, principally new stores, the company began to handle outerwear again.

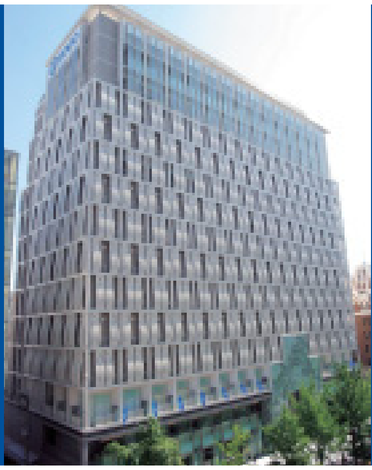
In household goods, meanwhile, York-Benimaru conducted food-related merchandising and seasonal product proposals and took steps to improve profits.

In tenant operations, the company worked to enhance its tenant mix through store renovations. York-Benimaru also strove to improve its cost structure, targeting a ratio of one full-time employee to nine part-time employees and implementing thorough employee time management.

In addition, the former Koriyama Distribution Center was antiquated and had insufficient capacity to accommodate the increase in stores, so in November 2005 York-Benimaru began operation of a new fresh food distribution center in Koriyama City in Fukushima Prefecture. The new center facilitates temperature control on a product-by-product basis.

In the fiscal year ending February 2007, York-Benimaru will continue to implement the fundamental policies outlined above, striving for thorough, rapid implementation. To accurately respond to changing customer needs, York-Benimaru will clarify categories subject to enhancement and reevaluate the product lineup in each category.

DEPARTMENT STORE OPERATIONS



Department store operations are composed of Millennium Retailing, Inc., which is a holding company, and its subsidiaries, principally Sogo Co., Ltd. (Sogo), and THE SEIBU DEPARTMENT STORES, LTD. (Seibu). In January 2006, we acquired approximately 65% of the common stock of Millennium Retailing and in June 2006 made Millennium Retailing a wholly owned subsidiary through a stock-for-stock exchange. For the fiscal year ended February 2006, we have consolidated only the balance sheets of Millennium Retailing and its subsidiaries. The consolidation of the balance sheets had the effect of increasing our consolidated total assets by ¥741.5 billion and interest-bearing debt by ¥372.0 billion.

In the fiscal year ending February 2007, Sogo and Seibu, the core operating companies in our department store operations, will continue to implement finely tuned marketing campaigns, taking into account market and competitive conditions by region and by store. In retail operations, these companies will further promote a “good-customer strategy” and focus especially on repeat customers who have strong loyalty to the stores. They will implement companywide events and personalized planning based on customer data, and, emphasizing the concepts of “limited” and “exclusive,” they will bolster their marketing activities with product proposals. In merchandising, by utilizing buyers that have already been posted at main stores and in regional areas, their Merchandising Headquarters will track regional trends in customers and products, and merchandising reforms will be implemented with consideration for the distinctive characteristics of regions and stores. Also, in cooperation with suppliers, they will work to develop directly managed sales areas and to provide products with value that are available only at Sogo and Seibu. In addition, they will further enhance their response to special occasions, such as the start of the school year and special ceremonies for children. The strategy for the Kansai area will entail the introduction of products suited to Kansai markets and regional characteristics and habits and the implementation of new events, further enhancing the brand image.

Sogo and Seibu have achieved results in bolstering store profitability through store remodeling activities, such as refurbishments and the introduction of attractive new tenants. For example, Sogo is implementing these types of improvements at the main building of the Sogo Chiba store in four stages. Three stages have already been completed, and the final stage will be finished in fall 2006. Seibu completed full-scale remodeling of its Akita store in March 2006 and will implement remodeling projects at its three stores in central Tokyo, starting with the Yurakucho store in fall 2006.

In tenant operations, they will actively recruit tenants that customers will enjoy and find appealing. At the same time, they will bolster sales guidance provided to tenants and reinforce operational capabilities. In corporate account sales, they will enhance their sales capabilities by taking advantage of the business tie-up with Seven & i Holdings in developing new suppliers and partners, by strengthening marketing in the Kansai area, and by determining key industries through close tracking of industry trends.

In consideration of the implementation of these measures, for the fiscal year ending February 2007, the segment's revenues from operations are expected to reach ¥1 trillion and operating income ¥33.0 billion.

REFERENCE: Millennium Retailing in the Fiscal Year Ended February 2006

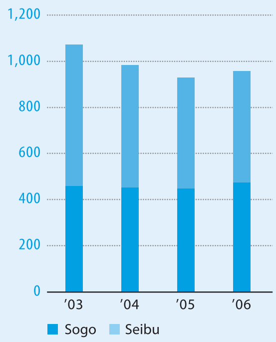
Note: For the year under review, the balance sheets of Millennium Retailing and its subsidiaries were consolidated but the income statements were not consolidated. Accordingly, the figures presented here for revenues from operations and operating income for both Sogo and Seibu are for reference only.

Sogo and Seibu recorded improvement in net sales, especially in the second half of the fiscal year, centered on urban stores. With heavy clothing and high-priced products registering favorable performances, Sogo and Seibu both were able to increase revenues and operating income above the levels announced at the beginning of the year. In September 2005, Sogo's network in the Kansai area was bolstered with the opening of the Shinsaibashi store as Sogo's Kansai flagship. In store improvement activities, progress was made in developing the Seibu Yao, Sogo Yokohama, and Sogo Chiba stores into multipurpose commercial facilities that are enjoyable and satisfying for customers.

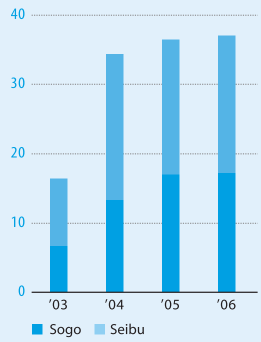
At the end of February 2006, Sogo had 12 stores, an increase of 1 store from the previous fiscal year-end, and Seibu had 18, unchanged from a year earlier.

In the fiscal year ended February 2006, Sogo recorded revenues from operations of ¥474.7 billion, up 5.7%, and operating income of ¥17.2 billion, an increase of 1.8%. Seibu registered revenues from operations of ¥482.9 billion, up 0.6%, and operating income of ¥19.9 billion, an increase of 2.1%.

Revenues from Operations
¥ Billion



Operating Income
¥ Billion



RESTAURANT OPERATIONS

Revenues from Operations* ¥124.0 billion ▼ 1.7%

Operating Income* ¥2.6 billion ▼ 27.5%

Capital Expenditures ¥5.1 billion ▲ 30.3%

* Before elimination of intersegment transactions

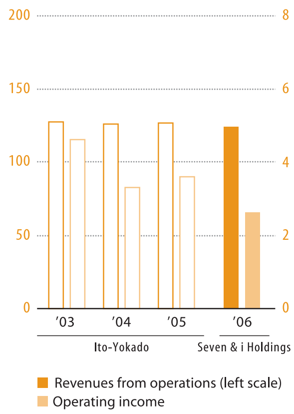
Restaurant operations are composed of Denny's Japan Co., Ltd., which operates family restaurants; Famil Co., Ltd., which operates family restaurants and provides catering services; and York Bussan K.K., which handles fast food operations in Ito-Yokado stores.

In the fiscal year ended February 2006, in comparison with the consolidated performance of Ito-Yokado's restaurant segment in the previous fiscal year, the segment's revenues from operations before elimination of intersegment transactions were down 1.7%, to ¥124.0 billion, or 3.2% of total revenues from operations. Operating income before elimination of intersegment transactions was down 27.5%, to ¥2.6 billion, or 1.1% of total operating income. Capital expenditures increased 30.3%, to ¥5.1 billion, and depreciation and amortization, including intangible assets, was down 7.2%, to ¥3.0 billion. For the fiscal year ending February 2007, forecasts are for revenues from operations of ¥130.0 billion, operating income of ¥5.0 billion, and capital expenditures of ¥5.3 billion.

Denny's Japan, the core operating company in our restaurant operations, recorded revenues from operations of ¥94.6 billion, down 2.0%, and operating income of ¥2.0 billion, a decrease of 39.1%. The gross margin on restaurant sales declined 0.1 percentage points, to 66.8%. The number of restaurants increased by 1, bringing the total to 583 at fiscal year-end.

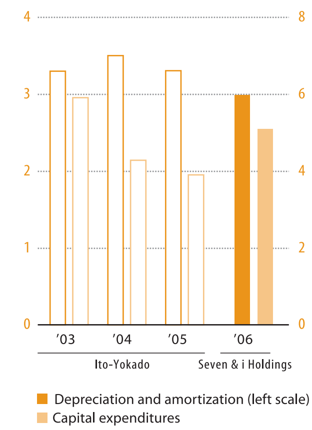
Revenues from Operations / Operating Income from Restaurant Operations

¥ Billion



Depreciation and Amortization / Capital Expenditures in Restaurant Operations

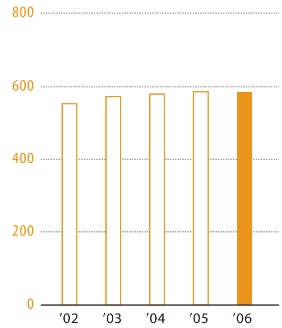
¥ Billion



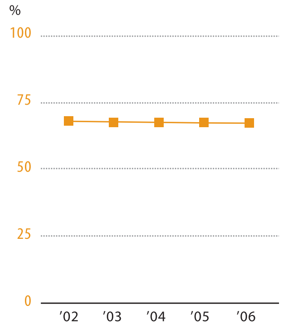
In operations, Denny's Japan worked to implement a focus on unconditional taste, healthy and safe meals, and prompt and sincere service and undertook aggressive sales promotions. At the same time, Denny's Japan worked to introduce menu choices and meals with new seasonal ingredients. Nonetheless, the weather was unseasonable, and operating income declined from the previous fiscal year.

In the fiscal year ending February 2007, targeting the development of restaurants with close ties to local communities, Denny's Japan will expand regional menu items, making new-dish proposals that are finely tuned to local communities, the needs of customers, and time periods. Denny's Japan will also strengthen operations by assigning staff members who provide attentive customer service, revise the ordering system, and bolster food preparation techniques by developing kitchen leaders with food preparation and leadership skills. In implementing its restaurant strategy, in tune with local communities and changes in the external environment, Denny's Japan will actively reform existing restaurants. It will also accelerate restaurant openings by building different sizes of restaurants depending on location, without limiting its new restaurants to the standard size of 330 square meters and 100 seats. In addition, Denny's Japan, which has worked to implement thorough sanitation and employee health management measures, received ISO 9001 certification in April 2006. Denny's Japan is forecasting revenues from operations of ¥100.5 billion, up 6.3%; operating income of ¥4.2 billion, a gain of 114.4%; and 618 restaurants at fiscal year-end, an increase of 35 restaurants.

