

LEVERAGING GROUP STRENGTHS TO FOSTER INNOVATION

Integrated Report 2017



INNOVATION

Staying close to customers through different stages of life and changing scenes in daily life

Be a corporate group that plays an integral and indispensable role in each local community by constantly offering products and services that improve the convenience of everyday activities

Corporate Creed

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

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

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



Editorial Policy

From the fiscal year ended February 29, 2016, the Company issues integrated reports that will replace the English-language annual reports that the Company previously issued. The integrated reports combine non-financial information, such as environmental, social and governance information, with financial information. They are intended to present information about the Company's approach to value creation in a format that is easier to understand for shareholders, investors and other stakeholders.

This report was edited with reference to the international integrated reporting framework announced by the International Integrated Reporting Council (IIRC) in December 2013.

For details about ESG information, please refer to the CSR page of the Company's website.

CSR page

<https://www.7andi.com/en/csr/index.html>



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Forward-Looking Statements

This integrated report contains certain statements based on Seven & i Holdings' current plans, estimates, strategies and beliefs; all statements that are not historical fact are forward-looking statements. These statements represent the judgments and hypotheses of the Company's management, based on currently available information.

It is possible that the Company's future performance will differ significantly from the contents of these statements. Accordingly, there is no assurance that the forward-looking statements in this integrated report will prove to be accurate.

Domestic Convenience Store Operations

Convenience store operations support people's lifestyles by providing "close-by, convenient" value. In terms of sales and the number of stores, Seven-Eleven Japan is the established leader, the largest domestic convenience store chain.

- Seven-Eleven Japan Co., Ltd.
- SEVEN-ELEVEN HAWAII, INC.
- SEVEN-ELEVEN (CHINA) INVESTMENT CO., LTD.
- SEVEN-ELEVEN (BEIJING) CO., LTD.
- SEVEN-ELEVEN (CHENGDU) CO., LTD.
- SEVEN-ELEVEN (TIANJIN) CO., LTD.



Overseas Convenience Store Operations

In North America, the network comprises about 8,000 stores, while worldwide, the 7-Eleven sign lights up in 17 countries.

- 7-Eleven, Inc.
- SEJ Asset Management & Investment Company



Superstore Operations

This segment includes superstore operator Ito-Yokado, food supermarket operator York-Benimaru and York Mart.

- Ito-Yokado Co., Ltd.
- York-Benimaru Co., Ltd.
- York Mart Co., Ltd.
- Ito-Yokado (China) Investment Co., Ltd.
- Hua Tang Yokado Commercial Co., Ltd.
- Chengdu Ito-Yokado Co., Ltd.



As of the end of February 2017

Sales

No.1

Convenience store chain ranking by total store sales (Seven-Eleven Japan)

Market share

42.7%

Percentage of female managers

Team leader or higher

30.2%*

Total number of Seven & i Group employees

54,448
employees

* Total for eight companies (Seven & i Holdings, Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank)



For details, see ► **Corporate Profile**



Department Store Operations

Department store operations hinge on Sogo & Seibu, which provide high-quality merchandise and the fine-tuned customer service characteristic of department stores.

■ Sogo & Seibu Co., Ltd.



Financial Services

This segment covers Seven Bank's ATM services as well as a wide range of financial services that principally support retail businesses, including credit cards, electronic money, insurance and leasing.

- Seven Bank, Ltd.
- Seven Financial Service Co., Ltd.
- Seven Card Service Co., Ltd.
- Seven CS Card Service Co., Ltd.
- FCTI, Inc.



Specialty Store Operations

This segment operates Denny's restaurants and specialty stores, such as Akachan Honpo, and also covers various other businesses, including Internet-related services.

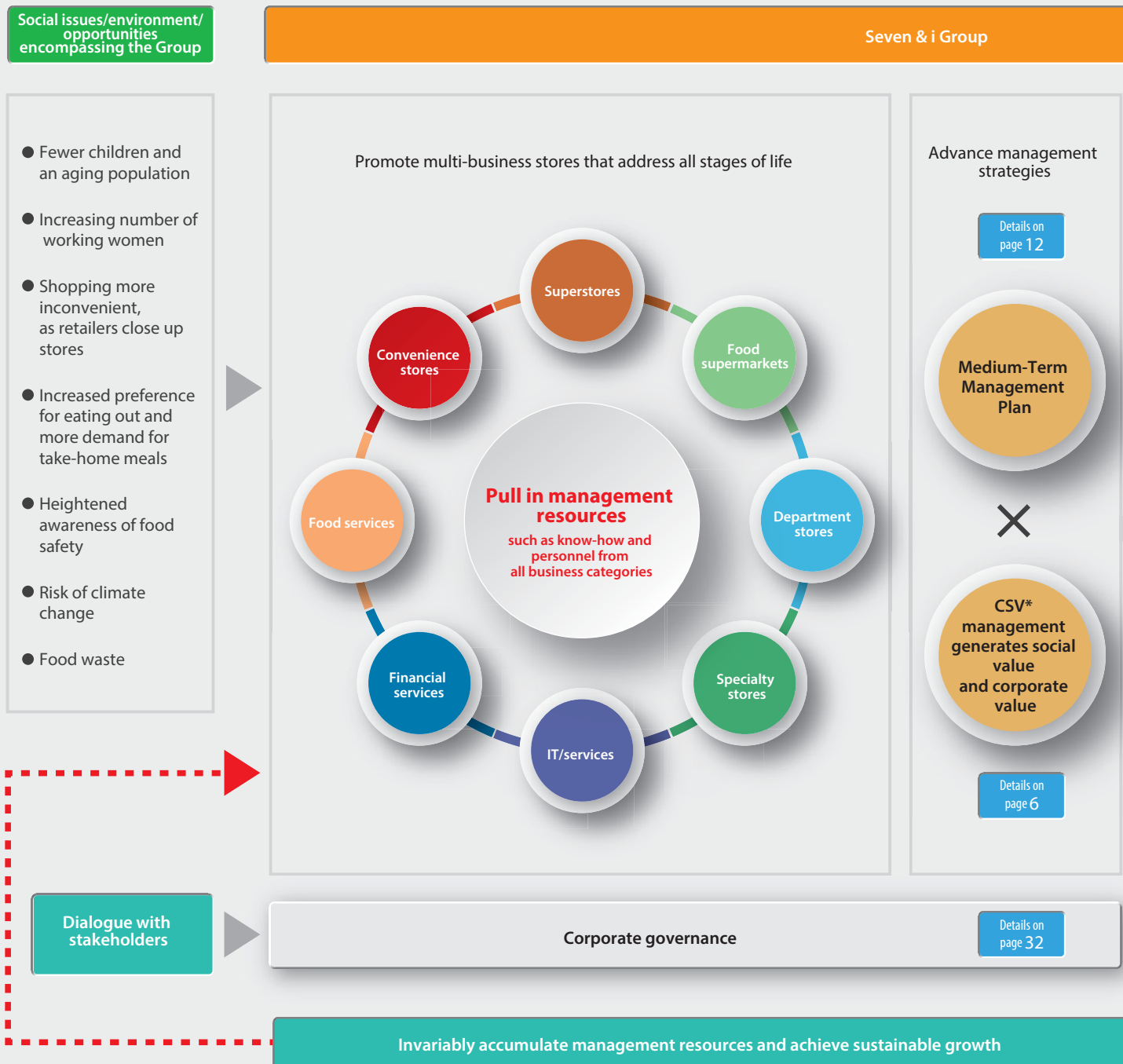
- Akachan Honpo Co., Ltd.
- Seven & i Food Systems Co., Ltd.
- THE LOFT CO., LTD.
- Nissen Holdings Co., Ltd.



For details, see ► **Corporate Outline**

We will pinpoint changes advancing through society and affecting all aspects of life—such as fewer children, more senior citizens and more working women—and create value that meets society’s demands through business activities.

- The Seven & i Group acquires management resources such as business infrastructure and know-how from all areas vital to retail services, striving to realize sustainable growth and future development through robust Group synergy.
- We will build a service platform to respond to customers’ needs at all stages of life and in all daily activities to create the value that society requires through our core business, leveraged by developing products with enhanced quality and new value from the perspectives of safety and reliability, as exemplified by *Seven Premium*, the private brand embraced by all Group companies.



*CSV (Creating Shared Value): Management model/framework and associated initiatives for generating economic value through corporate activities while seeking to be part of solutions to social issues and creating social value



Resolve material issues

Promote development of products and services that maximize the Group's management resources





Providing Social Infrastructure for an Aging Society and Declining Population

Providing Safety and Reliability through Products and Stores

Non-Wasteful Usage of Products, Ingredients and Energy

Supporting the Active Role of Women, Youth and Seniors across the Group and in Society

Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

Using products and services to address material issues and respond to different stages of customers' lives and changing scenes in daily life

Priority theme 1

Providing Social Infrastructure for an Aging Society and Declining Population

The Seven & i Group strives to meet various consumer needs prompted by changes in society, namely, a population of more seniors and fewer children and a rising number of women in the workforce, and to mitigate potential inconvenience in shopping and daily routines and other community-level issues with underlying social implications, fulfilling its mission and role to contribute to social infrastructure with a national network of some 20,900 stores.

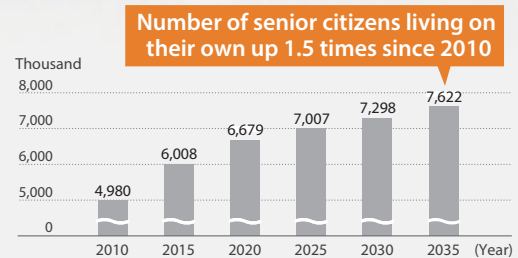
Major social issues: Community life hollowing out, and more people for whom shopping is inconvenient

In Japan, society is aging and the population is shrinking, and while the population is expected to fall below 90 million by 2060, about 40% will be seniors aged 65 and above*. Amid these demographic shifts, by 2035, the number of households composed of a single person aged 65 or older is predicted to rise about one-and-a-half times, compared with the level in 2010. Such a change might lead to different routines, such as less time spent preparing meals, and thus have a huge impact on consumption patterns as well.

Meanwhile, community life is hollowing out, which parallels a declining number of small- and medium-sized retail stores. This, too, presents a big problem for Japan. By 2030, a shortage of supermarkets selling perishables—fresh produce, meat and fish—in shopping districts within walking distance of home will make the customary daily shopping trip for meal ingredients rather inconvenient for elderly people living alone. Forecasts suggest that the number of seniors who would find the situation frustrating could double.

* Source: Fiscal 2013 Population Estimates, Statistics Bureau, Ministry of Internal Affairs and Communications

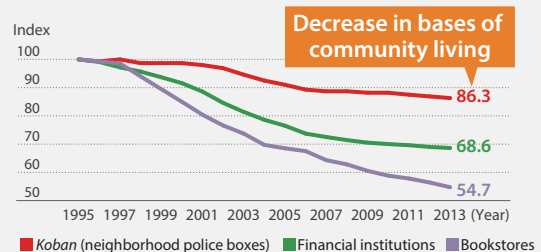
Trends in the Number of Elderly, Single-Person Households



Estimates by the National Institute of Population and Social Security Research

Additional Responses to Changes in Environment (Decrease in bases of social infrastructure)

Indexed against number of social infrastructure bases in 1995



Sources:
 Koban (neighborhood police boxes): "White Paper on Police" by National Police Agency
 Financial institutions: "White Paper on Financial Industry Information Systems" by the Center for Financial Industry Information Systems
 Bookstores: Annual report on the publishing market, by the All Japan Magazine and Book Publisher's and Editor's Association



Enhanced infrastructure and services eliminating inconveniences that accompany changes in society

For customers who find shopping inconvenient, we emphasize Omni-Channel access within the Group as well as *Seven-Meal* delivery service, which provides customers with nutritionally balanced meals supervised by a managing dietician, and *Seven RakuRaku Delivery*, a home delivery service for products ordered over the phone or through other channels. In addition, the Group's network of about 20,900 stores across Japan is itself a lifestyle infrastructure, with ATM access and counters to pay utility bills.



Seven RakuRaku Delivery

Products purchased in-store and products preordered by phone or through other channels are delivered to customers, mainly at home, by COMS ultrasmall electric vehicles and other environment-friendly transport options.



Seven Bank ATMs

In principle, anyone can access ATMs with peace of mind at any location 24 hours a day, 365 days a year, and can deposit, withdraw and transfer funds with cards from more than 590 partner financial institutions and other card-issuing companies.

Encouraging ties with government as one solution to issues facing communities

From the Group perspective, we promote comprehensive alliance agreements with municipalities to revitalize communities. We are active in a wide range of pursuits, including local production for local consumption, support for seniors, health improvement and environmental protection.