Denny's Japan
Number of Restaurants



Gross Margin on Restaurant Sales



FINANCIAL SERVICES

Revenues from Operations*
¥82.3 billion ↑ 34.4%

Operating Income*
¥17.3 billion ↑ 219.9%

Capital Expenditures
¥22.9 billion ↑ 209.2%

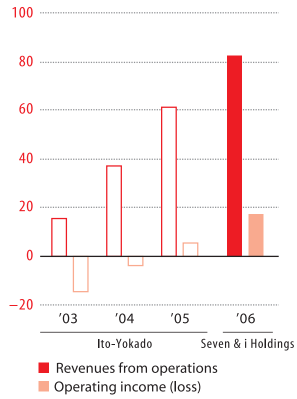
* Before elimination of intersegment transactions

Financial services operations comprise Seven Bank, Ltd., which changed its name from IYBank Co., Ltd., in October 2005; IY Card Service Co., Ltd.; SE CAPITAL CORPORATION, which is principally engaged in leasing; SEVEN & i Financial Center Co., Ltd., which is responsible for the Group's cash management; and K.K. York Insurance, which provides insurance agency services.

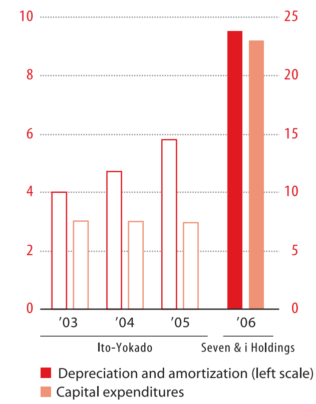
In the fiscal year ended February 2006, in comparison with the consolidated results of Ito-Yokado in the previous fiscal year, the segment's revenues from operations before elimination of intersegment transactions were up 34.4%, to ¥82.3 billion, and accounted for 2.1% of total revenues from operations. Operating income before elimination of intersegment transactions was up 219.9%, to ¥17.3 billion, and accounted for 7.0% of total operating income. Capital expenditures in this segment increased 209.2%, to ¥22.9 billion, and depreciation and amortization, including intangible assets, was up 64.3%, to ¥9.5 billion. For the fiscal year ending February 2007, forecasts are for revenues from operations of ¥100.0 billion, operating income of ¥21.0 billion, and capital expenditures of ¥9.0 billion.

Seven Bank, our core operating company in financial services, is a new type of bank that offers easy, around-the-clock access to ATMs by utilizing existing store networks in Japan, such as 7-Eleven stores. In the fiscal year ended March 2006, due to growth in the average number of transactions accompanying increases in the number of units installed, in name recognition, and in the number of financial institutions with which the bank has tie-ups, the bank recorded a strong performance. Revenues from operations rose 34.7%, to ¥64.6 billion, and ordinary profit was up 92.6%, to ¥19.4 billion. The number of installed ATMs at the end of March 2006 was 11,484, an increase of 1,503. The average daily number of transactions per ATM during the year was 88, a gain of 11, and the total num-

Revenues from Operations / Operating Income (Loss) from Financial Services
¥ Billion



Depreciation and Amortization / Capital Expenditures in Financial Services
¥ Billion



ber of transactions per ATM during the year was 342 million, an increase of 85 million. The number of tie-up partners at the end of March 2006 was 513, up 44, and the number of accounts including corporate accounts was 349 thousand, a rise of 108 thousand. The bank was operating in 30 prefectures, an increase of six.

Seven Bank already covers about 95% of the 7-Eleven stores in Japan, and the bank is steadily expanding its service area, targeting coverage of all stores. In regions where service is already available, the bank will aggressively enter ATM usage agreements with a variety of financial institutions.

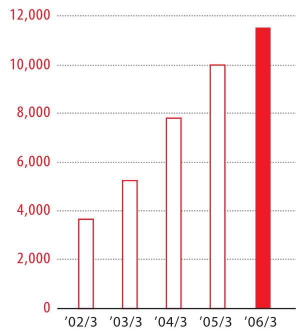
To reinforce its operating system, Seven Bank will take steps to bolster its backup capabilities, such as establishing two ATM relay system centers, and to enhance security. In preparation for future service expansion, the bank has started to issue cash cards that incorporate IC chips and to convert to new ATMs with advanced features, such as the capability to charge *nanaco* – Seven & i Holdings' own electronic money. In the fiscal year ended March 2006, about 2,300 of the new ATMs were installed, and plans call for the installation of about 3,200 units in the year ending March 2007, and the completion of the changeover by March 2009.

In addition, to better respond to customers' diverse needs, the bank introduced time deposits in March 2006, and in the future the bank will continue to consider new financial services and products, such as consumer loans. In the year ended March 2006, the bank opened staffed counters in five Ito-Yokado stores, and in the future, utilizing the operating infrastructure and customer base of Seven & i Holdings, the bank will enhance financial services for individuals, such as liaison and agency services, thereby establishing a new business model. By expanding the scope of its financial services, the bank will strive to build an even more secure profit structure. In the fiscal year ending March 2007, Seven Bank is forecasting revenues from operations of ¥74.1 billion, up 14.7%; ordinary profit of ¥19.9 billion, up 2.5%; number of ATMs installed at year-end of 12,500; and average daily number of transactions per ATM of 93.

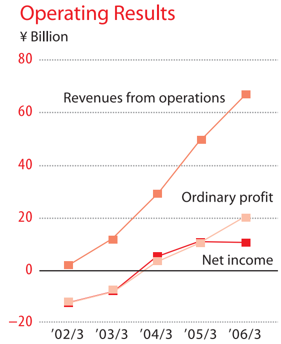
The issuance of *nanaco* will be a key focus of our initiatives in financial services. In the first phase, SEJ will offer a service combining electronic money and a point service through a prepaid card incorporating a contactless IC chip.

In the second phase, Ito-Yokado and other stores in the Group will accept *nanaco*. We are also planning to implement tie-ups with companies outside the Group. At the same time, we will move forward with consideration of the integration of electronic money/point cards with Seven Bank's cash cards and IY Card Service's credit cards and will encourage electronic money/point card members to use these integrated cards. In this way, we will generate new opportunities to expand profits, such as card loans.

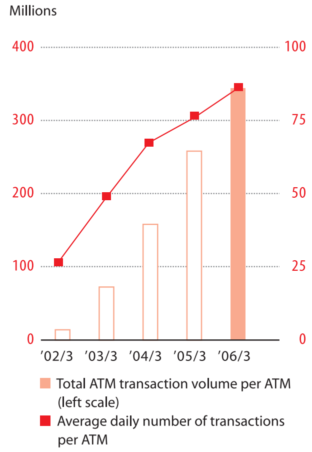
Seven Bank
Number of ATMs Installed



Operating Results



ATM Transaction Volume



OVERSEAS OPERATIONS

Overseas Sales
¥1,552.9 billion

North America
¥1,514.4 billion

Other Regions
¥38.5 billion

Hua Tang Yokado Commercial

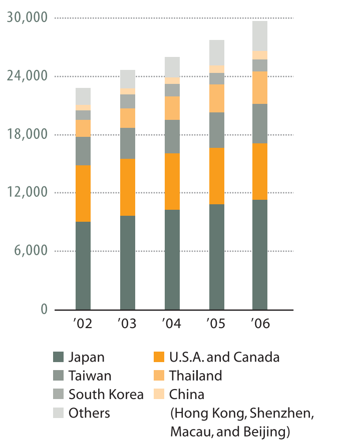
Overseas operations comprise convenience store operations in North America, Beijing, and Hawaii and superstore and supermarket operations in China. In the fiscal year ended February 2006, overseas sales totaled ¥1,514.4 billion in North America and ¥38.5 billion in other regions, for a total of ¥1,552.9 billion, or 39.9% of consolidated revenues.

1. Overseas Strategies – Convenience Store Operations

7-Eleven, Inc., of the United States, is the core operating company in our overseas convenience store operations. In the fiscal year ended December 2005, the results of 7-Eleven, Inc., were favorable due to the contributions of fast food, beverages, and gasoline. After conversion to Japanese standards, 7-Eleven, Inc., had net sales of ¥1,485.4 billion, merchandise sales of ¥916.1 billion, gasoline sales of ¥569.3 billion, and operating income of ¥32.3 billion. The number of stores at the end of December 2005 was 5,829, an increase of 30.

In the fiscal year ending December 2006, in operations, 7-Eleven, Inc. will focus on thorough item-by-item inventory control and product development, with a special emphasis on high-quality fast food products and regional items. In stores, 7-Eleven, Inc., will move ahead with our plans to complete the renovation of existing stores within a few years while at the same time aggressively developing new stores. In these ways, 7-Eleven, Inc., will work to raise profitability. As a result, 7-Eleven, Inc., expects net sales to be ¥1,657.0 billion. Due to the aggressive implementation of strategies to bolster the future profit foundation, and to an increase in the book value of fixed assets accompanying the transition to a wholly owned subsidiary of SEJ in November 2005, an increase in depreciation and amortization expense is expected, and operating income is expected to be ¥29.0 billion (after conversion to Japanese style presentation).

Number of 7-Eleven Stores



Note: Total number of stores overseas as of the end of December and number of stores in Japan as of the end of February.

SEVEN-ELEVEN (BEIJING)

At the end of February 2006 (December 2005 for companies based outside Japan), there were 11,310 7-Eleven stores in Japan, an increase of 484 from the previous year-end; 5,829 in North America, a rise of 30; and 53 in Hawaii, unchanged from a year earlier. In Beijing, China, there were 30 stores, an increase of 20. As a result, there were a total of 17,222 stores at fiscal year-end, an increase of 534 from the previous year-end. Including the 7-Eleven stores operated around the world by area licensees, there was a total of 29,706 stores at fiscal year-end, an increase of 1,979 stores. After making 7-Eleven, Inc., a wholly owned subsidiary, SEJ has become the leader of the 7-Eleven chain, which has about 30,000 7-Eleven stores around the world, and SEJ will strive to add further value as a global company.

In regard to area licensees in Taiwan, Thailand, South Korea, and Hong Kong, we are considering the introduction of our original products and fixtures and the provision of know-how in the areas of fast food strategy and distribution and information systems. We will aggressively strengthen operations of 7-Eleven stores operated by area licensees in East Asia.

2. Overseas Strategies – China

As of the end of December 2005, the Group's network in China, particularly in Beijing and Chengdu, comprised five superstores operated by Hua Tang Yokado Commercial Co., Ltd., and two by Chengdu Ito-Yokado Co., Ltd., two supermarkets operated by Beijing Wang fu jing Yokado Commercial Co., Ltd., and 30 convenience stores operated by SEVEN-ELEVEN (BEIJING) CO., LTD.

China, which is currently in a period of remarkable economic growth, will host the Beijing 2008 Summer Olympics and is expected to record ongoing growth in the years ahead. It is an extremely promising market over the medium term. With three formats – superstores, food supermarkets, and convenience stores – the Group will promote the sharing of information and cooperation while developing and introducing products and services that meet local needs, thereby enhancing its presence in the Chinese market.