We also promote guardian angel agreements so that if, during regular store hours or when making a delivery, a staff member notices someone, particularly an older person, acting strangely or another situation that does not seem right, the staff member will contact local authorities to initiate a response. Other efforts include hiring older workers and taking part in training programs for dementia support workers.

In addition, Seven-Eleven Japan stores have multi-functional copy machines for making copies of official documents, including certified copies of residence.



Number of Comprehensive Alliance Agreements with Municipalities, by Company (as of February 28, 2017)

Seven-Eleven Japan	76
Ito-Yokado	27
Sogo & Seibu	8
York-Benimaru	7



For details, see ► [Seven & i Holdings' Material Issue 1](#)



Priority theme²

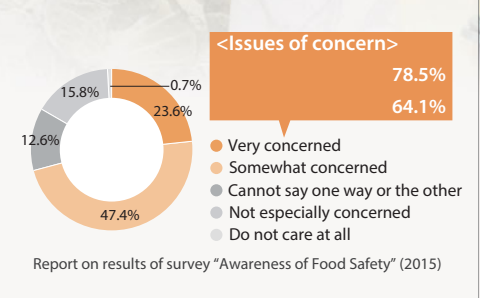
Providing Safety and Reliability Through Products and Stores

Stores under the Seven & i Group umbrella carry about three million items, but efforts are also being made to develop various private-brand products, such as *Seven Premium*, and ensure that products are high quality. In addition, we prioritize our role as part of the social infrastructure and therefore strive to provide customers with daily essentials and services during disasters. We have also made it our mission to preserve regional lifelines by serving as points that are safe and reliable. We strive to resume operations as quickly as possible if stores have to be closed and then we strive to remain open.

Always giving customers a sense of safety and reliability about food and daily life

Against a backdrop of factors such as diversification of diets, globalization of food systems and heightened health awareness, public interest in food safety is growing. One Cabinet Office study found that about 70% of the people surveyed said they are worried about food safety. It is therefore vital for companies to reinforce corporate quality control systems to ensure the safety of food products.

Level of Concern about Food Safety



Efforts to provide food with a higher level of safety and reliability

In September 2001, SEJ became the first convenience store chain to sell original boxed lunches, rice balls and sandwiches free of preservatives and artificial coloring.

Since 2006, SEJ has also been striving to reduce the use of trans-fatty acids, which some experts say have an adverse effect on health. Through ongoing efforts with ingredient producers, SEJ aims to switch to exclusive ingredients with lower levels of trans-fatty acids, such as for fryer oil. Already, SEJ is posting steady sales of original bakery products, including mainstay Melon Pan, and is using zero-cholesterol oil that contains high-oleic acid sunflower oil for deep-frying products in-store.

Efforts to Lower Trans-Fatty Acids in Original Bakery Products (Representative Examples) (Note: Calculated values)

Melon Pan:
per 100g serving



Year	Trans-Fatty Acid (g)
2008	0.18g
2017	0.14g

Croquette Pan:
per 100g serving



Year	Trans-Fatty Acid (g)
2007	0.25g
2017	0.16g



For details, see ▶ [Seven & i Holdings' Material Issue 2](#)



Priority theme³

Non-Wasteful Usage of Products, Ingredients and Energy

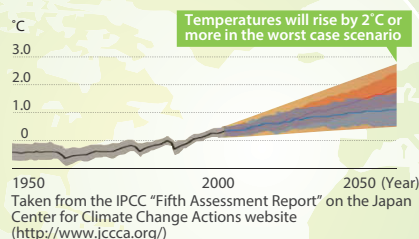
The Seven & i Group operates about 20,900 stores in Japan, mainly in the retail sector. Reduced waste and decreased energy consumption are indispensable to sustainable business activities in harmony with the natural environment. Utilizing energy and resources without waste throughout the value chain, by encompassing customers, business partners and local communities, will reduce environmental burdens, trim costs and provide enormous value not only to the Group but also to society.

Environmental issues with major impact on daily life

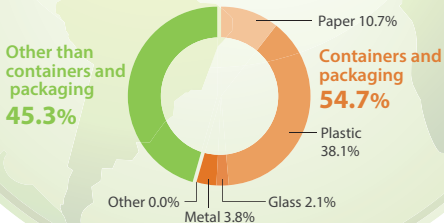
Climate change, largely caused by man-made CO₂ emissions, is a serious threat to the world, highlighted by rising sea levels and an increase in abnormal weather. The issue has consequences for the future.

Closer to home, that is, regarding familiar aspects of daily life, a big issue requiring attention is the amount of general waste thrown out by households. In Japan, containers and packaging waste represent a huge percentage—54.7%—of household garbage, on a volume basis, and efforts to reduce waste are necessary.

Predicted Increases in Global Temperatures



Ratio of Container and Packaging Waste to Total Garbage by Material



2016 survey by the Ministry of the Environment on the actual usage and disposal of container and packaging waste

Rethinking containers and packaging from a material perspective to save resources

Seven Premium—the Seven & i Group's private brand—is a reflection of enthusiastic efforts to reduce waste and reuse resources.

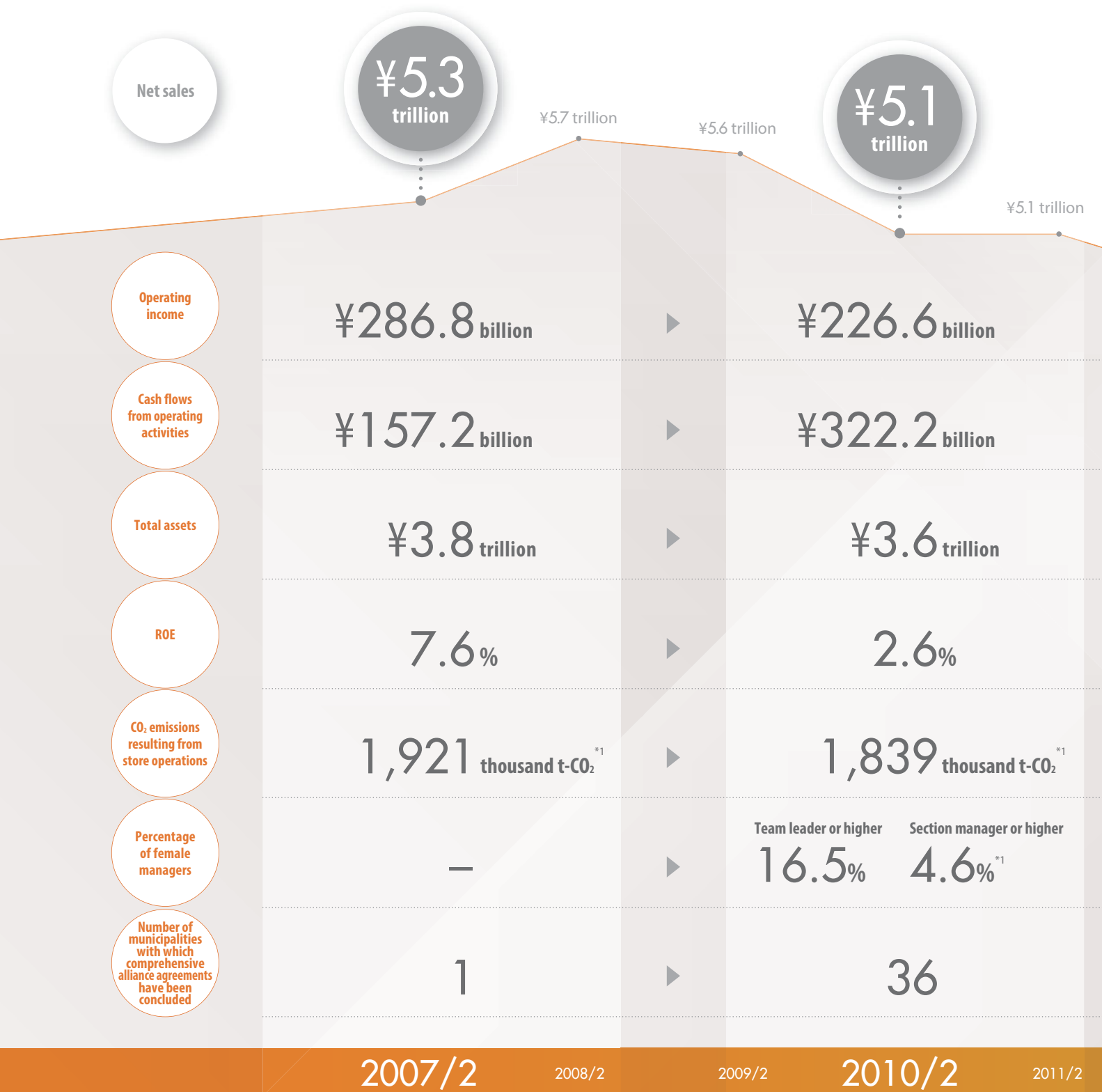
For *SEVEN CAFÉ*, the goal has been to reduce the amount of resources used for containers, packaging and consumable goods, such as cups, lids, straws and stirrers. The cups are made of a material containing a combination of wood from forest thinning and recycled polyethylene terephthalate (PET) bottles. Efforts have also been directed toward packaging that is thinner and lighter. In addition, a deodorizing agent using the grounds of *SEVEN CAFÉ* coffee was developed and is being utilized in store cleaning operations.

We implemented a change in the paper packaging of alcohol products under the *Seven Premium* label, replacing the conventional aluminum packaging material with a non-aluminum packaging material. We also promote an initiative at all stores under the Group umbrella to collect PET bottles, which are recycled into material to make packaging for household goods, such as body soap refill packages.

Existing products	<p>1. Use of recycled PET bottles</p> <p>Reduced CO₂ emissions</p>	<p>2. Eco-friendly labels</p> <p>Reduced CO₂ emissions</p>
	<p>3. Use of wood from forest thinning</p>	<p>4. Switch to non-aluminum paper packaging</p>
Newly considered materials	<p>1. FSC-certified paper</p> <p>2. Recycled PET labels</p> <p>3. Botanical film (Plant-derived packaging)</p> <p>4. Eco A-PET (environmentally friendly) containers, etc.</p>	<p>Currently, 120 products (3.3% of merchandise mix)</p> <p>This fiscal year, 740 products (19.5% of merchandise mix)</p> <p>By the end of February 2020, all products will be environmentally friendly (thanks to use of plant-based inks)</p>

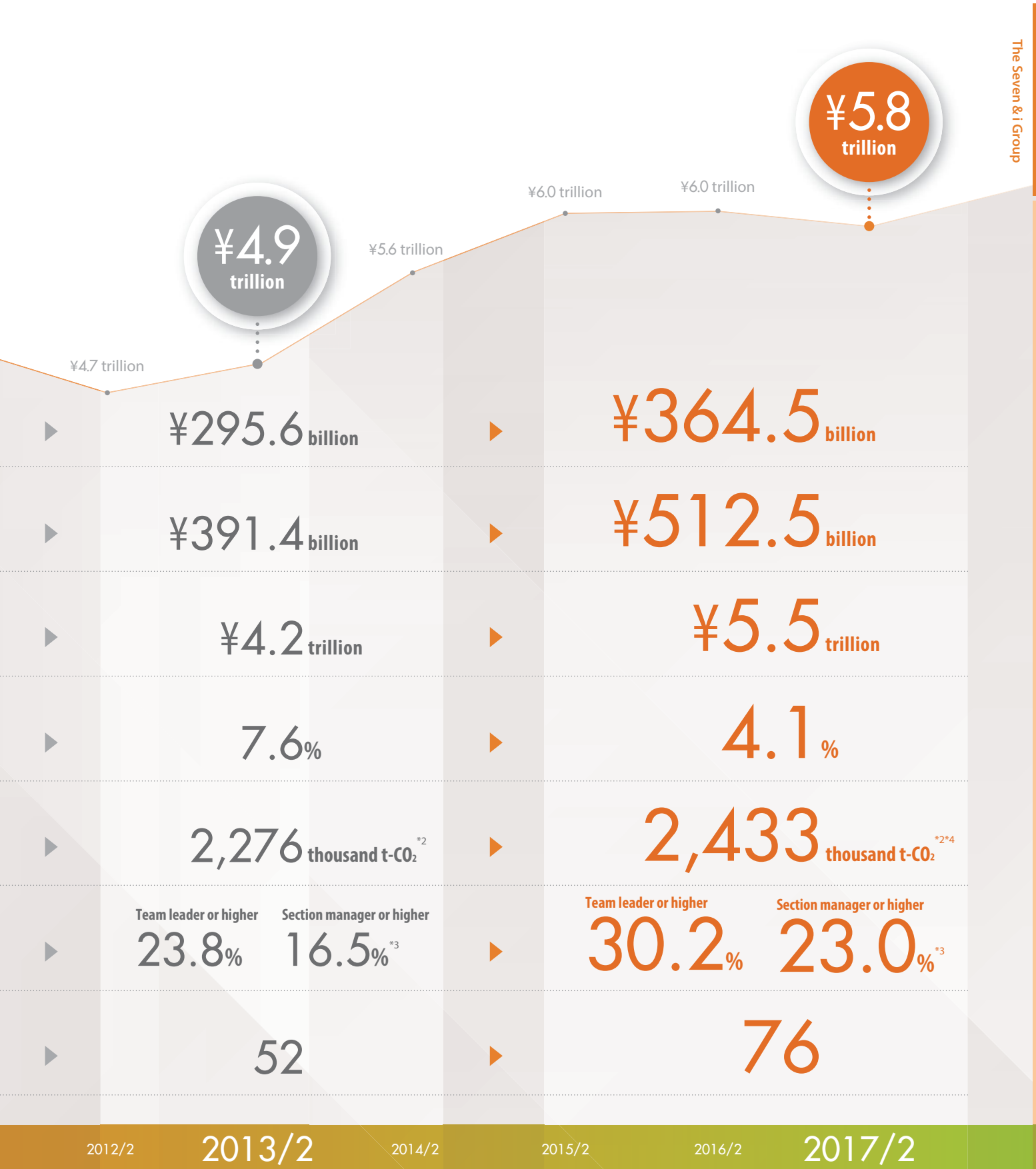
For details, see ▶ **Seven & i Holdings' Material Issue 3**