In superstores, we will continue to develop our network, aiming for Hua Tang Yokado Commercial to have 10 stores and Chengdu Ito-Yokado 4 stores by 2008.
In convenience stores, the central government has granted permission for SEVEN-ELEVEN (BEIJING), a foreign company, to engage in the franchising business. When the verification of accounting and tax related systems, which is now in the final stages, is completed, franchise operations will be started as rapidly as possible and aggressive franchise recruitment activities will be undertaken.


Beijing Wang fu jing Yokado Commercial

(As of December 2005)

● SEVEN-ELEVEN (BEIJING)
● Hua Tang Yokado Commercial
● Beijing Wang fu jing Yokado Commercial

CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

FUNDAMENTAL POLICIES FOR CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES

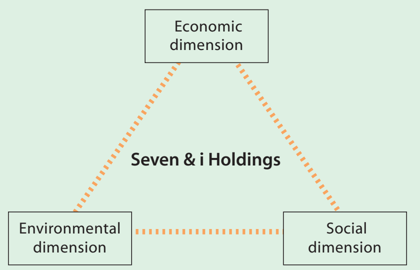
Seven & i Holdings strives to remain a company that is regarded as trustworthy and reliable by members of society. To that end, we are working to clarify the division of control, oversight, and operational responsibilities between operating companies and the holding company and to deepen mutual understanding and cooperation with all of those who support our business, including shareholders, customers, suppliers, and local communities. At the same time, we are committed to achieving tangible, sustainable fulfillment of our corporate social responsibilities. We are focused on conducting our business activities with a balance among three dimensions – economic, social, and environmental.

IMPLEMENTATION OF GROUP CSR ACTIVITIES

To integrate and implement the CSR activities of Seven & i Holdings and operating companies, in September 2005 we formed the CSR Promotion Committee, with Chief Operating Officer Noritoshi Murata as chairman and Chief Administrative Officer Katsuhiro Goto as executive secretary.

This committee determines Groupwide CSR activity policies and communicates those policies to five specialized subcommittees in the fields of corporate ethics and compliance, fair trade, social contribution, environmental management, and information management. Each subcommittee, to the greatest extent possible, formulates clear, measurable objectives, evaluates and verifies the efforts of each operating company, and reports to the CSR Promotion Committee on an annual basis. After receiving these reports, the committee deliberates and decides upon appropriate responses.

Three Dimensional Business Activities



Implementation of Group CSR Activities

CORPORATE ACTION COMMITTEE – ADVANCING THE CSR ACTIVITIES OF OPERATING COMPANIES

The operating companies, including Seven-Eleven Japan, Ito-Yokado, and Denny's Japan, have established corporate ethics committees and assigned employees to be responsible for the sound, continuous implementation, in line with their business activities, of the Seven & i Holdings Corporate Action Guidelines, which were established by the Group in 1993. We are working to ensure that the guidelines are an integral part of the activities of the entire Group.

SOCIAL CONTRIBUTION ACTIVITIES – HELPING TO BUILD A BETTER SOCIETY

In social contribution activities, we are implementing social activities that are closely linked to local communities. For example, we use our distribution capabilities to provide support for disaster areas during emergencies, and we raise funds for organizations conducting environmental conservation and social support activities. By taking such steps as constructing stores in accordance with universal design principles so that they can be safely and easily used by everyone and participating in safety station activities to help build safer communities, we are working together with local communities to build a society where people can live safely and comfortably.

In all of its stores, Ito-Yokado has established Anshin Support Shops that carry nursing products for senior citizens.

ENVIRONMENTAL CONSERVATION ACTIVITIES – AIMING FOR A RETAIL INDUSTRY WITH A LOW ENVIRONMENTAL BURDEN

Aiming to achieve a retail industry with a low environmental burden, we are working to develop and provide environmentally friendly products, to introduce environmentally appropriate vehicles, to establish efficient distribution systems, to employ sales methods that reduce containers and wrapping, such as sales of individual products and sales by weight, and to utilize facilities with high energy efficiency in store openings and renovations. Further, with consideration for a wide range of processes, we are taking steps to reduce the environmental burden of our operations from product development to sales, such as reducing the volume of waste generated and increasing the percentage of waste recycled.

ENVIRONMENTAL ACCOUNTING AND TOTAL ENVIRONMENTAL IMPACT – TARGETING ONGOING IMPROVEMENT IN ENVIRONMENTAL CONSERVATION ACTIVITIES

We have introduced environmental accounting and total environmental impact measurement in order to quantify the results of environmental burden reduction initiatives, aggregate the data, objectively evaluate initiatives, and improve future environmental conservation activities. In the area of environmental accounting, we consider all business activities and collect data on items for which the costs and results of environmental burden reduction initiatives can be clearly measured. In analyzing total environmental impact, we convert available environmental burden data into CO_2 equivalent units.

CSR REPORT

The Company has collected information about these activities in its *Corporate Social Responsibility Annual Report 2005*, which is available on the Company's web site (http://www.7andi.com/en/csr/report.html).

CORPORATE GOVERNANCE

1 FUNDAMENTAL APPROACH TO CORPORATE GOVERNANCE

The mission of Seven & i Holdings, as a holding company that oversees operating subsidiaries, is to bolster corporate governance and maximize the enterprise value of the Group. In corporate governance, the Company takes a logical approach to four issues: (1) operational effectiveness and efficiency, (2) reliability of financial reporting, (3) strict legal and regulatory compliance in operating activities, and (4) appropriate preservation of assets. The ultimate objective is long-term growth in enterprise value.

In taking steps to achieve this objective, the Company primarily pursues Group synergies and implements careful monitoring to ensure the appropriate allocation of management resources. On the other hand, the operating companies have complete responsibility within their business fields, where they act independently in pursuit of higher profits, growth, and capital efficiency.

2 PROGRESS IN IMPLEMENTING MEASURES RELATED TO CORPORATE GOVERNANCE

System Details

The Company monitors management through a system of corporate auditors. The Board of Corporate Auditors comprises five corporate auditors, including three outside corporate auditors. The corporate auditors take 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 periodically receiving reports from directors and others regarding operational execution. The Company has established the Auditing Office, which has general responsibility for verifying the internal control systems of each of the core operating companies and providing guidance to them as well as responsibility for the internal control function in the Company itself. In addition, the Auditing Office actively exchanges information with the corporate auditors and works closely with them while strengthening its general and internal control functions. Independent auditing offices have been established in the core operating companies, providing them with strong internal control systems.

The Board of Directors comprises 16 members, of whom 2 are outside members. We have introduced the executive officer system to promote rapid decision making and administrative execution in a rapidly changing management environment. We separated the supervisory functions of the Board of Directors from the operational functions of the executive officers, enabling directors to focus on the formulation of management strategies and the supervision of operational execution while executive officers can focus on operational execution.

The Company has concluded an auditing contract with ChuoAoyama Audit Corporation, which serves as the independent auditors of the Company's accounts. In addition, we have concluded advisory contracts with multiple legal offices, from which we receive advice and guidance as needed.

Internal Control Systems

In regard to the establishment of systems to ensure that directors' duties correspond to laws, regulations, and the articles of incorporation, as required by Japan's company law and related enforcement regulations, and to the establishment of systems to ensure that corporate activities are appropriate, as required by Ministry of Justice ordinance, the Company is moving ahead with the establishment and furtherance of the following systems:

1. Systems related to the preservation and management of information concerning the duties of directors

To ensure that documents and information (including electronic media) regarding operational execution are properly maintained and managed, we formulate document control guidelines, inspect operational conditions, and strive for appropriate improvement, led by the CSR Promotion Committee's Information Management Subcommittee.

In regard to information management for the Group as a whole, we confirm and standardize existing regulations and verify their application.

2. Regulations and systems related to management of the risk of losses

Under the Risk Management Committee, which is led by the president, we have launched the Internal Control Promotion Project. To ensure that risks related to the operations of the Company and Group operating companies are properly recognized and that countermeasures are properly implemented, the project entails the formulation of risk management principles and, in accordance with those principles, the verification of risk management conditions.

3. System for ensuring efficient implementation of the duties of directors

We conduct operations appropriately in accordance with various regulations, such as those regarding decision-making authority, operational authority, and organizational issues. Through the Internal Control Promotion Project mentioned above, we verify operational efficiency and implement appropriate corrective measures.

4. System for ensuring that the duties of employees are executed in conformity with laws, regulations, and the articles of incorporation

In order to be companies that are trusted and known for integrity, in line with the articles of incorporation and the Corporate Action Guidelines, Group companies have endeavored to implement ethical corporate activities; to strictly observe laws, regulations, and social standards; to announce their fulfillment of corporate social responsibilities; to establish corporate ethics committees, which also operate helplines; and to establish fair trade committees that promote fair transactions. The CSR Promotion Committee's Corporate Ethics and Compliance Subcommittee is carrying on this commitment, reevaluating the Corporate Action Guidelines and each company's guidelines and compliance systems to further enhance compliance.

5. System to ensure appropriate operations in the Company's corporate group, including parent company and subsidiaries

As covered in sections 1. to 4., in regard to all such matters as operational efficiency and compliance, the Company is responsible for administrative control of the Group as a whole, communicates general policy outlines to Group companies, and directs concrete policy formulations. In addition, as necessary, the Company provides support and guidance for the internal control activities of operating companies. Each operating company conducts its activities while cooperating with operating departments, centered on the Corporate Ethics Committee, and sharing information with the Company's Internal Control Promotion Project.

6. Matters related to employees who assist corporate auditors

The Company will grant the requests of corporate auditors for the assignment of employees to provide assistance in the execution of the auditors' duties.

7. Matters related to the independence from directors of employees covered in the previous section

Personnel decisions regarding employees assigned to assist the corporate auditors will require the approval of the corporate auditors.

8. System regarding reports to corporate auditors made by directors or employees and system regarding other reports to corporate auditors

When directors or employees discover such matters as situations that have the potential to cause significant damage to the Company, wrongdoing on the part of directors or employees, or violations of laws, regulations, or the articles of incorporation, they shall promptly report these matters to the corporate auditors, and they will not suffer any negative consequences for making such reports.

Moreover, the Corporate Ethics and Compliance Subcommittee will periodically report to the president and representative director and the corporate auditors regarding the operation of the helpline, which should function as a public interest reporting mechanism.

9. System to ensure that other corporate auditors' audits are conducted effectively

Corporate auditors will meet periodically with the president and representative director to discuss important auditing issues.

The corporate auditors will maintain close contact with the Auditing Office and can request investigations from the Auditing Office as necessary.

The corporate auditors can consult with the independent auditors of the Company's accounts and with lawyers as necessary, with the costs of such consultation paid by the Company.