Performance Highlights



*1. Total for five companies: Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems

*2. Total for nine companies: Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, York Mart, THE LOFT, Akachan Honpo, SHELL GARDEN



*3. Total for eight companies: Seven & i Holdings, Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank

*4. Preliminary figure as of July 31, 2017

Medium-Term Management Plan

Announced October 2016

Through the new management structure, we will strengthen our role and function as a holding company, support and monitor the status of operating companies, promote optimum allocation of resources, improve corporate value over the medium to long term and realize sustainable growth.

Seven & i Group's Management Policy

"Trust" and "Sincerity"
"Responding to Change while Strengthening Fundamentals"

Goals

Enhance convenience in daily life by supplying products and services, while staying closely attuned to the life stages and settings of customers

Become a caring Group indispensable to communities

Imperatives

Harness all manner of resources, including business partners and technological innovations in society

Pursue the absolute value of products and services and the maximization of customer satisfaction

Overview of Medium-Term Management Plan

Operating income of ¥450.0 billion
ROE of 10% for FY2020

(Beginning in Fiscal 2017)

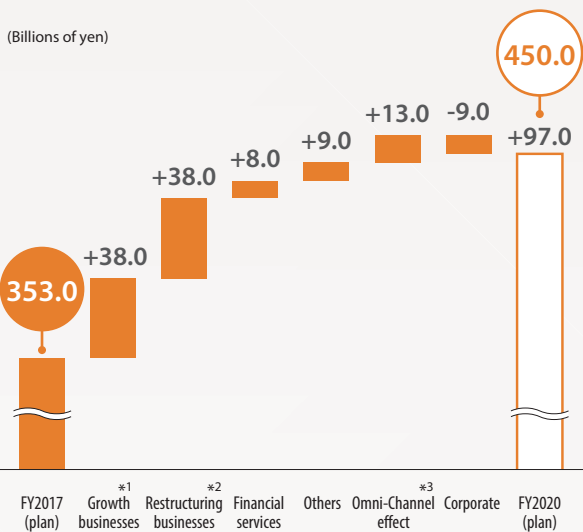
I	<p>Concentrate management resources with a core focus on growth in CVS operations in both Japan and North America</p> <p>For details, see Special Feature 1</p>
II	<p>Promote "selection and concentration" of each geographic area and business category</p> <p>1. Memorandum of Understanding on Capital and Business Alliance with H2O Retailing, succession of Sogo & Seibu department stores in Kansai region, concentration of management resources on major stores in Tokyo metropolitan area</p> <p>2. Ito-Yokado: Start an examination of measures to focus on Tokyo metropolitan area and food business</p> <p>For details, see Special Feature 2</p>
III	<p>Adopt a perspective of property development in revival of general merchandise stores and department stores</p> <p>For details, see Special Feature 2</p>
IV	<p>Review the Omni-Channel Strategy</p> <p>Prioritize customer lifetime value from the standpoint of the customer's strategy</p>
V	<p>Formulate our strategy, and revise our segments from the perspective of our management approach by next spring</p> <p>Completed</p>

Numerical targets in FY2020:



Medium-Term Numerical Targets

Operating income (From Fiscal 2017)



*1. Seven-Eleven Japan, 7-Eleven, Inc.

*2. Ito-Yokado, Sogo & Seibu, Nissen Group

*3. Omni-Channel effect includes impact on Seven-Eleven Japan, etc.

Financial Strategy

Capital expenditures

Disciplined investment aiming to achieve ROA that each operation set

- Examine investment efficiency through Portfolio Committee
- Priority allocation to growth businesses (M&As will also be considered in the North American CVS business)
- Restructuring businesses will invigorate existing stores

Fund procurement

While maintaining the Group's AA rating,

- Procure interest-bearing debt if funds are required for growth strategies
- Tolerate a debt/equity ratio of around 0.5 based on expectations of growth in financial services

Shareholder returns

In line with the basic policy of return to shareholders matched to profit improvement, maintain a consolidated payout ratio of 40%

- Adopt flexible capital policies, while considering the balance with investments in growth businesses

Operating income ¥450.0 billion · ROE 10%

Message from the President



Ryuichi Isaka

President and Representative Director

Joined Seven-Eleven Japan Co., Ltd. (SEJ), in 1980. Became Director of SEJ in 2002 and Managing Executive Officer of SEJ in 2006. After working as Director & Managing Executive Officer of the Merchandising & Foods Department, became President and Representative Director of SEJ in 2009. President and Representative Director of Seven & i Holdings from May 2016

Working as a cohesive unit, we seek to be a retail services group that responds quickly to changes and constantly presents new value matched to customer needs.

Performance Overview for Fiscal 2017 and Forecast for Fiscal 2018

In the fiscal year ended February 28, 2017, revenues from operations slipped 3.5%, or ¥210.0 billion, to ¥5,835.6 billion, but operating income rose 3.5%, or ¥12.2 billion, to ¥364.5 billion. The primary reason for the drop in revenues is the lower price of gasoline in overseas convenience store operations, but the consumer environment in Japan certainly did not evoke a sense of optimism, either.

The improvement in operating income was driven by growth in domestic and overseas convenience store operations as well as financial services and further fueled by successful cost-cutting efforts in superstore operations, particularly at Ito-Yokado. Profit attributable to owners of parent tumbled 39.9%, or ¥64.1 billion, to ¥96.7 billion, largely due to special losses of ¥151.2 billion, up ¥98.7 billion year on year. The core component of these special losses was expense associated with business restructuring. For the fiscal year ending February 28, 2018, we expect the domestic consumer environment to remain challenging, but we anticipate all-around improvement in consolidated results, with revenues from operations rising 4.5%, or ¥264.3 billion, operating income up 6.0%, or ¥21.9 billion, and profit attributable to owners of parent up ¥80.2 billion.

We have just started to solidify a remarkable presence in domestic and overseas convenience store operations. At the same time, we will continue to push ahead on structural reforms in Japan to enhance profitability.

Seeking to solidify a remarkable presence in convenience store operations, we will push ahead with structural reforms to enhance profitability.

Important Factor in Corporate Management

I assumed the position of president and representative director at Seven & i Holdings a little over a year ago.

During this time, I have said over and over that maintaining the PDCA cycle is vital for responding to change. This is true whether the business is at home or abroad. In the retail industry, any action, such as changing the product mix or reimagining the sales floor, is certain to elicit reactions from customers. We all have to consider customer responses to whatever personal hypotheses we form and implement, then constantly rack our brains and tweak the concepts until we see results. Herein lies a sense of accomplishment from a work perspective that underpins the development of skills of not only regular employees but also part-timers and temporary staff.

I am convinced that efforts to encourage this kind of behavior throughout the Group, from the front lines right up to management, translates into growth and higher corporate value over the medium to long term. With this in mind, I began a process of reforms, starting with the governance structure.

Clarifying the Role and Function of a Holding Company

Reshaping the governance structure started with a clarification of the role of the holding company vis-a-vis operating companies—that is, its mission to support and monitor the execution of management duties at operating companies and ensure optimum allocation of resources.

To properly support the execution of management duties at operating companies, Seven & i Holdings must understand management issues specific to each operating company. Because this is also necessary for fair and highly transparent decision-making, we—that is, Seven & i Holdings—and top management at each of the six operating companies* repeatedly held one-on-one meetings to consider management issues from many angles, including financial numbers, the front lines, employees, merchandise, facilities and equipment. We pinpointed those that need attention and repeatedly discussed solutions to each issue to reach a common understanding.

We incorporated the insights gained into the Medium-Term Management Plan and have now embarked on this plan, effective for the fiscal year ending February 28, 2018. The new plan hinges on strategies to reinforce business segments with growth potential and to reacquire profitability in business segments undergoing restructuring. It highlights final-year targets of ¥450.0 billion in consolidated operating income and ROE of 10% by February 29, 2020.

* Seven-Eleven Japan, 7-Eleven, Inc., Ito-Yokado, Sogo & Seibu, York-Benimaru and Seven & i Food Systems (One-on-one meeting and Medium-Term Management Plan described on page 28.)

Respond Quickly to Changes in Operating Environment and Ensure Sustainable Growth

Let me offer an example of how we respond to changes in the operating environment. A close look to confirm trends in the domestic market environment and social structure revealed that the population has been shrinking since 2010. Interestingly, this presents a tremendous opportunity for the retail industry. Consider that the percentage of single-person households rose from 25.6% of all households in 1995 to 34.5% in 2015, while the percentage of two-person households rose from 22.9% to 27.9% over the same period, uptrends that are likely to continue. In addition, the employment rate for women aged 20 to 64 climbed to 70.2%, as of 2016, from 60.9% in 1995. With the number of people per household decreasing and more women gainfully employed, we can infer that people are spending less time on daily shopping and household tasks. Moreover, new growth markets—from the trend for eating out and the demand for take-home meals—have emerged. However, we must acknowledge attendant risks as well. Noticeable issues that affect business are a shortage of workers due to the shrinking population, a higher minimum wage and an expanded enrollment in the social security and health insurance systems, which drives up costs. We scheduled several one-on-one meetings with top management at Seven-Eleven Japan (SEJ) and repeatedly explored strategies to achieve further growth in this challenging environment.

What came of this? First, SEJ decided to implement a special discount of 1% on “Seven-Eleven Charge” royalties to lessen the degree of uncertainty, given prevailing financial pressures, felt by franchise owners—the ultimate partners in SEJ’s franchise business. At the same time, SEJ will encourage franchise owners to support major changes in store layout, including larger-capacity refrigerated cases, bigger reach-in frozen food showcases and wider counter areas. The objective is to boost SEJ’s share of the take-home meal market. Management wants to ensure that franchise owners stay motivated while achieving balanced store network expansion, on the way toward a 50% share of the convenience store market as quickly as possible.

These management decisions reflect a policy to keep franchisees, suppliers, employees

We will reinforce business segments with growth potential and work toward targets of ¥450.0 billion in consolidated operating income and ROE of 10%.



and shareholders properly informed, a plan that underpins efforts to turn changes in the business environment into new business opportunities. I believe these decisions were possible only because of the governance structure we have in place.

Improve 7-Eleven Brand Awareness

7-Eleven signs light up about 63,000 stores in 17 countries and regions around the world, but there is still considerable room for growth. In close cooperation, SEJ and 7-Eleven, Inc. (SEI) are working to assist existing licensees by setting up a multi-faceted support program for merchandise, operations and other aspects of business and by establishing a structure that addresses the needs of each licensee. An approach using this support program is already unfolding in Singapore and other locations.

In June 2017, the 7-Eleven network welcomed its first store in Vietnam. We will extend assistance for building a robust supply chain, based on business support agreements that include SEJ and SEI, which will lead to business expansion with underlying quality. By vigorously promoting global activity of this kind, I am sure the 7-Eleven brand value will rise even higher.

Issues Requiring Management Attention

Operating Profit Margins

	Fiscal 2017 Results	Fiscal 2020 Targets
Ito-Yokado	0.0%	1.3%
Sogo & Seibu	0.6%	1.8%

(Note: Details in Special Feature 2, on page 28)

Profit leans heavily toward domestic and overseas convenience store operations, and the lackluster results of superstore Ito-Yokado's operations and department store operations in particular are undoubtedly a major concern to stakeholders. In drafting the Medium-Term Management Plan, we determined that Ito-Yokado's strength in selling food is indispensable to the development of the Group's *Seven Premium* private brand, and the power of team merchandising in luxury brands and card customer analysis capabilities of Sogo & Seibu is indispensable to the Group's growth. With these factors in mind, we held several one-on-one meetings with each operating company to identify issues requiring attention and then hammered out specific measures to be tackled under the Medium-Term Management Plan.

To avoid any possible delay in executing reforms, we disclosed predicted operating profit margins for Ito-Yokado and Sogo & Seibu for the last year of the Medium-Term Management Plan before embarking on the restructuring process.

Message from the President

Next Stage of Growth —Redefining the Omni- Channel Strategy—

In the not-too-distant future, I believe that the master of information will be the master of competition. Stores under the Seven & i Group's domestic umbrella welcome more than 22 million customers every day. This definitely puts us in the No.1 position. But have we properly identified purchasing conditions on a customer basis? That is hard to say. If purchasing history and customer information could be collected across store networks under the Group umbrella, we might well make sales promotions more effective and draw more customers to an event by utilizing data to provide personalized recommendations or offer incentives that transcend the invisible barriers of each operating company. With this in mind, we redefined the Omni-Channel concept as a CRM* strategy rather than an e-commerce business, which had targeted a large but unspecified number of people, and unveiled new approaches to capture customers' purchasing interests. We plan to launch a new service in the fiscal year ending February 28, 2018, to be followed by the development of handy payment services by the financial services segment and possibly other financial services as well.

By drawing on the comprehensive capabilities of the Group, operating companies will be able to close the distance that separates them from their customers and become their greatest corporate group.

* Customer Relationship Management: A management approach that utilizes information capture, such as customer purchasing history, to personalize such processes as sales, marketing and customer support, and promote continuous contact with customers.

Operating companies will draw on the comprehensive capabilities of the Group to close the distance that separates them from their customers and become their greatest corporate group.



Ensuring Financial Soundness

We seek to maintain a sound financial position while expanding synergies within the Group and improving capital efficiency. Toward this end, we support and monitor operating companies and meticulously track progress on operating strategies and changes in indicators such as owners' equity ratios and interest-bearing debt ratios. At the same time, as described in the Medium-Term Management Plan, we are keen to capitalize on the Group's growth potential and derive financial soundness by aggressively investing in business segments that present growth opportunities.

In the fiscal year ending February 28, 2018, we will drive the potential for growth higher by reinforcing store-opening activity, mainly in business segments with solid promise—details in Special Feature 1, on page 22—and we have earmarked funds for consolidated capital expenditures with a focus on existing stores—details in Special Feature 2, on page 28—in areas of business under restructuring. Capital investment plans for principal operating companies in the current fiscal year are shown in the table below.

Regarding return to shareholders, the basic policy is to distribute dividends commensurate with improvement in profits. Following this policy, we intend to maintain a consolidated dividend payout ratio of 40%, with the objective of boosting the cash dividend per share.

For the fiscal year ending February 28, 2018, we expect to keep the full-year dividend at ¥90 per share, as in the previous fiscal year, which should lead to a payout ratio of 45%.

Capital Investment Plan for Fiscal 2018: Core Operating Companies

—Expanding store openings in growth businesses, invigorating existing stores—

	Amount	YoY %	YoY increase/decrease
Consolidated capital expenditures	¥807.0 billion	210.1%	+ ¥422.8 billion
Seven-Eleven Japan	¥180.0 billion	143.9%	+ ¥54.9 billion
7-Eleven, Inc. (U.S. dollars)	¥510.0 billion (\$4,636.36 million)	235.3% (232.7%)	+ ¥293.2 billion (+ \$2,643.57 million)
Ito-Yokado	¥19.3 billion	63.0%	¥(11.3) billion
York-Benimaru	¥15.0 billion	121.7%	+ ¥2.6 billion
Sogo & Seibu	¥13.0 billion	110.4%	+ ¥1.2 billion

Promoting CSV* Management

As the Group's business activities expand and social issues related to these activities become more serious, society expects and demands much more of us. A sincere effort to address society's needs through core operations is a priority, of course, but our companies must also help solve social issues through contact with society. The Group endeavors to provide products and services fine-tuned to customers' daily routines, a social obligation that carries a very significant weight. Already, the Group's domestic network—about 20,900 stores—and its distribution structure form a sort of social infrastructure supporting daily life in rural communities. From this perspective, the Group has directed concerted efforts into building a shared sense of values with customers and society as a whole, while constantly using core operations to generate the value that society seeks. Our stores in Japan welcome about 22 million people a day, and our diverse business content covers the needs of customers at all stages of life. These are building blocks that we can use to realize communities where people feel safe and secure and to make positive contributions to addressing such social problems as an aging society with fewer children and global environmental issues.

* CSV: Creating Shared Value

We will create a new business model that generates value from both the social and corporate perspectives.

Message from the President

We clarified the Group's CSR policy and, through repeated dialogue with stakeholders in different categories, identified Five Material Issues (Materiality) that we must address to maximize Group synergies.

Five Material Issues (Materiality)

- Providing Social Infrastructure for an Aging Society and Declining Population
- Providing Safety and Reliability through Products and Stores
- Non-Wasteful Usage of Products, Ingredients and Energy
- Supporting the Active Role of Women, Youth and Seniors across the Group and in Society
- Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

In June 2016, we established the Social Value Creation Subcommittee, framed a structure and then reinforced it to create a new business model that generates value from both the social and corporate perspectives. The subcommittee will encourage each operating company under the Group umbrella to define approaches that draw on the characteristics of respective store formats, while strengthening the connections between various companies and people inside and outside the Group and thereby contribute to the realization of a sustainable society through value creation as only the Seven & i Group can.

Improving the Group's Medium- to Long-Term Corporate Value from Both Financial and Non-Financial (ESG) Perspectives Through Enhanced Corporate Governance

I believe the basis of corporate governance is similar to a corporate creed, in that it is a structure that respectable corporations use to build trust with all stakeholders. We strive to improve and enrich the content of corporate governance, based on our founding philosophy.

Under our corporate governance structure, the Audit & Supervisory Board, which includes three Independent Outside Audit & Supervisory Board Members with expertise in such areas as law and financial accounting, conducts audits, and the Board of Directors, which includes four Independent Outside Directors with high-level management experience and insights, focuses on the formulation of management strategies and oversight of business execution. The duties assigned to each executive board complement one other and ensure effective corporate governance.

We have a Nomination and Compensation Committee, chaired by an Independent Outside Director, which functions as an advisory committee to the Board of Directors. The knowledge and advice of Outside Directors are put to good use in committee discussions regarding nomination of officers and other key executive positions and their compensation. Through this approach, we ensure objectivity and transparency in procedures related to decisions on executive nominations and compensation, which promotes improvement in the supervisory function of the Board of Directors and further enhances the corporate governance function.

Increasingly these days, the tendency is to evaluate companies from an ESG—environment, society, governance—perspective, which emphasizes long-term, sustainable corporate growth. In addition to the above, we have made concerted efforts to address environmental issues and diversity in management that links the talents of a deeper reservoir of human resources, including women, to value creation. Going forward, we will continue to enrich the scope of dialogue with stakeholders and fulfill our corporate responsibilities while

earnestly working to ensure highly transparent decision-making and more constructive corporate governance practices. This will allow us—collectively, the Seven & i Group—to remain a trustworthy, upstanding corporate citizen.

In Conclusion

Over the last year, I have had the occasion to talk to many stakeholders, inside and outside the Company, sharing my perspective on the kind of corporate group I want the Seven & i Group to become. I believe I was able to describe the direction we will take as “Team Seven & i” in a way that everyone understood. Then, as a cohesive team, we embarked on the new Medium-Term Management Plan, effective this fiscal year.

There are challenges in our path but we will face them straight on and tackle them with the determination to become a stronger corporate group. In this effort, the continued understanding and support of our stakeholders will be integral to our mutual success.

August 2017



President and Representative Director

A handwritten signature in black ink, appearing to be 'Daiji Ito', written in a cursive style.

Special Feature 1

Year to start establishing dominant position in domestic and overseas convenience store operations

In greater pursuit of “close-by, convenient” concept for stores to meet customer needs

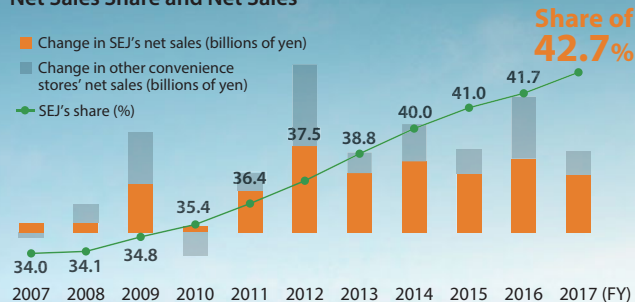
In Japan, the trend toward obtaining meals outside the home is inching steadily along against a backdrop of diversifying lifestyles—influenced by such factors as more working women, more seniors in the population and a decrease in the number of people per household—and less time spent cooking at home. Of note, demand for *sozai* prepared dishes, boxed lunches and other take-home meals is noticeable, fueled by convenience and economic reasoning. Market scale is likely to continue to expand. Under these conditions, competition is crossing business lines, as drugstores expand into the food business and food supermarkets enrich their selection of take-home meals.

Seven-Eleven Japan (SEJ) has taken a flexible but aggressive approach to this situation and tirelessly seeks the “close-by, convenient” value. SEJ has capitalized on strengths, that is, locations, products and service—respectively, stores, the meticulous pursuit of quality and reasonable prices, and such

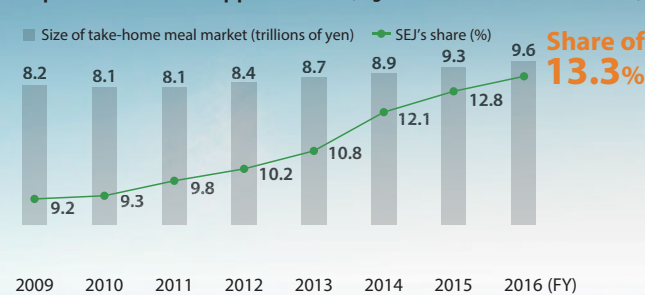
aspects as product lineups, customer service and ATM access, which is indispensable in today’s world—and carefully responded to changing customer needs. As a result, the number of women and seniors who visit 7-Eleven stores has markedly increased over the past few years, pushing SEJ’s share of net sales in the domestic convenience store market to 42.7%, as of the fiscal year ended February 28, 2017.

Realignment in the domestic convenience store sector has accelerated in recent years. SEJ will continue to respond proactively to changes in the external environment amid increasingly fierce competition, with a 50% share of the market well within sight. Going forward, SEJ remains keen to embrace new challenges, including store creation that meets changing customer needs, support for store management and steps to boost productivity, and is sure of posting further growth.

Net Sales Share and Net Sales



Response to Market Opportunities (Higher demand for take-home meals)



Creating Stores

Matched to New Customer Needs

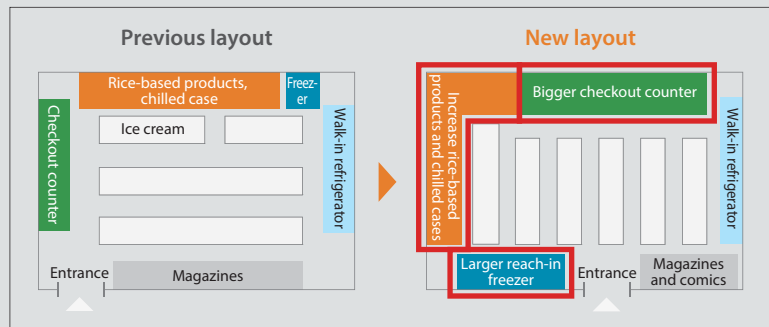


The way convenience stores are used is changing, fueled by more women and senior citizens in the customer base. Over the past 10 years, daily sales of frozen foods and checkout-counter products have soared, up 4.7 times and 2.6 times, respectively, while sales of alcoholic beverages, sundries and magazines have dropped. Not bound by past successes, SEJ is pushing through a process to revamp store layouts that will better meet customer needs under the “close-by, convenient” concept.

For example, consumers are increasingly looking for simplicity and convenience, paralleling the trend toward spending less time cooking at home. To address such changing demands, the new store layout will expand the capacity of refrigerated cases where boxed lunches and chilled products are displayed and frozen food showcases, while creating a bigger checkout counter area. These features will ensure that stores are well prepared to meet newly emerging customer needs as lifestyles continue to

evolve.