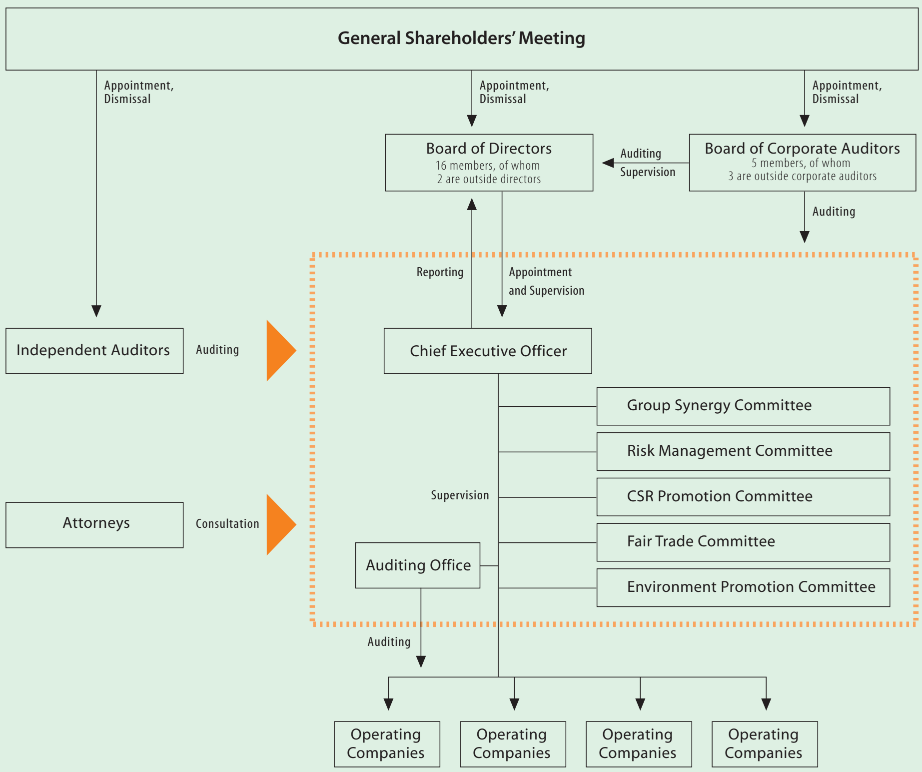
10. Responsibility for internal control systems

Internal control systems are the responsibility of the General Affairs Department.

3 OVERVIEW OF PERSONAL, EQUITY, AND BUSINESS RELATIONSHIPS AND OTHER VESTED INTERESTS BETWEEN THE COMPANY AND ITS OUTSIDE DIRECTORS AND OUTSIDE AUDITORS

There are no particular vested interests between the Company and its two outside directors and three outside auditors.

Corporate Governance System



(As of May 25, 2006)

BOARD OF DIRECTORS AND AUDITORS

(AS OF MAY 25, 2006)

CHAIRMAN
Toshifumi Suzuki

PRESIDENT
Noritoshi Murata

DIRECTORS
Tadahiko Ujiie
Katsuhiro Goto
Sakae Isaka
Toshiro Yamaguchi
Kenichi Asama
Takashi Anzai
Zenko Ohtaka
Shigeaki Wada
Kazuyoshi Sano
Yukio Horiuchi
Shunichiro Uchimura
Fumiaki Osaki
Noritaka Shimizu
Scott Trevor Davis

STANDING CORPORATE AUDITORS
Ikuo Kanda
Hisashi Seki

CORPORATE AUDITORS
Yoko Suzuki
Hiroshi Nakachi
Megumi Suto

EXECUTIVE OFFICERS

(AS OF MAY 25, 2006)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Toshifumi Suzuki

PRESIDENT AND CHIEF OPERATING OFFICER
Noritoshi Murata

SENIOR EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
Tadahiko Ujiie

SENIOR EXECUTIVE OFFICER
Noritomo Banzai

MANAGING EXECUTIVE OFFICER AND CHIEF ADMINISTRATIVE OFFICER
Katsuhiro Goto

MANAGING EXECUTIVE OFFICERS
Sakue Mizukoshi
Minoru Inaoka

EXECUTIVE OFFICERS
Yoshiaki Ota
Masao Eguchi
Yoshihiro Tanaka
Katsuhisa Konuki
Yasuo Takaha
Kazuo Otsuka
Takafumi Kanemitsu
Kunio Takahashi
Akihiko Shimizu
Masayuki Sato
Akira Miyakawa
Tsuyoshi Kobayashi
Kazuyo Sohda

CONSOLIDATED FINANCIAL SUMMARY

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEAR ENDED FEBRUARY 28, 2006

Figures for Ito-Yokado Co., Ltd. and its consolidated subsidiaries for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 are presented for the convenience of the reader.

Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd. became wholly owned subsidiaries of Seven & i Holdings in the fiscal year ended February 28, 2006. The associated decrease in minority interests contributed to the increase in net income.

	Millions of yen	Thousands of U.S. dollars (Note A)	Millions of yen		
	Seven & i Holdings		Ito-Yokado		
	2006		2005	2004	2003
For the year:					
Revenues from operations	¥3,895,772	$33,584,241	¥3,623,555	¥3,542,146	¥3,530,317
Operating income	244,940	2,111,551	211,951	207,783	201,302
Income before income taxes and minority interests	178,518	1,538,948	150,833	177,784	176,861
Net income	87,931	758,026	17,205	53,632	46,623
% of revenues	2.3%	2.3%	0.5%	1.5%	1.3%
Capital expenditures (Note B)	185,354	1,597,879	168,725	171,877	182,891
Depreciation and amortization (Note C)	97,811	843,198	95,161	94,985	92,895
Return on equity	5.5%	5.5%	1.5%	4.8%	4.2%
Return on assets	2.6%	2.6%	0.7%	2.2%	2.0%
At year-end:					
Total assets	¥3,424,879	$29,524,819	¥2,574,817	¥2,461,927	¥2,401,737
Cash and cash equivalents	610,877	5,266,181	683,100	567,390	604,896
Total current assets	1,102,819	9,507,060	1,058,624	915,621	865,472
Total current liabilities	982,859	8,472,922	672,703	581,627	548,661
Long-term debt	547,437	4,719,284	249,135	277,792	268,359
Total shareholders' equity	1,603,684	13,824,862	1,144,505	1,138,211	1,111,477
Business segments:					
Convenience store operations:					
Revenues from operations	¥2,015,236	$17,372,724	¥1,806,169	¥1,721,458	¥1,689,199
Operating income	209,815	1,808,750	195,385	187,467	177,236
Superstore operations:					
Revenues from operations	1,687,735	14,549,439	1,642,265	1,669,330	1,709,044
Operating income	15,382	132,603	7,815	21,166	33,797
Department store operations:					
Revenues from operations	—	—	—	—	—
Operating income	—	—	—	—	—
Restaurant operations:					
Revenues from operations	124,025	1,069,181	126,181	126,189	127,447
Operating income	2,625	22,629	3,621	3,261	4,583
Financial services:					
Revenues from operations	82,289	709,388	61,236	37,219	15,390
Operating income (loss)	17,278	148,948	5,402	(3,936)	(14,307)
Others:					
Revenues from operations	19,781	170,526	17,196	14,738	13,149
Operating income (loss)	808	6,966	211	(206)	(126)

	Yen	U.S. dollars (Note A)	Yen		
Net income per share:					
Basic	¥100.83	$0.87	¥40.73	¥128.25	¥110.67
Diluted	—	—	40.51	128.22	—

Notes: (A) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥116=US$1, the approximate rate of exchange on February 28, 2006.
(B) Capital expenditures include property and equipment, intangible assets and long-term leasehold deposits.
(C) Depreciation and amortization is included in cost of sales as well as selling, general and administrative expenses.

FINANCIAL REVIEW

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEAR ENDED FEBRUARY 28, 2006

Figures for Ito-Yokado Co., Ltd. and its consolidated subsidiaries for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 are presented for the convenience of the reader.

Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd. became wholly owned subsidiaries of Seven & i Holdings in the fiscal year ended February 28, 2006. The associated decrease in minority interests contributed to the increase in net income.

	Millions of yen	Thousands of U.S. dollars (Note)	Millions of yen		
	Seven & i Holdings		Ito-Yokado		
	2006	2006	2005	2004	2003
Revenues from operations:					
Convenience store operations:					
Merchandise	¥1,069,684	$ 9,221,414	¥ 986,435	¥ 989,787	¥1,015,255
Gasoline	575,726	4,963,155	462,538	395,993	358,098
Franchise commission from franchised stores	356,907	3,076,784	343,617	324,187	306,059
Other	12,919	111,371	13,579	11,491	9,787
Total	2,015,236	17,372,724	1,806,169	1,721,458	1,689,199
Superstore operations	1,687,735	14,549,439	1,642,265	1,669,330	1,709,044
Department store operations	—	—	—	—	—
Restaurant operations	124,025	1,069,181	126,181	126,189	127,447
Financial services	82,289	709,388	61,236	37,219	15,390
Others	19,781	170,526	17,196	14,738	13,149
Eliminations	(33,294)	(287,017)	(29,492)	(26,788)	(23,912)
Consolidated total	¥3,895,772	$33,584,241	¥3,623,555	¥3,542,146	¥3,530,317

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥116=US$1, the approximate rate of exchange on February 28, 2006.

ANALYSIS OF RESULTS

(1) Revenues from Operations and Operating Income

In the fiscal year ended February 28, 2006, Seven & i Holdings recorded revenues from operations of ¥3,895.8 billion and operating income of ¥244.9 billion.

Due to the maintenance of a rapid pace of store openings by Seven-Eleven Japan (SEJ), the core operating company in convenience store operations, the number of SEJ stores at the end of February 2006 was 11,310, an increase of 484 from a year earlier. To meet changing customer needs, SEJ has developed and enhanced original items, including limited regional products, and as a result, the share of sales contributed by original items is increasing each year. Sales of fast food, which include boxed lunches, rice balls and other rice-based products, and noodles, rose 2.4%, to ¥732.1 billion. Sales of daily food items, which include bread, pastries, and milk and other dairy products, were up 3.2%, to ¥327.3 billion. Sales of nonfood products, which include cigarettes and sundries, were up 5.0%, to ¥687.2 billion. In Japan, total store sales, which comprise corporate and franchised store sales, rose 2.4%, to ¥2,498.8 billion. Revenues from operations, which mainly comprise revenues from franchisees and sales at corporate stores, were up 5.5%, to ¥492.8 billion, and operating income increased 1.7%, to ¥177.4 billion.