This is a foresighted approach that looks beyond current demand conditions to create stores that fit customer needs now and in the future. The new store layout should encourage customers to visit stores more frequently, leading to a potential increase of ¥30,000 to ¥40,000—or 5%—in daily sales per store. In the fiscal year ending February 28, 2018, the new store layout plan will be applied to 800 existing stores and 1,100 new stores, with the process continuing to roll out in the next fiscal year and onward.



Special Features



Another objective is to improve profitability through enhanced product capabilities. For *SEVEN CAFÉ*, which has sold about 2.4 billion cups of coffee since the brand debuted in 2013, new coffee machines will be installed with new café latte options.

Previously, the iced café latte was made with ice milk beads—milk quickly frozen in bead form—but a type of milk was developed especially for *SEVEN CAFÉ* café latte that highlights the delicious consistency and flavor of milk. In conjunction, a new machine was developed with a built-in warming and steam function that brews up a perfect, hot café latte.

In February 2016, test marketing with this café latte machine began in Hokkaido, contributing to a double-digit increase in sales of *SEVEN CAFÉ* there. Seeing the potential, management plans to have the new machine installed throughout the domestic network, with all older machines to be replaced during the fiscal year ending February 28, 2018. Café latte sales are expected to grow on a nationwide basis in the current fiscal year, with an annual target of one billion cups set for the first time.



Special Feature 1

Labor costs have noticeably increased in Japan, reflecting such factors as a labor shortage resulting from a shrinking workforce and a hike in the minimum wage. Under these conditions, a special discount of 1% on “Seven-Eleven Charge” royalties will be implemented, effective September 2017, to enable franchisees—the ultimate partners in the franchise business—to keep a positive outlook on store management.

This measure had been repeatedly discussed for some time in a bid to overcome a challenging work environment, and the timing was deemed perfect to demonstrate synergy with other measures, including the layout change. As a result, SEJ’s own results will show a revenue decrease of about ¥16.0 billion over 12 months, but each store should post an annual increase in sales of about ¥800,000. For franchisees, the portion of royalties thus saved can be applied elsewhere, for more robust product ordering or to offset skyrocketing labor costs, for example, and thereby reduce the possibility of lost sales, and help create an environment in which franchisees can concentrate on strategic store management. The measure has been extremely well received by existing franchisees and is sure to motivate store management by eliminating uncertainties about the future. In addition, the measure may encourage new owners to become franchisees and raise the medium-term share.

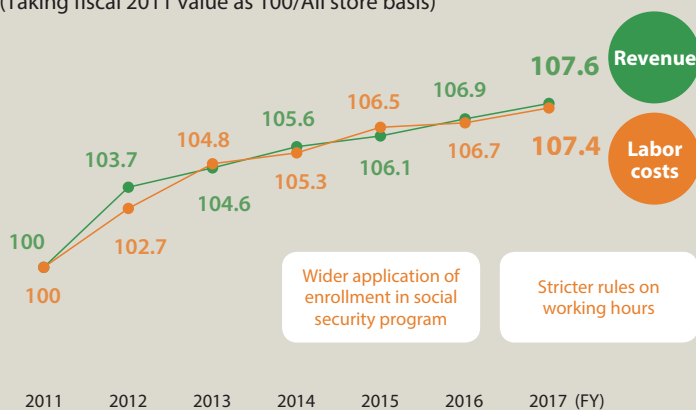


Reduced Royalties to Support Franchisee Owners in Store Management

Annual sales increase of about **¥800,000** per store anticipated



Revenue and Labor Costs at Franchised Stores
(Taking fiscal 2011 value as 100/All store basis)



Wider application of enrollment in social security program

Stricter rules on working hours

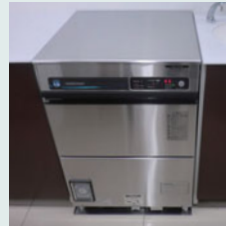
Factors leading to **5%–6% rise in labor costs**

Support for labor-saving store operations and enhanced front-line productivity is also vital if franchised stores are to achieve higher revenues.

For example, dishwashers improve operating efficiency at stores and, in an industry first, SEJ is promoting the installation of such appliances. The use of a dishwasher for equipment such as warmers for *oden* stew, which is commonly eaten in Japan, and the removable parts of fryers should save about an hour a day otherwise spent cleaning this equipment by hand, and thereby boost efficiency. From an environmental perspective, dishwashers could cut annual water consumption by about 20% per store—determined through store trials—and from a hygiene perspective, the high-sterilization effect of dishwashers addresses heightened customer awareness about food safety and reliability. Dishwashers are

gradually being introduced at stores in Japan, with all locations to be equipped by the end of the fiscal year ending February 28, 2018.

Working time	Washing by hand → Dishwasher	About 1 hour less
Labor costs	Reduced 1 hour/day	About ¥300,000 / year less
Water consumption (per store)	Reduction	About 20% less (SEJ's temporary calculation based on store trials)



Improving work efficiency while enhancing quality of customer service



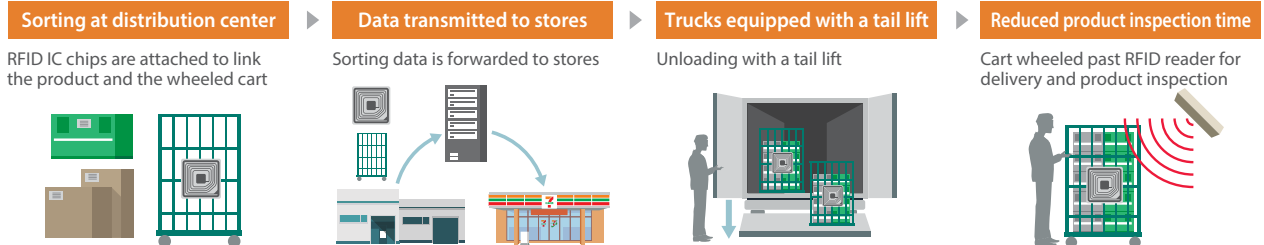
Targeting **Both** Improved Productivity and Work Style Reforms

Ahead of the “Declaration of Plan to Introduce 100 Billion Electronic Tags for Products in Convenience Stores,” formulated by the Ministry of Economy, Trade and Industry, SEJ announced plans to initiate trial tests in August 2017 to validate an energy-saving system for product inspection at stores using radio-frequency identification (RFID*).

When products are sorted at the distribution center, RFID IC chips are attached to each wheeled cart, designating the products on that cart. At stores, inspection only requires the cart to be wheeled past an RFID reader. This system dramatically reduces the time needed to inspect deliveries at stores, allowing staff to apply

those saved minutes to other activities, particularly customer service and front-line operations, which leads to enhanced customer service. In addition, the use of wheeled carts and tail lifts on delivery trucks to load and unload products has reduced the burden on drivers. One vital role that SEJ seeks to play is to build a society that welcomes participation by a diverse workforce, including women and seniors, through the proactive creation of a comfortable work environment for everyone.

Initiate trial tests in August 2017 to verify energy-saving system for product inspection at stores using RFID*



Effects realized by using RFID

Effect of energy-saving system for product inspection at stores

Daily product inspection time **170 minutes → 8 minutes**
(Equivalent to reduction in labor costs of about ¥800,000 annually)

Effect on distribution of drivers' workloads

Major reductions in the work of sorting and loading at distribution centers, unloading from trucks to carts and unloading at stores led to the following:

- Promotion of employment of female drivers**
- Better working conditions for drivers**

* RFID is a technology for contactless reading of data from an IC chip through the transmission of radio waves

Large-Scale M&A in North America Heralds Further Growth

In North America, oil majors are withdrawing from the retail business of operating gas stations with convenience stores, sustaining a process of realignment among chains specializing in convenience store operations.

Against this backdrop, region-based 7-Eleven, Inc. (SEI) has pursued measures to strengthen sales of fresh foods, such as sandwiches, and hot foods, such as pizza, revise its store opening standards and expand its store network through M&As that will significantly contribute to enhanced convenience. Through these measures, SEI has seen daily sales grow, and operating income expanded a solid five times, from \$137.0 million in the fiscal year ended December 31, 2003 to \$704.0 million in the fiscal year ended December 31, 2016.

A priority strategy for SEI is to reinforce take-home meal sales. In the United States, typical convenience stores were originally retail stores attached to gas stations that catered to gas station customers who were primarily interested in cigarettes and beverages. Consequently, the practice of buying a meal at a convenience store is not as firmly rooted in the United States as it is in Japan. In addition, the quality and selection of fast food, such as sandwiches and pizza, leaves considerable room for improvement when compared with the lineup at convenience stores in Japan. This presents a great opportunity for growth in North America. With these underlying factors in mind, it is essential for SEI to expand product lineups of fast food and improve quality through such approaches as product development matched to local characteristics, so that stores identify the latent needs of local customers, expand customer segments and encourage customers to visit more frequently. Cultivating a market concentration strategy will make this possible.

SEI's store-opening policy hinges on organic store openings, based on this market concentration strategy. Integrating M&A activity into the policy, SEI has built the largest network of single-chain convenience stores in North America, with 8,707 stores in operation as of December 2016. Since 2011, SEI has pursued a strategic and aggressive M&A program, which has driven sales increasingly higher.

Against this backdrop, in April 2017, SEI decided to acquire

Number of stores to be acquired

Number of Sunoco stores to be acquired
Number of existing SEI stores*
Total number of stores

Northeast area (including state of New York)
Approx. 450 Approx. 2,960 Approx. 3,410

Southeast area (including Florida)
Approx. 110 Approx. 810 Approx. 920

Southern area (Texas)
Approx. 550 Approx. 680 Approx. 1,230

Three-area total
1,108 Approx. 4,450 Approx. 5,560

Sunoco LP
Strategic withdrawal from retail business to concentrate on wholesale business

SEI
Higher sales and reinforced profitability over medium to long term through addition of more high-quality stores

*Number of SEI stores, as of December 31, 2016





some of the convenience store and gasoline retail businesses of U.S.-based Sunoco LP, a transfer scheduled to take place in the second half of 2017. Sunoco has a large number of stores in Texas and along the U.S. east coast, and the fact that these geographic areas generally correspond to SEI's current store map is a major advantage in terms of implementing the market concentration strategy. In acquiring some of Sunoco's businesses, SEI seeks to enhance its supply chain through a more pervasive store presence. Indeed, SEI will expand operations in Texas to about 1,230 stores, with the addition of about 550 Sunoco stores to its own existing in-state network of about 680 stores. This will be complemented by 110 Sunoco stores in Florida and other parts of the southeast, where SEI currently has 810 stores, bringing the area count to about 920 stores. Meanwhile, in New York and other parts of the northeast, SEI will add about 450 Sunoco stores to its existing area network of 2,960 stores for a total of about 3,410 stores there.

Sunoco has honed a sharp competitive edge in North America, so access to the brand power of Sunoco gasoline is already an advantage. In Sunoco's retail business, gasoline sales hover around 5,100 gallons per day per store, which is close to 1.5 times more than the volume of gasoline sold at SEI's stores. Daily product sales are in the vicinity of \$4,800 per store, which is equal to or greater than the SEI daily average. As part of the acquisition deal, SEI intends to sign an agreement under which Sunoco will supply its competitive-brand gasoline to the acquired stores for 15 years.

The emphasis that SEI has placed on strengthening the product lineups, particularly fresh foods, will be applied at the acquired stores, which will enhance product capabilities and drive up sales as well as the gross profit margin. Following the purchase of stores through the M&A process, SEI will boost profitability by switching signboards to the 7-Eleven brand and will promote franchising.

Also, in 2016 Warabeya Nichiyo Holdings Co., Ltd., acquired a 19.3% equity stake in Prime Deli Corporation, a Texas-based local product supplier to SEI. By drawing on the excellent product development capabilities of Warabeya Nichiyo Holdings accumulated in Japan and a dedicated production facility in Hawaii that supplies 7-Eleven stores exclusively, SEI will raise the quality of fresh foods and reinforce its infrastructure, including the supply of products. This is the first step toward setting up dedicated production facilities for 7-Eleven products in different parts of the United States, as in Japan, and building a structure that can ensure a stable supply of high-quality products.

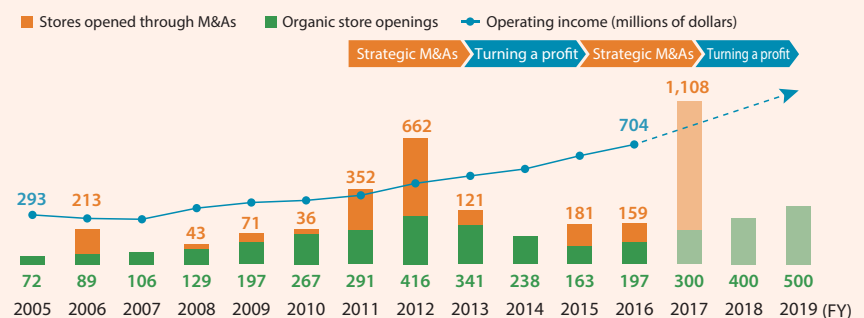
Through these activities, overseas convenience store operations should achieve targets of 10,000 stores, average daily sales of \$5,000 and operating income of \$1.0 billion by the fiscal year ending December 31, 2019. However, the impact of the Sunoco acquisition on performance results has not been factored into the earnings targets since it will probably take several years to turn a profit from those stores.

Outline of Sunoco LP's Retail Business (fiscal 2016)*

Product sales	About \$4,800 per day per store Equal to or greater than SEI average daily sales
Gasoline sales (volume)	About 5,100 gallons per day per store About 1.5 times higher than SEI volume

*Sunoco LP figures are extracted or estimated from its disclosure materials (10-K)

Number of Stores and Operating Income



Comparison of Cash Flows and Compound Annual Growth Rate (CAGR) of Operating Income before and after Strategic M&As

(Millions of dollars)	2005-2010 (annual average)	2011-2016 (annual average)
Capital expenditures	453	1,288
Operating income	320	553
Depreciation and amortization	398	506
Operating cash flow*	590	838
Free cash flow*	136	(449)
Operating income CAGR	5.3%	11.4%

* Operating cash flow = (Operating income x 60%) + Depreciation and amortization
Free cash flow = Operating cash flow - Capital expenditure (simplified calculation)

**Execute high-quality M&As
Build supply chain**

Fiscal 2019 Targets
Number of stores: 10,000
Average daily sales: \$5,000
Operating income: \$1.0 billion



Special Feature 2

Embark on structural reforms with a clear understanding of the issues

The Seven & i Group's superstore and department store operations are pursuing large-scale reforms, including a process of store-oriented selection and concentration and a significant review of the sales area configuration, based on business restructuring hammered out in 2015 to achieve sustainable growth and the Medium-Term Management Plan announced in 2016. In the fiscal year ended February 28, 2017, a more detailed course was plotted under a new management structure, and steps were taken to rebuild the businesses and establish a stronger revenue base. The fiscal year ending February 28, 2018, is the first year of the Group's Medium-Term Management Plan, and a priority will be placed on accelerating structural reforms.

Pinpoint issues through one-on-one meetings with top management

The new structure emphasizes management practices based on the PDCA cycle, and the first priority in formulating plans is to analyze current conditions. The process for obtaining a true picture of what is happening was a series of one-on-one meetings—in a company sense rather than an individual sense—whereby top management at Seven & i Holdings met repeatedly with top management at each operating company.

In the past, solutions to issues were shared among all companies under the holding company umbrella, but the sharing process was insufficient. After the new management structure was introduced, it became clear that this insufficiency required attention. It was time to look squarely at the facts, starting with an analysis of the impact that environments surrounding the Group—macro and consumer—have on sales as well as the status of investment returns to date and the success of the current product mix and marketing activities. As necessary, one-on-one meetings were attended not only by top management from operating companies but also by people responsible for activities in a product division or a planning division integral to the discussion. Seven & i Holdings could ask for opinions and get operating companies to describe operation-specific

problems in the search to identify and share issues of concern from many different angles. One-on-one meetings provided a venue for meticulous discussion on approaches fine-tuned for each company to overcome respective challenges.

Through repeated one-on-one meetings, a shared awareness of the struggles faced by Ito-Yokado and Sogo & Seibu emerged. The meetings made it clear that the environment remains inhospitable for the companies to raise profits above the cost of capital through the operation of stores alone. Management also acknowledged that the situation is exacerbated by aging store buildings, which further decrease profits.

At the same time, Seven & i Holdings accepted the fact that its own efforts fell short of the level needed to improve corporate value over the medium to long term. Management saw that it had not provided operating companies the necessary level of support and monitoring that is incumbent upon a holding company and had not adequately achieved optimum allocation of resources. This realization, however, became the catalyst for strengthening corporate governance.



Key points of structural reform

Superstore Operations (Ito-Yokado)

1. Keep on track to close 40 unprofitable stores, in line with the Medium-Term Management Plan
2. Convert from general merchandise store format to *Ario* high-profit shopping center format
3. Review sales floor space and product lineups of directly operated apparel and household goods, fine-tune them to customer needs and work with tenants to create appealing sales areas
4. Implement store renewal through real estate redevelopment that leverages geographical advantages of stores near train stations, and increase the share of food items in the merchandise mix

Department Store Operations (Sogo & Seibu)

1. Promote store creation matched to regional customer needs, including expansion of food sections, while downsizing apparel sections, reflecting continued decline in apparel sales
2. Concentrate management resources into flagship stores, a process highlighted by the recent transfer of some store operations to H2O Retailing Corporation



Superstore Operations (Ito-Yokado) Renewal

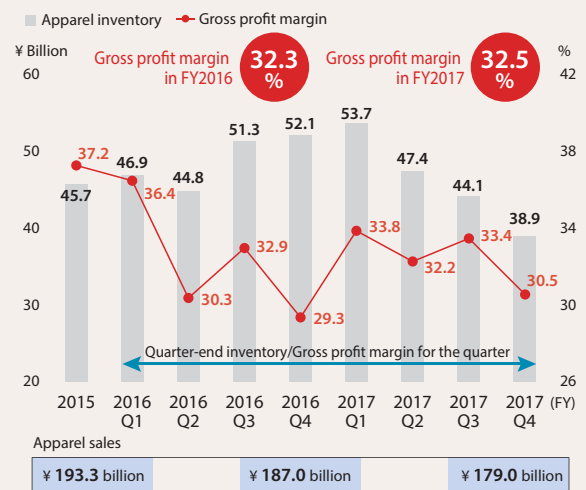
Shared awareness with operating companies about issues

In the fiscal year ended February 29, 2016, Ito-Yokado faced its first loss since the company was established—an operating loss of ¥13.9 billion. Ito-Yokado sorted through underlying factors and identified the following primary issues. First, poor awareness of KPI in conducting business, ballooning advertising and decoration expenses (2.6% to net sales in the fiscal year ended February 29, 2016) and problems with apparel inventory optimization (93 days in inventory, as of February 29, 2016). Second, stores remain in operation even though they are saddled with losses on an operating cash flow basis. Third, a comparison of profit by category shows that apparel and household goods have consistently been in the red for many years and taken for granted as loss-makers. And fourth, a look at sales by store format reveals that general merchandise stores are low on the profitability scale.

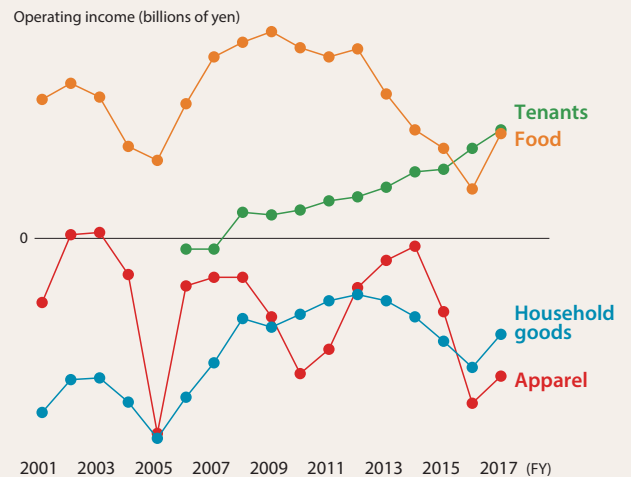
At the same time, Ito-Yokado acknowledged positive points, such as high-profit *Ario* shopping centers, numerous geographically well-positioned stores close to train stations in the Tokyo metropolitan area and marketing power fueled by food, a growth category that represents a cornerstone of healthy profits.



Optimized Apparel Inventory Level Apparel inventory and gross profit margin



Trends in Operating Income by Merchandise Category (For fiscal years ended February 28, 2001 to February 28, 2017)



Special Feature 2



Solution —Store format conversion—

Currently, Ito-Yokado employs three store formats: the *Ario* shopping center format, the general merchandise store format and the food specialty store format.

Management Direction by Store Format

Ario	Downsize directly operated sales floor space for apparel and household goods in line with the expiration of leases, targeting an operating profit margin of 3% by strengthening shopping centers overall.
General merchandise stores	Improve efficiency per area by downsizing floor space for apparel and household goods and increase share for food. Pursue real estate redevelopment utilizing excellent geographical locations of stores.
Food specialty stores	For food, a growth category, conduct operations primarily in the Tokyo metropolitan area.

The existing three store formats will be tweaked so that each generates the best possible operating results. The objective is to break away from standardized chain-store-style store creation.

First off, at *Ario* shopping centers, which are a profit pillar for Ito-Yokado, the mix of directly operated sales floor space, particularly food sections, and tenant space is delivering good results. This format stayed in the black in the fiscal year ended February 29, 2016, even when Ito-Yokado posted losses overall. Going forward, Ito-Yokado will continue to raise the ratio of appealing tenants at its own *Ario* operations to replace directly operated floor space for apparel and household goods, which are low-profit categories. The underlying objective is to improve the ability to draw in customers and contribute to higher overall profitability.

General merchandise stores represent more than 70% of the entire store network. This store format has been plagued by difficult business conditions, mainly due to lackluster performances from the apparel and household goods sections. To realize a more profitable position, Ito-Yokado will downsize these loss-generating sections while, in individual stores, enhancing food sections, focusing on *Seven Premium* private-brand products that distinguish these stores from the competition and product lineups well matched to regional characteristics. As of March 2017, Ito-Yokado had 127 stores in the general merchandise store format but plans to close 20 poor-performing stores by February 28, 2021. The remaining 107 stores will continue operations in a new form: nine locations with large sales floor space will be converted into *Ario* shopping centers, 31 locations will be targeted with tenant mix initiatives to improve sales area efficiency and 67 locations will be tapped for real estate redevelopment or other store-restructuring measures to utilize advantages afforded by location.

As the term implies, food specialty stores focus on food, a growth category. Ito-Yokado will take a flexible approach toward store openings, opting for high-density urban neighborhoods where general merchandise stores are not as easy to place on the retail landscape.

Number of Stores in Fiscal 2017, and 2020 Target

Number of stores by store format

	<i>Ario</i>	General merchandise store	Food specialty store	Total
Beginning of fiscal 2017	17	136	29	182
Opened in fiscal 2017	1	–	3	4
Closed in fiscal 2017	–	9	6	15
Beginning of fiscal 2018	18	127	26	171
Opening in fiscal 2018	1	–	–	1
Closing between fiscal 2018–fiscal 2021	1	20	4	25
Number of stores at the end of fiscal 2021	18	107	22	147



Solution

—Store renewal through real estate redevelopment utilizing advantages of location such as train station proximity, and stronger emphasis on food—

Ito-Yokado, with its emphasis on business expansion in the Tokyo metropolitan area, has many stores in crowd-drawing station-front locations but is also pushing ahead on plans to combine stores and facilities, such as residential units and day-care centers, in harmony with local needs, and revitalize stores as key components of multi-purpose facilities. Buildings owned by Ito-Yokado will be rebuilt using the equivalent exchange system (exchanging the selling price of land for an equity stake in a new building), while the repurposing of leased buildings will be decided in consultation with owners. This kind of real estate redevelopment will underpin efforts by Ito-Yokado to maintain its ability to attract customers and realize higher sales over the medium to long term by emphasizing food and downsizing apparel and household goods, areas of low profitability.

<Real Estate Redevelopment Example>

Ito-Yokado Kawagoe store redevelopment plan (Scheduled opening 2019)

Rebuild using the equivalent exchange system (exchanging the selling price of land for an equity stake in a new building)

Store opened	November 1967
Store closed	October 2016
Sales floor space	4,125 m ²

* First and second floors: supermarket; third floor and above: condominiums
* Concept image

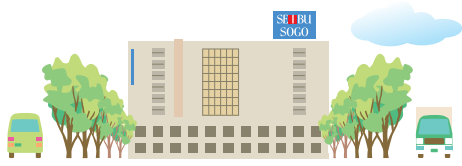
Store opening	2019 (planned)
Sales floor space	1,419m ² (planned)



Moving forward

Ito-Yokado returned to the black in the fiscal year ended February 28, 2017. Factors contributing to that achievement included sharing issues of concern in one-on-one meetings as well as efforts to control expenses, optimize inventory control and resolutely implement steps to close unprofitable stores. In the current fiscal year, which is the first year of the Medium-Term Management Plan, Ito-Yokado will maintain this steely attitude toward unprofitable stores while

converting general merchandise stores to the *Ario* format and strengthening the tenant mix, then prepare for real estate redevelopment projects as part of full-scale reforms in superstore operations.