Overseas, 7-Eleven, Inc., had 5,829 stores in the United States and Canada as of the end of December 2005. In addition to favorable sales of fast food, beverages, and other merchandise, gasoline sales rose due to higher retail prices for gasoline. As a result, 7-Eleven, Inc.'s sales increased on a U.S. dollar basis. The yen-dollar exchange rate used in the consolidation of 7-Eleven, Inc.'s accounts for the fiscal year was ¥110.26, reflecting the depreciation of the yen. As a result, 7-Eleven, Inc.'s net sales increased 13.7% on a yen basis, to ¥1,485.4 billion. In China, SEVEN-ELEVEN (BEIJING) had 30 stores at the end of December 2005, a rise of 20 from the previous year-end, and the company recorded a favorable increase in sales.

As a result, in convenience store operations, revenues from operations were ¥2,015.2 billion, and operating income was ¥209.8 billion.

Ito-Yokado is the core operating company in our superstore operations. In apparel, Ito-Yokado focused on consolidating products and creating sales areas that are clearly arranged according to gender and age while taking steps to improve the product lineup, such as developing and introducing new brands. In food, in consideration of local market characteristics, Ito-Yokado worked aggressively to expand offerings of fresh local products. As a result of these types of initiatives, Ito-Yokado's net sales rose 1.0%, to ¥1,470.5 billion. By product category, apparel sales in the year under review were down 2.3%, to ¥307.3 billion; sales of household goods rose 2.2%, to ¥257.5 billion; and sales of food increased 0.9%, to ¥669.4 billion. In store openings, Ito-Yokado focused on mall-type shopping centers in urban areas. In addition to core tenant Ito-Yokado, many popular shops and restaurants are also tenants, and as a result these centers are garnering support from a broad range of customer age groups. Ito-Yokado opened 5 stores, including 3 stores in mall-type shopping centers, and closed 8, for a total of 178 at the end of the year.

In this way, Ito-Yokado implemented new initiatives in superstore operations, targeting the creation of stores that receive a higher level of support from customers, in a range of areas, including product and store development.

As a result, in superstore operations, revenues from operations totaled ¥1,687.7 billion, and operating income was ¥15.4 billion.

In restaurant operations, business conditions remained difficult. There were concerns about food safety, such as BSE and avian influenza, and there was cold weather throughout the country.

In this setting, Denny's Japan, the core operating company in restaurant operations, worked to implement a focus on unconditional taste, healthy and safe meals, and prompt and sincere service and to provide clean restaurants and atmospheres that are aligned with customer motivations. Denny's Japan undertook sales promotions and worked to provide menu items with value that meet customer needs. Nonetheless, the number of customers declined, and, in the restaurant segment, revenues from operations were ¥124.0 billion and operating income was ¥2.6 billion.

Seven Bank, the core operating company in financial services operations, expanded the range of regions where it has ATMs and boosted the density of ATMs in regions where it already offered service. As a result, the number of ATMs installed at the end of the year was 11,188. Due to aggressive expansion of tie-up financial institutions and advertising and promotion activities, the convenience of ATM services increased, and the average daily number of transactions per ATM was 88. Due to the growth in the number of ATMs installed and in the number of transactions, revenues from operations and operating income recorded substantial growth. Also, IY Card Service, which handles card operations, expanded the number of its cardholders, the scope of its business activities, and the scale of its operations, and as a result its profitability improved. Due to higher customer awareness of these two companies, revenues from operations in financial services were ¥82.3 billion, and operating income was ¥17.3 billion.

(2) Other Income (Expenses) and Income before Income Taxes and Minority Interests

Other expenses, net, totaled ¥66.4 billion.

Equity in earnings of affiliates was ¥2.0 billion, and, in regard to overseas consolidated subsidiaries, foreign currency exchange gains were ¥3.2 billion. Impairment loss on property and equipment, principally in superstore operations, was ¥31.0 billion. Costs in relation to tender offer to make 7-Eleven, Inc., a wholly owned subsidiary were ¥20.8 billion.

As a result, income before income taxes and minority interests was ¥178.5 billion.

(3) Income Taxes (Including Deferred Income Taxes)

Income taxes were ¥81.5 billion. After the application of tax effect accounting, the effective tax rate was 45.6%, 4.9 percentage points higher than the statutory tax rate of 40.7%. This was principally attributable to a valuation allowance related to impairment losses.

(4) Net Income

Net income was ¥87.9 billion, and net income per share was ¥100.83.

ANALYSIS OF FINANCIAL POSITION

(1) Assets, Liabilities, and Shareholders' Equity

In January 2006, the Company acquired 65.45% of the common stock of Millennium Retailing and at the end of February 2006 only the balance sheets of Millennium Retailing and its subsidiaries were consolidated.

Total assets at the end of February 2006 were ¥3,424.9 billion. Principal components included cash and cash equivalents of ¥610.9 billion, property and equipment, net, of ¥1,200.5 billion, and long-term leasehold deposits of ¥463.2 billion. With 7-Eleven, Inc., becoming a wholly owned subsidiary and the acquisition of the stock of Millennium Retailing, goodwill was ¥272.0 billion.

Total liabilities were ¥1,707.0 billion. Principal components included accounts and notes payable–trade of ¥182.1 billion, short-term loans of ¥114.5 billion, current portion of long-term debt of ¥50.4 billion, and long-term debt of ¥547.4 billion.

Minority interests in consolidated subsidiaries totaled ¥114.2 billion, of which ¥64.2 billion was attributable to the consolidation of Millennium Retailing and its subsidiaries.

Total shareholders' equity was ¥1,603.7 billion. Shareholders' equity per share was ¥1,772.25, and the shareholders' equity ratio was 46.8%.

(2) Cash Flows

Cash was provided by operations with high revenue generating capacity, centered on convenience store operations. In addition, SEJ and Ito-Yokado recorded gains on the sale of Seven & i Holdings stock. However, the Company used funds to acquire the stock of Millennium Retailing as a means of expanding and strengthening operations in fields with new opportunities and growth potential and to make 7-Eleven, Inc., a wholly owned subsidiary as a means of further reinforcing the Group's convenience store operations. SEJ and Ito-Yokado also made acquisitions of their own shares prior to the establishment of the holding company. As a result, cash and cash equivalents declined ¥72.2 billion, to ¥610.9 billion at year-end.

Net cash provided by operating activities was ¥217.3 billion. Income before income taxes and minority interests was ¥178.5 billion. Depreciation and amortization and impairment loss, both non-cash items, were ¥97.8 billion and ¥31.0 billion, respectively, and the balance of deposits held by Seven Bank increased.

Net cash used in investing activities was ¥388.1 billion. Acquisitions of property and equipment, principally for new store openings and store renovations, totaled ¥146.2 billion. Acquisition of Millennium Retailing stock required ¥72.8 billion, and, with 7-Eleven, Inc., becoming a wholly owned subsidiary, acquisition of investments in subsidiaries was ¥133.5 billion.

Net cash provided by financing activities was ¥103.1 billion. Proceeds from sale of treasury stock, principally from the sale of the Company's shares by SEJ and Ito-Yokado, was ¥238.2 billion. Due to the acquisition of their own shares by SEJ and Ito-Yokado prior to the establishment of Seven & i Holdings, purchase of treasury stock was ¥127.1 billion.

OPERATIONAL AND OTHER RISK FACTORS

The following items concern risks related to the Group's operations that could significantly affect the decisions of investors. However, the following does not represent all of the risks faced by the Group.

1. Domestic Market Trends

The majority of the Group's operations are carried out within Japan. As a result, domestic economic conditions, such as the business climate and consumer spending trends, could affect the Group's business performance. As part of its efforts to cater to consumer demand, the Group actively markets or develops seasonal products based on sales plans. However, an unexpected change in consumer behavior due to unseasonable weather could affect the Group's business performance or financial position.

2. Dependence on Specific Producing Areas, Suppliers, Products, and Technologies

The Group decentralizes its operations to avoid over dependence on specific producing areas, suppliers, products, and technologies. However, the interruption of supply routes due to such factors as political change, outbreaks of war or terrorist attacks, and natural disasters in countries or regions from which products and raw materials are sourced could have a limited effect on the Group's business performance.

3. Changes in Purchase Prices

The products sold by the Group include products that are sourced overseas and affected by changes in currency exchange rates, products that are affected by changes in the prices of such raw materials as crude oil, and products with purchase prices that change due to external factors. The Group has developed systems that enable the supply of products at stable prices by the use of forward exchange contracts and other methods for direct purchasing. However, changes in purchase prices across multiple purchasing routes or such external factors as a dramatic change in currency exchange rates could have a limited effect on the Group's business performance or financial position.

4. Product Safety and Labeling

The Group endeavors to provide customers with safe products and accurate information through the enhancement of food hygiene related equipment and facilities based on relevant laws and regulations, the implementation of a stringent integrated product management system that includes suppliers, and the establishment of a system of checks. However, the occurrence of a problem beyond the scope of the Group's measures could reduce public trust in the Group's products and incur costs stemming from countermeasures. Such an eventuality could affect the Group's business performance or financial position. Further, the occurrence of a major incident that involves the Group's products, despite the Group's measures to ensure product safety, and leads to product recalls or product liability claims could affect the Group's business performance or financial position.

5. Convenience Store Operations

The Group's convenience store operations are primarily organized under a franchise system, which is a joint enterprise in which the Group and franchised stores fulfill their respective roles based on an equal partnership and a relationship of trust. If agreements with numerous franchised stores became unsustainable because either the Group or the franchised stores did not fulfill their respective roles, the Group's business performance could be affected.

Approximately 30,000 7-Eleven stores operate worldwide, including stores outside the Group that operate under licenses granted by Group subsidiary 7-Eleven, Inc. A reduction in royalties or sales resulting from misconduct on the part of area licensees that do not belong to the Group or by stores operated by area licensees could affect the Group's business performance or financial position.

6. Overseas Operations

The Group's business performance and financial position are affected by the business performances and financial positions of the Group's overseas subsidiaries and affiliates. Overseas operations could be affected by such factors as amendments to laws or regulatory changes that adversely affect the Group's operations, sudden changes in economic conditions or social instability, political change, outbreaks of war or terrorist attacks, and natural disasters.

7. Earthquakes and Other Natural Disasters or Accidents

With a view to creating safe, comfortable stores, the Group takes all possible measures in the design and operation of its stores to protect customers from normally foreseeable situations, such as natural disasters or accidents. Those efforts include ensuring the earthquake resistance of stores, the provision of disaster countermeasures manuals, and the implementation of evacuation drills. However, a large natural disaster, such as an earthquake or a typhoon, could damage the plants or warehouses of suppliers or damage transportation infrastructure, affecting product supply. In particular, a large earthquake with an epicenter directly below the Tokyo metropolitan area could damage stores and other operational bases, partially halting operational activities. Such eventualities could affect the Group's business performance or financial position. Also, in its mainstay convenience store operations, the Group opens numerous stores in high geographical densities in Japan in accordance with its area dominance strategy. Therefore, the occurrence of a large natural disaster in a region where stores are concentrated would likely have a significant effect.