Department Store Operations (Sogo & Seibu) Renewal

Establish a model for success through selective investments and apply it to other stores

In department store operations, market scale surpassed ¥10 trillion in the early 1990s but has since steadily contracted, dropping below ¥6 trillion in 2016. This trend is largely due to the rise of category killers and stalled progress in solving the problem of homogenization of department stores. Obviously keen to survive amid unavoidable balanced contraction of the market, Sogo & Seibu entered into one-on-one meetings with Seven & i Holdings and, like Ito-Yokado, reconfirmed issues that require attention.

As of February 28, 2016, the Sogo & Seibu network comprised 23 domestic stores, of which 17 were in the suburbs, that is, outside major urban areas such as Tokyo and Osaka. Profits in Japan have been squeezed by the effects of a department store market that shrinks a bit more every year and by sluggish demand for apparel, which limits the extent of investment that can be made. Against this backdrop, management concluded that the department store operations under the Sogo & Seibu brand had the potential to create department stores that are regional leader stores. Also from this perspective, four stores were closed in the fiscal year ended February 28, 2017: Sogo Kashiwa, SEIBU Asahikawa, SEIBU Yao and SEIBU Tsukuba. With this, a call for voluntary retirement was made and answered by 370 people, and an impairment loss on goodwill was also booked, highlighting a restructuring process that is unfolding at unprecedented speed. Sogo & Seibu also applied a process of selection and concentration to the allocation of resources, culminating in a decision to sell Sogo Kobe and SEIBU Takatsuki to H2O Retailing Corporation, which seeks to capture an overwhelming share of the market in the Kansai area.

Meanwhile, at existing stores, SEIBU Tokorozawa was tapped as the new model for suburban-type department stores and underwent renovations. Previously, marketing efforts specifically targeted customers coming into the store, but the perspective was widened and a meticulous analysis of customer groups in the catchment area was performed to formulate store concepts. The analysis confirmed that SEIBU Tokorozawa is located in a commercial district with growth potential, fueled by an expanding number of

condominiums for a growing population as well as an increase in commercial facilities near the train station. But it also revealed that access to city shopping from this location is relatively easy and that customer visits as well as sales have slowed here, mainly because of competition from nearby shopping centers. In addition, there is a strong tendency among customers who shop at the Tokorozawa store—more so than at any other store—to come in with specific purchases in mind. If the store can capitalize on this consumer trait and provide greater incentive for a visit, customers might buy more, which will increase sales.

Of note, sales of food at SEIBU Tokorozawa have been brisk over the last few years, representing about 30% of store sales and trending higher than at other stores. This revealed a business opportunity in enhancing the food section.

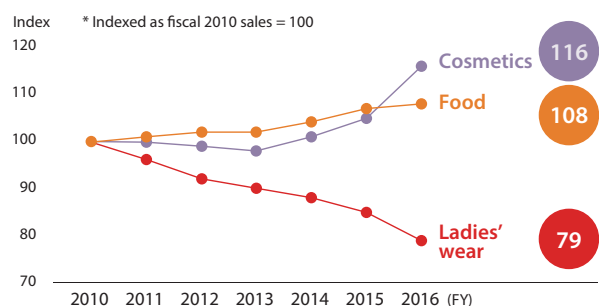
<Example: Efforts at SEIBU Tokorozawa>

Food section	Expanded sales area from one floor to two floors
Floor space for food	From about 3,135 m ² to about 4,950 m ²

Management came to the conclusion that for SEIBU Tokorozawa to survive as a suburban-type store, it was essential that the apparel floor space be downsized due to persistently sluggish demand while the characteristic department store food section, featuring fine-quality daily items, be expanded to two floors and steps be taken to encourage local customers to visit more frequently. Typically, the first floor—as the gateway to a department store—is reserved primarily for cosmetics, but at SEIBU Tokorozawa, the first floor and the first basement level were remodeled into a two-floor format for food to capitalize on demand. This new format—an experiment with a new approach—includes tenants that are popular locally. The renovated SEIBU Tokorozawa held its grand opening in May 2017. The number of customers is up, especially in the food section, indicating success in creating a store showcasing inherent strengths.

Going forward, this example of success at SEIBU Tokorozawa will be applied to other stores, based on the PDCA cycle. Management resources will be selectively allocated to four stores in the Tokyo metropolitan area—flagship store SEIBU Ikebukuro and Sogo Yokohama, Sogo Chiba and Sogo Omiya—and efforts will be directed toward boosting customer numbers by creating appealing stores emphasizing the growth categories of food, cosmetics and luxury items.

Sales Trends by Product Category at Sogo & Seibu



We engage in free and open discussions and arrive at management decisions based on diverse perspectives.

Isaka: In May 2016, the Seven & i Group adopted a new management structure and embarked on steps to improve and enrich the Group's approach to corporate governance. A point of particular emphasis has been the creation of a corporate culture that encourages a free and open exchange of diverse opinions.

The current Board of Directors comprises 13 Directors, four of whom are Independent Outside Directors. This structure reflects the realization that multi-faceted advice from people with diverse knowledge, experience and skills is vital for comprehensive management in a wide-ranging business field.

Yonemura: I have always subscribed to the idea that "all matters should be decided through open discussion," wherein lots of opinions on key proposals are heard before a decision is made. When I first sat in on meetings of the Board of Directors as an Outside Director, I was struck by how quiet the room was. Recently, however, Directors quite freely and openly exchange opinions. This is certainly a change for the better.

Isaka: In the fiscal year ended February 28, 2017, Outside Directors attended meetings of the Board of Directors, which, in principle, are held once a month, and meetings for Outside Directors and Audit & Supervisory Board Members, as well as other meetings,

including the Group's Strategy Meeting. At each meeting, I became more aware of the risk in deciding things on the basis of internal logic alone and came to the personal conclusion that listening to diverse input is vital.

In September 2016, the Board of Directors underwent an effectiveness evaluation. The evaluation drew comments like "Solid marks for setting up organized opportunities, such as meetings for Outside Directors and Audit & Supervisory Board Members, to get background information that leads to animated discussions by the Board of Directors" and "Discussions by the Board of Directors unfold from diverse perspectives, thanks to participation by Outside Directors." The results confirmed that the Board of Directors generates various opinions from inside and outside perspectives, encourages lively discussions and thus functions effectively.

Yonemura: Considering things from another person's perspective and personally making a decision that takes into account another perspective is extremely important.

At the same time, organizational transparency is also vital in the decision-making process and in crisis management. You would think that when a problem crops up, people would perceive it for what it is and deal with it accordingly. But in fact, people often

We will achieve highly transparent management through the multi-faceted advice of diverse Outside Directors.

The Board of Directors at Seven & i Holdings must possess a good balance of knowledge, experience and skill to effectively fulfill its role and responsibilities and must comprise an appropriate number of Directors and a suitable level of diversity. Toward this end, Outside Directors participate in management of the Company, offer a range of advice that includes broaching issues in need of attention and contribute to vigorous discussions.

underestimate the severity of a situation or frame it in their own reality. In that sense, I think recent Board of Directors' discussions show that conditions conducive to management transparency have been achieved.

Isaka: Looking back on the last year, we faced difficult management decisions on numerous occasions. I'm thinking particularly of the capital and business alliance with H2O Retailing and the partial acquisition of Sunoco LP's operations by SEVEN-Eleven, Inc., our North American operating company. Extraordinary meetings of the Board of Directors were held, along with other opportunities to discuss things again and again, and Outside Directors were involved in these meetings. Opinions and suggestions from different perspectives were integral to the final management decisions.

Yonemura: But management decisions are not determined by majority. Ultimately, the final decision rests with top management

alone. It's lonely at the top, and you're always in a tough spot, aren't you? Precisely for that reason, I do my best, given the situation, to listen and identify with top management, no matter how negative the talk may be.

Isaka: The presence of Outside Directors like yourself, Mr. Yonemura, is tremendously reassuring and instills confidence for the road we choose to follow. At meetings, Outside Directors go beyond merely offering opinions but provide specific examples based on situations at other companies. They make it easier to envision what we should do and what we should not do.

A prime example of the results achieved through recurring discussions is the announcement of various strategies and directions in business, exemplified by our Medium-Term Management Plan, and the rather high marks it gets from market watchers for its content. This, I feel, is the truest indication that the active involvement and function of Outside Directors are great advantages for Seven & i Holdings.



Ryuichi Isaka
President and Representative Director



Toshiro Yonemura
Outside Director

Outside Directors, like the accelerator and brakes of a car, help put fair and transparent management into practice.



Ryuichi Isaka

President and Representative Director

Joined Seven-Eleven Japan Co., Ltd. (SEJ), in 1980. Became Director of SEJ in 2002 and Managing Executive Officer of SEJ in 2006. After working as Director & Managing Executive Officer of the Merchandising & Foods Department, became President and Representative Director of SEJ in 2009. President and Representative Director of Seven & i Holdings from May 2016

Yonemura: Initially, when I was sounded out about becoming an Outside Director, I was extremely apprehensive, wondering what kind of role I would fulfill. Typically, Outside Directors have two roles, acting either like an accelerator or the brakes to speed up or slow down initiatives by top management. The accelerator role pushes top management forward on decisions, and I really couldn't see myself fulfilling that role very easily, based on my previous experience. I figured the brake role was a better fit, as I would utilize the experience I had built up within the police department and on the front lines of crisis management to support management.

I think, ultimately, it's management's job to step on the accelerator. But a lead-foot approach will certainly cause problems, so the goal must be to keep moderate pressure on the brakes but still allow the accelerator to work. That is the role I see myself playing.

Isaka: In the independence criteria for Outside Directors, an essential point is "not at risk of having conflicts of interest with general shareholders." Therefore, when I meet with an Outside Director, I have to remember that I am meeting with a representative of general shareholders. I feel that input from Outside Directors, just like questions and comments from shareholders at the annual shareholders' meeting, provide food for thought for managing the Company.

Yonemura: I am also a member of the Nomination and Compensation Committee. Nominating someone for a position—that is, a personnel issue—is so much more difficult than determining compensation. Accurately evaluating the skills of someone within the organization from the perspective of an Outside Director is practically impossible. The major premise must therefore be to first evaluate the individual from an inside, objective stance. And then, the role of the committee would be to discuss whether or not the appointment or rotation is being made for the right reason.

Isaka: Going forward, I think the best approach will be for us to explain decisions arrived at internally to the committee and for the committee to then talk about appropriateness and to ensure that the evaluation criteria are correct. If doubts or questions arise from

Everyone will drive the PDCA cycle forward and create a corporate culture that promotes constant improvement.

our explanation, the committee should indicate that something is amiss. This is precisely how we can put that transparency perspective you mentioned earlier into practice.

Personnel evaluations have a huge impact on personal motivation. For this reason, the evaluation process must be multi-faceted, drawing not only on internal viewpoints but also external viewpoints, such as yours. I believe this is extremely important to ensure fairness and neutrality.

Isaka: I'm interested to hear if you have any expectations for the Board of Directors or any thoughts on areas in need of improvement.

Yonemura: The ultimate objective is sustainable corporate growth. To achieve this, strategies have to be formulated. What you need first is an information strategy. Consider what kind of information to collect, how to analyze it and how to utilize it in management. Vision and preparations are indispensable to the realization of strategies. Vision and preparations are said to be intrinsic components of crisis management, but I think the same applies to management strategies. No information, no strategies. So maybe you'd consider a working group or some other team to handle information?

Another key point is human resources development. Essentially, how much more development will you see in people who already have the ability to think things through? Of particular note, issues pertaining to the development of people and organizations become more apparent as an organization gets bigger. There's no simple technique for solving that situation, but a certain degree of effort must always be expended, don't you think?

Isaka: I see again how achieving what you have said is so dependent upon creating a corporate culture that encourages everyone under the Group umbrella to engage in a free and open exchange of opinions.

The PDCA cycle, then, is sure to take on greater importance, because it involves formulating, implementing and checking a plan and then adjusting it to consistently enhance accuracy. Once this PDCA cycle gets into motion, I believe everyone will realize that thinking is a valuable and enjoyable process. It's my job, I know, to increase that experience throughout the Group.



Toshiro Yonemura

Outside Director

Joined the Tokyo Metropolitan Police Department in 1974, with subsequent positions including Superintendent-General, Deputy Chief Cabinet Secretary for Crisis Management, and Special Advisor to the Cabinet. Currently an Executive Board Member of the Tokyo Organising Committee of the Olympic and Paralympic Games. Outside Director of the Company since May 2014



Features of Corporate Governance and Initiatives toward Its Reinforcement

The mission of Seven & i Holdings, as a holding company that supports and monitors its operating companies, is to strengthen corporate governance and maximize the enterprise value of the Seven & i Group. In taking steps to achieve this goal, the Company pursues Group synergies and implements the appropriate allocation of management resources.