8. Information Systems and Other Operational Infrastructure

The Group outsources the operation and management of information systems for sales management, ATMs, and other operations to trustworthy service providers and seeks to construct a safe management system. However, a systems failure due to a natural disaster or defective software or hardware could impede store operations, which could affect the Group's business performance or financial position.

Further, if there was a conspicuous decrease in the technical capabilities or the profit-making capabilities of the companies to which the Group outsources the operation of significant operational infrastructures, such as distribution and product supply, or if it became difficult to continue contracts with such companies to which the Group outsources operations, the Group's business performance or financial position could be affected.

In particular, in its mainstay convenience store operations, the Group has sought to cater to constantly changing customer needs by working with business partners to innovate production, distribution, sales, and their supporting information systems to realize differentiated, high-quality products and to create convenient services that support everyday life. The unique operational infrastructure of convenience store operations is built in collaboration with business partners that have a shared commitment to the franchise system. Consequently, if the Group were no longer able to maintain operational relationships with business partners in its convenience store operations or if business partners' technical capabilities declined conspicuously, the Group's business performance or financial position could be affected.

9. Credit Management

The Group seeks to protect deposits and guarantee deposits pledged for store lessors through the establishment of mortgages and other collateral. However, deterioration in the economic condition of the store lessors or a drop in the value of the collateral properties could affect the Group's business performance or financial position.

10. Financial Services Operations

The Group conducts financial services operations, including credit card and banking operations. The Group seeks to curb such risks as credit risks and administrative risks through stringent personal identification checks and the recording and appropriate accounting treatment of provisions for doubtful accounts that reflect the collectibility of accounts receivable–trade. Further, in banking operations, credit risk is limited through the restriction of settlement operations using ATMs and the restriction of deposits to quality financial institutions. However, increases in the rates of bad debt write-offs or finance receivables outstanding, increased difficulty in accurately evaluating the credit risks of borrowers, or unexpected bad debt write-offs could affect the Group's business performance or financial position.

Further, to enable rapid and flexible responses to changes in interest rates or currency exchange rates, the Group conducts monitoring on a daily basis and prepares countermeasures based on different scenarios. However, changes of an unexpected size could lower asset management efficiency or increase the cost of raising funds, which could affect the Group's business performance or financial position.

11. Asset Impairment Accounting, Retirement Benefit Obligations, and Deferred Tax Assets

The Group has already adopted asset impairment accounting for fixed assets. However, if the actual value of assets owned by the Group, including securities, dropped or further recognition of asset impairment became necessary for stores with low profitability, the Group's business performance or financial position could be affected.

Further, the Group calculates retirement benefit obligations based on discount rates and the expected rate of return on plan assets. However, unexpected changes in domestic share prices or interest rates upon which those rates are based, deterioration in the returns on plan assets due to such changes, or changes in the general pension system could affect the Group's business performance or financial position.

In addition, the Group records deferred tax assets based on estimates of future taxable income using rational methods. However, if estimates of taxable income were lowered due to unexpected changes in domestic economic conditions or consumer behavior, the adjustment in deferred tax assets would be recorded as an expense, which could affect the Group's business performance or financial position.

12. Store Development

The Group's opening of large stores that attract many customers is regulated based on the Large-Scale Retail Store Location Law and the City Planning Law. However, if those laws were amended or local authorities changed related regulations, it could become difficult to open stores in accordance with initially prepared store opening plans or refurbish existing stores, or costs could be incurred in responding to a reduction in potential candidate areas for future store openings. Such eventualities could affect the Group's business performance or financial position.

Further, regarding store opening plans, an inability to secure properties that meet store opening standards prepared for new stores, the discovery of land contamination not apparent at the time of store opening, or the failure of stores to meet store opening standards due to changes in the location environment following store opening could affect the Group’s business performance or financial position. In addition, regarding rents for leasehold properties, the Group establishes reasonable rents based on consideration of various factors, including surrounding land prices and discussions with lessors. However, increases in rents for leasehold properties due to such factors as higher land prices could affect the Group’s business performance or financial position. Also, regarding the liquidation of stores, influence on the sales operations of stores due to repurchases of leasehold properties, stemming from such external factors as changes in real estate prices or interest rates, could affect the Group’s business performance or financial position.

13. Personal Information Protection Law

The Personal Information Protection Law, which was fully enacted on April 1, 2005, stipulates the obligations of companies handling personal information to manage personal information safely, specifies usage purposes, and limits the usage of personal information to those purposes. Because the Group’s financial services and other operations handle diverse personal information, the Group is working to comply with the law by raising employee awareness, introducing new storage resources, and strengthening the security of information systems. However, an incident beyond the scope of the Group’s measures that resulted in leakages of personal information could damage the Group’s social trust or lead to damage liability claims, which could affect the Group’s business performance or financial position.

14. Amendments to Other Laws

New costs could be incurred due to measures necessitated by amendments to various laws or changes in business practices, including changes in consumption tax rates due to amendments to the Consumption Tax Law, the expansion of the application of social insurance standards to include part-time workers, or amendments to the Containers and Packaging Recycling Law. Further, such amendments or changes could require the Group to change the content of its existing operations. Such eventualities could affect the Group’s business performance.

In particular, in mainstay convenience store operations, stores are regarded as “convenient shops near everyone’s home or workplace” that are part of the social infrastructure, and most domestic stores are open 24 hours a day. Therefore, the introduction of new laws or regulations relating to store openings, opening hours, products, or services could affect the Group’s business performance.

15. Significant Suits and Other Legal Incidents

In the fiscal year under review, no suits that significantly affect the Group’s performance were filed against the Group, other than as indicated in the Notes to Consolidated Financial Statements. However, if decisions unfavorable to the Group resulted from suits with a potentially significant effect on business results or social standing, the Group’s business performance or financial position could be affected.

16. Brand Image

The occurrence of the risk events itemized in this section or misconduct on the part of subsidiaries, affiliates, or franchised stores could damage the Group’s overall brand image. As a result, consumers’ trust in the Group could diminish, the Group could lose personnel, or personnel could become difficult to secure, which could affect the Group’s business performance or financial position.

CONSOLIDATED BALANCE SHEET

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES AT FEBRUARY 28, 2006

ASSETS	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current assets:		
Cash and cash equivalents (Note 13)	¥ 610,877	$ 5,266,181
Accounts receivable:		
Trade (Note 13)	110,830	955,431
Financial services	37,563	323,819
Franchisees and other	46,307	399,198
Allowance for doubtful accounts	(2,220)	(19,138)
	192,480	1,659,310
Inventories	148,913	1,283,733
Deferred income taxes (Note 9)	31,725	273,491
Prepaid expenses and other current assets (Note 13)	118,824	1,024,345
Total current assets	1,102,819	9,507,060
Property and equipment, at cost (Notes 6, 7, 12 and 13)	2,181,522	18,806,224
Less: Accumulated depreciation	(981,030)	(8,457,155)
	1,200,492	10,349,069
Intangible assets:		
Goodwill	272,015	2,344,957
Software and other (Note 13)	96,957	835,836
	368,972	3,180,793
Other assets:		
Investments in securities (Notes 4 and 13)	216,933	1,870,112
Long-term loans	21,458	184,983
Long-term leasehold deposits (Note 13)	463,239	3,993,440
Deferred income taxes (Note 9)	26,978	232,569
Deferred assets	280	2,414
Other (Note 13)	34,686	299,017
Allowance for doubtful accounts	(10,978)	(94,638)
	752,596	6,487,897
	¥3,424,879	$29,524,819

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Thousands of U.S. dollars (Note 3) 2006
Current liabilities:		
Short-term loans (Note 11)	¥ 114,462	$ 986,741
Current portion of long-term debt (Note 11)	50,395	434,440
Accounts and notes payable:		
Trade (Note 5)	182,074	1,569,603
Trade for franchised stores (Note 14)	103,050	888,362
Other	78,577	677,388
	363,701	3,135,353
Accrued expenses	88,149	759,905
Income taxes payable	94,030	810,603
Deposit received	73,837	636,526
Deposit received in banking business	96,246	829,707
Allowance for bonuses to employees	13,609	117,319
Allowance for sales promotion expenses	17,554	151,328
Other (Note 9)	70,876	611,000
Total current liabilities	982,859	8,472,922
Long-term debt (Note 11)	547,437	4,719,284
Allowance for accrued pension and severance costs (Note 10)	3,433	29,595
Allowance for retirement benefits to directors and corporate auditors	3,274	28,224
Deferred income taxes (Note 9)	77,213	665,629
Deposits received from tenants and franchised stores	57,821	498,457
Other liabilities	34,961	301,389
Total liabilities	1,706,998	14,715,500
Minority interests in consolidated subsidiaries	114,197	984,457
Commitments and contingent liabilities (Notes 12 and 13)		
Shareholders' equity:		
Common stock, authorized 4,500,000,000 shares, issued 1,346,383,002 shares at February 28, 2006	50,000	431,034
Capital surplus	611,704	5,273,310
Retained earnings	1,040,613	8,970,802
Unrealized gains on available-for-sale securities (Note 4)	7,954	68,569
Cumulative translation adjustments	6,298	54,294
Treasury stock, at cost, 441,608,396 shares at February 28, 2006	(112,885)	(973,147)
	1,603,684	13,824,862
	¥3,424,879	$29,524,819

CONSOLIDATED STATEMENT OF INCOME

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEAR ENDED FEBRUARY 28, 2006

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Revenues from operations:		
Net sales	¥3,437,345	$29,632,284
Other operating revenue (Note 15)	458,427	3,951,957
	3,895,772	33,584,241
Costs and expenses:		
Cost of sales (Note 15)	2,488,509	21,452,664
Selling, general and administrative expenses (Notes 10, 12 and 15)	1,162,323	10,020,026
	3,650,832	31,472,690
Operating income	244,940	2,111,551
Other income (expenses):		
Interest and dividend income	3,058	26,362
Interest expenses	(6,363)	(54,853)
Foreign currency exchange gains	3,236	27,897
Equity in earnings of affiliates	1,993	17,181
Impairment loss on property and equipment (Note 7)	(31,040)	(267,586)
Gain on sales of property and equipment (Note 15)	1,843	15,888
Loss on disposals of property and equipment (Note 15)	(8,185)	(70,561)
Costs in relation to tender offer	(20,776)	(179,103)
Gain from amendment of retirement allowance regulation in subsidiaries in the United States	3,011	25,957
Costs in relation to the establishment of the holding company	(2,598)	(22,397)
Provision for doubtful accounts	(5,789)	(49,905)
Additional retirement allowance for early retirement	(6,160)	(53,103)
Other, net	1,348	11,620
	(66,422)	(572,603)
Income before income taxes and minority interests	178,518	1,538,948
Income taxes (Note 9):		
Current	83,268	717,828
Deferred	(1,793)	(15,458)
	81,475	702,370
Income before minority interests	97,043	836,578
Minority interests in earnings of consolidated subsidiaries	9,112	78,552
Net income	¥ 87,931	$ 758,026

	Yen	U.S. dollars (Note 3)
Per share of common stock:		
Net income	¥100.83	$0.87
Cash dividends	28.50	0.25

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES AT FEBRUARY 28, 2006

On September 1, 2005, Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd. established Seven & i Holdings Co., Ltd. (the "Company") and became wholly owned subsidiaries of the Company by means of a stock transfer. The consolidation procedures in connection with the stock transfer were accounted for in a manner similar to the pooling-of-interest method. The Company's Consolidated Financial Statements were prepared assuming that the above 3 subsidiaries were combined on March 1, 2005, and capital surplus and retained earnings in the Consolidated Financial Statements of Ito-Yokado Co., Ltd. as of February 28, 2005 were carried forward and recorded as the beginning balances of capital surplus and retained earnings in the Consolidated Statement of Shareholders' Equity of the Company.

		Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gains on available-for-sale securities	Cumulative translation adjustments	Treasury stock, at cost	Total
Balance at February 28, 2005	—	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Balance succeeded from the Consolidated Financial Statements of Ito-Yokado Co., Ltd. at beginning of year			122,654	983,675				1,106,329
Net income for the year ended February 28, 2006				87,931				87,931
Increase (decrease) resulting from adoption of U.S. GAAP by U.S. subsidiaries			3,261	(282)				2,979
Increase resulting from stock transfer			407,086					407,086
Cash dividends				(16,030)				(16,030)
Cash payment upon stock transfer				(14,435)				(14,435)
Directors' and corporate auditors' bonuses				(246)				(246)
Gain on sales of treasury stock			78,703					78,703
Net increase (decrease) for the year	1,346,383	50,000			7,954	6,298	(112,885)	(48,633)
Balance at February 28, 2006	1,346,383	¥50,000	¥611,704	¥1,040,613	¥7,954	¥ 6,298	¥(112,885)	¥1,603,684

		Thousands of U.S. dollars (Note 3)						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gains on available-for-sale securities	Cumulative translation adjustments	Treasury stock, at cost	Total
Balance at February 28, 2005	—	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance succeeded from the Consolidated Financial Statements of Ito-Yokado Co., Ltd. at beginning of year			1,057,362	8,479,957				9,537,319
Net income for the year ended February 28, 2006				758,026				758,026
Increase (decrease) resulting from adoption of U.S. GAAP by U.S. subsidiaries			28,112	(2,430)				25,682
Increase resulting from stock transfer			3,509,362					3,509,362
Cash dividends				(138,190)				(138,190)
Cash payment upon stock transfer				(124,440)				(124,440)
Directors' and corporate auditors' bonuses				(2,121)				(2,121)
Gain on sales of treasury stock			678,474					678,474
Net increase (decrease) for the year	1,346,383	431,034			68,569	54,294	(973,147)	(419,250)
Balance at February 28, 2006	1,346,383	$431,034	$5,273,310	$8,970,802	$68,569	$ 54,294	$(973,147)	$13,824,862

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES AT FEBRUARY 28, 2006

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2006	2006
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 178,518	$ 1,538,948
Depreciation and amortization	97,811	843,198
Impairment loss on property and equipment	31,040	267,586
Decrease in allowance for bonuses to employees	(1,047)	(9,026)
Decrease in allowance for accrued pension and severance costs	(7,540)	(65,000)
Interest and dividend income	(3,058)	(26,362)
Interest expenses	6,363	54,853
Foreign currency gain	(2,717)	(23,422)
Gain on sales of subsidiary's common stock	(947)	(8,164)
Equity in earnings of affiliates	(1,993)	(17,181)
Gain on sales of property and equipment	(1,843)	(15,888)
Loss on disposals of property and equipment	8,185	70,561
Increase in accounts receivable, trade	(16,478)	(142,052)
Increase in accounts receivable, financial services	(4,722)	(40,707)
Increase in inventories	(3,255)	(28,060)
Decrease in accounts and notes payable	(21,291)	(183,543)
Proceeds from debt in banking business	21,000	181,034
Net increase in deposit received in banking business	29,873	257,526
Net decrease in call money in banking business	(25,000)	(215,517)
Other	34,493	297,354
Sub-total	317,392	2,736,138
Interest and dividends received	2,384	20,552
Interest paid	(6,015)	(51,853)
Income taxes paid	(96,435)	(831,337)
Net cash provided by operating activities	217,326	1,873,500
Cash flows from investing activities:		
Acquisitions of property and equipment	(146,180)	(1,260,172)
Proceeds from sales of property and equipment	4,703	40,543
Acquisition of intangible assets	(13,695)	(118,060)
Payment for purchase of investments in securities	(101,808)	(877,655)
Proceeds from sales and maturity of investments in securities	69,727	601,095
Acquisition of investments in subsidiaries	(133,451)	(1,150,440)
Proceeds from sales of investments in subsidiary	4,346	37,466
Acquisition of investments in newly consolidated subsidiaries	(74,709)	(644,043)
Payment of loans receivable	(3,561)	(30,698)
Collection of loans receivable	1,099	9,474
Payment for long-term leasehold deposits and advances for store construction	(24,412)	(210,448)
Refund of long-term leasehold deposits	29,776	256,690
Proceeds from deposits from tenants	6,668	57,483
Refund of deposits from tenants	(4,483)	(38,647)
Other	(2,100)	(18,105)
Net cash used in investing activities	(388,080)	(3,345,517)
Cash flows from financing activities:		
Decrease in short-term loans	(2,471)	(21,302)
Proceeds from long-term debt	41,500	357,759
Repayment of long-term debt	(12,533)	(108,043)
Proceeds from commercial paper	554,046	4,776,259
Payments for redemption of commercial paper	(544,532)	(4,694,241)
Payment for redemption of bonds	(20,000)	(172,414)
Dividends paid for minority interests	(16,045)	(138,319)
Payment in relation to stock transfer	(14,400)	(124,138)
Purchase of treasury stock	(127,102)	(1,095,707)
Proceeds from sale of treasury stock	238,222	2,053,638
Other	6,408	55,241
Net cash provided by financing activities	103,093	888,733
Effect of exchange rate changes on cash and cash equivalents	(4,562)	(39,328)
Net decrease in cash and cash equivalents	(72,223)	(622,612)
Cash and cash equivalents at beginning of year	683,100	5,888,793
Cash and cash equivalents at end of year	¥ 610,877	$ 5,266,181

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

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

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

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

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

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

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

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

All material intercompany transactions and account balances have been eliminated.

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

(2) Inventories

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

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

(3) Securities

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

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

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

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

(4) Derivatives

Derivative financial instruments are valued at fair value.

(5) Property and equipment

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

(6) Intangible assets

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

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

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

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

(7) Deferred assets

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

(8) Income taxes

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

Deferred tax accounting is applied.

(9) Allowances

(a) Allowance for doubtful accounts

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

(b) Allowance for sales promotion expenses

An allowance for sales promotion expenses is provided for the use of points given to customers at the amount expected to be used on the balance sheet date in accordance with the sales promotion point card program. In the department store business, estimated costs of sales for goods to be purchased by coupon tickets issued through the point system are provided for.

(c) Allowance for bonuses to employees

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

(d) Allowance for accrued pension and severance costs

An allowance for accrued pension and severance costs is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. Unrecognized actuarial differences are amortized on a straight-line basis over the period of mainly 10 years from the next year in which they arose.

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

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

(10) Leases

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

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

(11) Hedge accounting

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

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

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

(12) Dividends

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

(13) Per share information

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

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

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

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

(14) Appropriation of retained earnings

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

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

(15) Treasury stock

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

(16) Accounting for consumption taxes and excise tax

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

(17) Translation of foreign currency

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

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

(18) Cash and cash equivalents

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

(19) Accounting for franchised stores in convenience store operations

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

(20) Reclassification of accounts

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

3. UNITED STATES DOLLAR AMOUNTS

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

4. SECURITIES INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. DERIVATIVE TRANSACTIONS

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

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

(1) Currency-related transactions

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

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

(2) Interest-rate-related transactions

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

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

6. PROPERTY AND EQUIPMENT

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

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

7. IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT

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

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

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

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

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

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

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

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

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

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

(2) Major non-cash transaction

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

9. INCOME TAXES

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

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

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

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

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

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

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

10. RETIREMENT BENEFITS

(1) Summary of retirement benefit plans

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

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

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

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

(2) Projected retirement benefit obligations

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

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

(3) Net periodic benefit cost

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

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

(4) Assumptions used in accounting for retirement benefit obligations

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

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

11. SHORT-TERM LOANS AND LONG-TERM DEBT

The following summarizes information concerning short-term loans:

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

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

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

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

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

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

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

12. LEASES

(1) Finance leases

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

As lessee:

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

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

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

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

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

As lessor:

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

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

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

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

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

(2) Operating leases

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

As lessee:

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

(3) Impairment loss on leased assets

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

13. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(1) Guarantees

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

(2) Pledged assets

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

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

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

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

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

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

C. Other

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

(3) Litigation and securitization

A. Litigation

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

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

B. Securitization of store properties

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

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

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

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

Information about SPCs is as follows:

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

14. ACCOUNTS AND NOTES PAYABLE: TRADE FOR FRANCHISED STORES

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

15. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

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

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

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

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

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

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

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

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

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

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

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

16. RELATED PARTY TRANSACTIONS

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

17. SEGMENT INFORMATION

(1) Business segments

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

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

Notes:

1. The classification of business segments is made by the type of products and services and the type of sales.
2. Major businesses in each segment are as follows:

Convenience store operations........................Convenience store business operated by corporate stores and franchised stores under the name of "7-Eleven"
Superstore operations ....Superstore, supermarket and specialty shop
Department store operations ....Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, LTD. and other companies included in the department store business
Restaurant operations.......................................Coffee shop style restaurant, family restaurant operated in shopping center and catering
Financial services ....Bank, credit card and lease business
Others..Electronic commerce business and other services

(2) Geographic area segments

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

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

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

(3) Overseas sales

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

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

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

18. SUBSEQUENT EVENTS

1. Cash dividend

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

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

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

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

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

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

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

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

(1) Objective of stock-for-stock exchange

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

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

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

(3) Stock exchange ratio

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

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

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

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

Additional paid-in capital to be increased =

Net assets as of exchange date

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

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

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

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

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

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

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

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

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

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

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

(1) Objective of stock-for-stock exchange

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

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

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

(3) Stock exchange ratio

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

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

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

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

Additional paid-in capital to be increased =

Net assets as of exchange date

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

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

(5) Overview of Millennium Retailing, Inc.

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

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

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

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

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

6. Cancellation of treasury stock

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

(1) Reason for cancellation of treasury stock

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

(2) Method of cancellation

Reduction of capital surplus

(3) Class of shares to be cancelled

Common stock

(4) Number of shares to be cancelled

427,509,908 shares

(5) Scheduled date of cancellation

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

Notes:

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

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF THE SEVEN & i HOLDINGS CO., LTD.

To the Board of Directors and Shareholders of Seven & i Holdings Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Seven & i Holdings Co., Ltd. and its subsidiaries as of February 28, 2006 and the related consolidated statement of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seven & i Holdings Co., Ltd. and its subsidiaries as of February 28, 2006 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 18-2 (Subsequent Events) to the consolidated financial statements, Ito-Yokado Co., Ltd. transferred the superstore business and function of controlling its group companies to a newly established company ("new" Ito-Yokado Co., Ltd.), and Seven & i Holdings Co., Ltd. merged with the "old" Ito-Yokado Co., Ltd. on March 1, 2006.

As discussed in Note 18-3 (Subsequent Events) to the consolidated financial statements, Seven & i Holdings Co., Ltd. acquired additional shares of Millennium Retailing, Inc. on March 27, 2006.

As discussed in Note 18-4 (Subsequent Events) to the consolidated financial statements, the board of directors of Seven & i Holdings Co., Ltd. approved a resolution to make York-Benimaru Co., Ltd. a wholly owned subsidiary by means of a stock-for-stock exchange.

As discussed in Note 18-5 (Subsequent Events) to the consolidated financial statements, the board of directors of Seven & i Holdings Co., Ltd. approved a resolution to make Millennium Retailing, Inc. a wholly owned subsidiary by means of a stock-for-stock exchange.

As discussed in Note 18-6 (Subsequent Events) to the consolidated financial statements, the board of directors of Seven & i Holdings Co., Ltd. approved the cancellation of treasury stock.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
May 25, 2006

FINANCIAL SUMMARY OF PRINCIPAL GROUP COMPANIES

SEVEN-ELEVEN JAPAN CO., LTD.

For the years ended February 28, 2006 and 2005	Millions of yen	
	2006	2005
Total store sales	¥2,498,754	¥2,440,854
Revenues from operations	492,831	467,234
Operating income	177,351	174,366
Net income	118,779	92,891
Number of stores	11,310	10,826
Net sales increase, existing stores only (%)	(1.6)	(0.7)
Gross margin on store sales (%)	31.0	30.7
Average daily sales per store (thousands of yen)	627	639

7-ELEVEN, INC. (CONSOLIDATED)

For the years ended December 31, 2005 and 2004	Millions of yen	
	2005	2004
Net sales	¥1,485,409	¥1,306,235
Merchandise	916,066	850,244
Gasoline	569,343	455,991
Operating income	32,349	24,155
Net income	1,864	6,130
Number of stores	5,829	5,799
U.S. same-store merchandise sales (%)	4.4	5.3
Gross margin on merchandise sales (%)	35.8	35.7

Notes: (A) Yen amounts were translated from U.S. dollars at the rate of US$1=¥110.26 and US$1=¥108.23, the rates of exchange for 2005 and 2004, respectively.
(B) Operating income amounts reflect adjustments to the Japanese-style presentation.

ITO-YOKADO CO., LTD.

For the years ended February 28, 2006 and 2005	Millions of yen	
	2006	2005
Revenues from operations	¥1,493,605	¥1,473,583
Net sales	1,470,523	1,455,358
Operating income	12,073	8,801
Net income	51,322	17,509
Number of stores	178	181
Net sales increase, existing stores only (%)	(2)	(4)
Gross margin on store sales (%)	30.9	31.0

SOGO CO., LTD.

For the years ended February 28, 2006 and 2005	Millions of yen	
	2006	2005
Revenues from operations	¥474,732	¥449,049
Operating income	17,248	16,951
Net income	21,219	18,643
Number of stores	12	11
Net sales increase, existing stores only (%)	0.9	(1.0)
Gross margin on merchandise sales (%)	27.2	27.3

THE SEIBU DEPARTMENT STORES, LTD.

For the years ended February 28, 2006 and 2005	Millions of yen 2006	2005
Revenues from operations	¥482,939	¥480,183
Operating income	19,934	19,519
Net income	4,475	6,035
Number of stores	18	18
Net sales increase, existing stores only (%)	1.0	(5.0)
Gross margin on merchandise sales (%)	28.1	28.3

DENNY'S JAPAN CO., LTD.

For the years ended February 28, 2006 and 2005	Millions of yen 2006	2005
Revenues from operations	¥94,560	¥96,524
Net sales	94,474	96,361
Operating income	1,960	3,220
Net income	818	1,285
Number of restaurants	583	582
Net sales increase, existing stores only (%)	(2.9)	(1.2)
Gross margin on restaurant sales (%)	66.8	66.9

SEVEN BANK, LTD.

For the years ended March 31, 2006 and 2005	Millions of yen 2006	2005
Revenues from operations	¥64,613	¥47,968
Ordinary profit	19,410	10,075
Net income	10,591	10,844
Installation of ATMs	11,484	9,981
Average daily number of transactions per ATM	88	77
Total number of transactions per ATM (millions)	342	257

YORK-BENIMARU CO., LTD. (CONSOLIDATED)

For the years ended February 28, 2006 and 2005	Millions of yen 2006	2005
Revenues from operations	¥314,909	¥292,142
Net sales	306,640	284,787
Operating income	14,088	14,374
Net income	7,364	7,799
Number of stores	137	113
Ratio of gross profit to net sales (%)	28.9	28.8
Net sales increase, existing stores only (%) (nonconsolidated)	(2.2)	(1.0)

PRINCIPAL SUBSIDIARIES AND AFFILIATES

(AS OF MAY 31, 2006)

CONVENIENCE STORE OPERATIONS

Seven-Eleven Japan Co., Ltd.
7-Eleven, Inc.
SEVEN-ELEVEN (BEIJING) CO., LTD.
SEVEN-ELEVEN (HAWAII), INC.
TOWER BAKERY CO., LTD.

SUPERSTORE OPERATIONS

Ito-Yokado Co., Ltd.
Marudai Co., Ltd.
Chengdu Ito-Yokado Co., Ltd.
Hua Tang Yokado Commercial Co., Ltd.
York Mart Co., Ltd.
K.K. Sanei
Beijing Wang fu jing Yokado Commercial Co., Ltd.
York-Benimaru Co., Ltd.[1]
Life Foods Co., Ltd.[1]
Super Kadoya Co., Ltd.[1]
Robinson Department Store Co., Ltd.
Mary Ann Co., Ltd.
Oshman's Japan Co., Ltd.
IY Foods K.K.

DEPARTMENT STORE OPERATIONS

Millennium Retailing, Inc.[2]
Sogo Co., Ltd.
THE SEIBU DEPARTMENT STORES, LTD.
SHELL GARDEN CO., LTD.
THE LOFT CO., LTD.[1]
MILLENNIUM Casting Inc.
IKEBUKURO SHOPPING PARK CO., LTD.
Yatsugatake Kogen Lodge Co., Ltd.
GOTTSUO BIN CO., LTD.

RESTAURANT OPERATIONS

Denny's Japan Co., Ltd.
Famil Co., Ltd.
York Bussan K.K.

FINANCIAL SERVICES

Seven Bank, Ltd.
IY Card Service Co., Ltd.
SE CAPITAL CORPORATION
K.K. York Insurance
SEVEN & I Financial Center Co., Ltd.

OTHERS

7dream.com
Seven and Y Corp.
Seven-Meal Service Co., Ltd.
SEVEN & i Life Design Institute Co., Ltd.
K.K. Terre Verte
Mall & SC Development Inc.
IY Real Estate Co., Ltd.
K.K. York Keibi
SEVEN & i Publishing Co., Ltd.

Notes: 1. Affiliate accounted for by the equity method
2. Millennium Retailing, Inc., is the holding company of operating companies, including Sogo Co., Ltd., and THE SEIBU DEPARTMENT STORES, LTD.

INVESTOR INFORMATION

(AS OF FEBRUARY 28, 2006)

Company Name
Seven & i Holdings Co., Ltd.

Head Office
8-8, Nibancho, Chiyoda-ku, Tokyo 102-8452, Japan
Tel: +81-3-6238-3000
Fax: +81-3-3263-0232
URL: http://www.7andi.com/

Date of Establishment
September 1, 2005

Paid-in Capital
¥50,000 million

Number of Employees
52,954 (Consolidated)
379 (Nonconsolidated)

Number of Common Stock
Authorized: 4,500,000,000 shares
Issued: 1,346,383,002 shares

Number of Shareholders
77,413

Stock Listing
Tokyo Stock Exchange

Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan

Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in May each year in Tokyo, Japan. In addition, the Company may hold a special meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

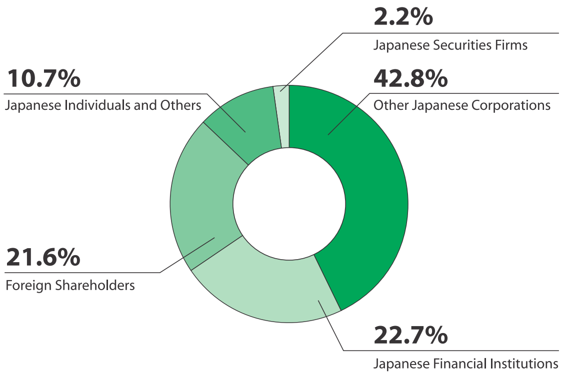
Auditor
ChuoAoyama Audit Corporation
Member Firm of PricewaterhouseCoopers LLP

Principal Shareholders

	Investment by each major shareholder in the Company	
	Number of shares held (thousand shares)	Percentage of shares held
Ito-Kogyo Yugen Kaisha	66,954	5.0%
Japan Trustee Services Bank, Ltd. (Trust account)	50,135	3.7%
The Master Trust Bank of Japan, Ltd. (Trust account)	49,486	3.7%
The Chase Manhattan Bank, N.A. London	34,854	2.6%
State Street Bank and Trust Company	27,988	2.1%
The Dai-ichi Mutual Life Insurance Company	27,577	2.0%
Nomura Securities Co., Ltd.	25,351	1.9%
Masatoshi Ito	21,444	1.6%
Nippon Life Insurance Company	20,664	1.5%
Mitsui & Co., Ltd.	16,222	1.2%

Note: As of February 28, 2006, the former Ito-Yokado Co., Ltd., a consolidated subsidiary of the Company, held 427,509 thousand shares of the Company. As a result of Ito-Yokado's corporate demerger and subsequent merger on March 1, 2006, these shares became treasury stock held by the Company as of March 1, 2006. Accordingly, Ito-Yokado has been removed from the list of shareholders presented above.

Classification of Shareholders by Number of Shares Held



Note: The figure for Other Japanese Corporations includes 427,509 thousand shares held by the former Ito-Yokado Co., Ltd. As a result of Ito-Yokado's corporate demerger and subsequent merger, these shares became treasury stock held by the Company as of March 1, 2006.

Bond Ratings

(AS OF MARCH 1, 2006)

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

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

SEVEN & i HOLDINGS CO., LTD.

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