On the other hand, each operating company fulfills its own responsibilities in its field of business, where it acts independently to secure growth in profits and higher capital efficiency.

In this way, responsibilities are clearly allocated among Group companies, and, through oversight by the Directors and auditing by the Audit & Supervisory Board Members, the Company's corporate governance system strives to ensure that these operating company activities are implemented in a manner that is fair, appropriate, and effective.

Outline of the Group's Corporate Governance

1. Composition and number of Outside Directors and Outside Audit & Supervisory Board Members



All Outside Directors and Audit & Supervisory Board Members have been designated **Independent Directors and Audit & Supervisory Board Members**.

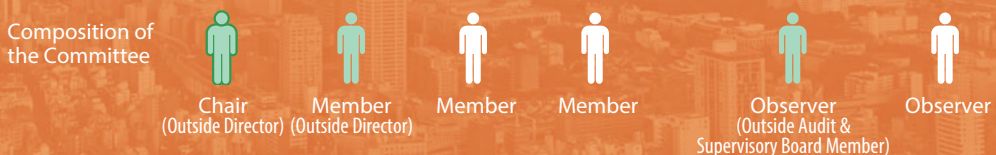


2. Establishment of the Nomination and Compensation Committee

An Independent Outside Director has been appointed **the Chair** of the Nomination and Compensation Committee, an advisory committee to the Board of Directors.

Ensures the objectivity and transparency of procedures for nominating officers and determining compensation.

From the standpoint of ensuring appropriate procedures, **one internal and one Outside Audit & Supervisory Board Member** serve as observers.



Organization

The Company has adopted the Audit & Supervisory Board system for implementing management oversight. The Company's Board of Directors comprises 13 members, of whom four are Outside Directors. Through the use of multiple Outside Directors who maintain their independence and have advanced management knowledge and experience, the Company protects the interests of general shareholders and enhances the quality of decision-making in business execution. To ensure appropriate reflection of the wishes of shareholders, the term of Directors has been set at one year.

To facilitate prompt decision-making and business execution, the Company has introduced the executive officer system. Under this system, the Board of Directors is able to focus on the formulation of management strategies and the oversight of business execution, while the executive officers can focus on business execution.

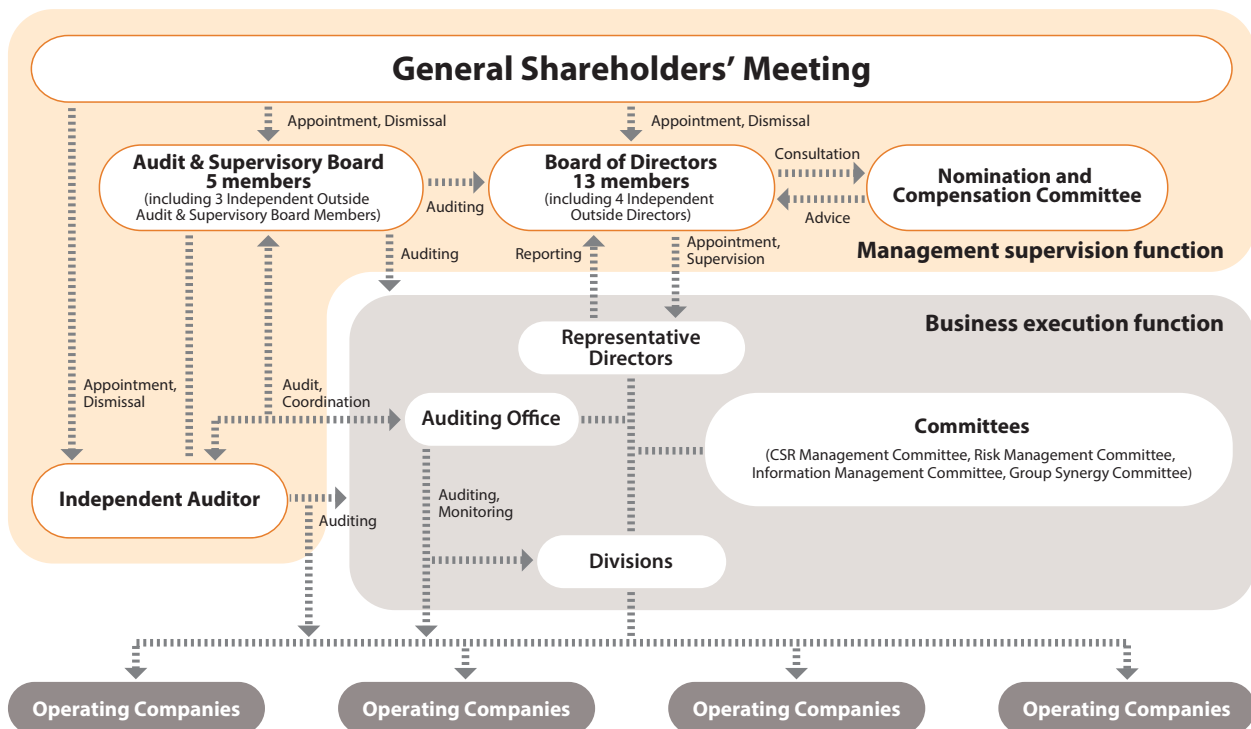
The Audit & Supervisory Board comprises five members, including three Outside Audit & Supervisory Board Members who maintain their independence and have specialized knowledge in such areas as legal affairs and financial accounting. Each Audit & Supervisory Board Member fulfills such tasks as attending meetings of the Board of Directors and other important meetings, exchanging opinions with the Representative Directors,

periodically receiving reports from Directors and others regarding business execution, and actively exchanging information with the Auditing Office. Through these activities, the Audit & Supervisory Board Members audit the Directors' fulfillment of their duties. In addition, the Audit & Supervisory Board Members actively exchange information with the independent auditors to maintain close ties with them with respect to financial audits.

Strengthening Corporate Governance

All of the Company's Outside Directors and Outside Audit & Supervisory Board Members are independent from the Company. Independent Directors and Independent Audit & Supervisory Board Members are defined as Outside Directors and Outside Audit & Supervisory Board Members who have no potential conflicts of interest with general shareholders of the Company. In the event that an Outside Director or an Outside Audit & Supervisory Board Member is likely to be significantly controlled by the management of the Company or is likely to significantly control the management of the Company, that Outside Director or Outside Audit & Supervisory Board Member is considered to have a potential conflict of interest with general shareholders of the Company and is considered to lack independence. In accordance with this fundamental approach, the Company uses the independence

Corporate Governance System (As of May 25, 2017)



criteria established by the financial instrument exchange as the independence criteria for the Company's Outside Directors and Outside Audit & Supervisory Board Members.

These Outside Directors and Outside Audit & Supervisory Board Members hold periodic meetings, as necessary, with the Board of Directors, Representative Directors, and individual Directors to exchange opinions regarding such matters as the

Group's management and corporate governance. In addition, the Company assigns employees to assist the Outside Directors and the Outside Audit & Supervisory Board Members. The Company has established a support system that facilitates smooth information exchange and close interaction with the other Directors and the other Audit & Supervisory Board Members.

Evaluation of Board of Directors' Effectiveness

1. Evaluation process

Since the transition of the Company's management to a new framework in May 2016, the Board of Directors' discussions have become more free and open-minded, and the deliberations and management approach of the board is currently developing.

Accordingly, the recent Board of Directors' evaluation may not necessarily fit with the general evaluation process that assumes the target period to be one year and a certain degree of constancy in the Board of Directors.

Therefore, in light of the situation, and because this was the first time to conduct the evaluation, the recent evaluation of the Board of Directors was conducted as a self-evaluation through a discussion in the Board of Directors based on the above information.

Specifically the evaluation was discussed at a meeting of the Board of Directors held on September 6, 2016 to reevaluate the effectiveness of the Board of Directors at the current time, while making reference to the "Opinions of the Outside Directors and Audit & Supervisory Board Members" from discussions by the

then-current Board of Directors held between the Outside Directors and Audit & Supervisory Board Members and the current management team on April 22, 2016, ahead of the launch of the new management framework.

The method for performing the next evaluation of the Board of Directors' effectiveness will be examined further, making reference to initiatives at other companies.

2. Evaluation details

At a meeting of the Board of Directors held on September 6, 2016, the Board of Directors confirmed with regard to the evaluation of the Board of Directors' effectiveness that the Board of Directors is functioning effectively, with various opinions being voiced at the meetings from inside and outside the Company, and lively discussion taking place. A summary of the individual opinions submitted by each Director and Audit & Supervisory Board Member with regard to this point is presented below.

While referring to these opinions, the Company will strive to further improve the effectiveness of the Board of Directors.

Summary of individual opinions

- Companies have an objective, strategy, mission, and values. The Board of Directors' role is to oversee the realization of these, offer advice, conduct discussions, and if necessary oppose these. Seven & i Holdings' Board of Directors' role should be clarified further while being evaluated going forward.
- One positive development is the proper establishment of a place for providing prior explanation to the Outside Directors and Audit & Supervisory Board Members before the meetings of the Board of Directors to further invigorate the discussion.
- While remembering that too much prior explanation can risk causing the discussion in the meetings of the Board of Directors to become a façade, if a company has wide-ranging business domains, as Seven & i Holdings does, then it is necessary for Outside Directors and Audit & Supervisory Board Members to receive sufficient explanation through participation in important internal meetings and meetings for Outside Directors and Audit & Supervisory Board Members. It is important that explanations prior to the meetings of the Board of Directors are circulated both internally and externally so as to prevent asymmetry of information, thereby making the meetings of the Board of Directors a forum for effective discussion.
- Having Outside Directors and Audit & Supervisory Board Members ensures that the discussion at the meetings of the Board of Directors incorporates diverse viewpoints.
- Opposing opinions are important in a discussion. We analyze why these kinds of opposing opinions arise and strive to understand them. That way, even if we reach a different conclusion after that, it is a conclusion reached by discussing the opposing opinion, a conclusion that comes at the end of an in-depth discussion. It is important for conclusions to be reached by talking through opposing opinions and coming to a different point of view.
- From a perspective of accountability to shareholders, it is important to continue having deep, thorough discussions about the risks involved in M&As and investments.

Role of Each Committee

In March 2016, to enhance the supervisory functions of the Board of Directors and further substantiate corporate governance functions, the Company established the Nomination and Compensation Committee as an advisory committee to the Board

Nomination and Compensation Committee

Main Items for Deliberation

- Basic policies and standards for the nomination of candidates for officers of the Company and candidates for Representative Directors of the core operating companies
- Details of appointment proposals for candidates for officers of the Company and candidates for Representative Directors of the core

of Directors. The main items for deliberation by the Nomination and Compensation Committee and the composition of the committee are as follows.

operating companies

- Basic policies and standards for compensation, etc., for officers of the Company and the core operating companies
- Details of compensation, etc., for officers of the Company (excluding Audit & Supervisory Board Members) and Representative Directors of the core operating companies



Composition

Chair:

Kunio Ito (Independent Outside Director)

Members:

Ryuichi Isaka, Katsuhiko Goto (two internal Directors),
Kunio Ito, Toshiro Yonemura (two Independent Outside Directors)

Observers:

Masao Eguchi (internal Audit & Supervisory Board Member),
Tsuogaki Fujinuma (Outside Audit & Supervisory Board Member)

- Notes: 1. The chair and committee members are selected by the Board of Directors, and the observers are decided through discussion among Audit & Supervisory Board Members.
2. Decisions of the committee are made by a majority of members in attendance, and in the event of a tie the decision is made by the chair.

Furthermore, to strengthen corporate governance from an organizational perspective, the Company has established the CSR Management Committee, the Risk Management Committee, the Information Management Committee, and the Group Synergy Committee under the Representative Directors. An outline of each committee is provided below. Each committee works with the operating companies to determine and disseminate the Group's policies.

CSR Management Committee

The CSR Management Committee endeavors to maintain compliance with the "Seven & i Holdings Corporate Action Guidelines," works to contribute to resolving social issues through business activities, and aims for society and the Group to achieve sustainable growth. To achieve these objectives, the "Corporate Ethics and Culture Subcommittee," the "Consumer Affairs and Fair Business Practices Subcommittee," the "Environment Subcommittee," and the "Social Value Creation Subcommittee" have been established under the CSR Management Committee. Each subcommittee prioritizes main issues to be addressed from the standpoint of the Group's business characteristics and then develops and implements measures to resolve the issues.

Risk Management Committee

The Risk Management Committee regards all phenomena that threaten the continuation of the Group's businesses and hinder sustainable growth as risks, and it works to strengthen comprehensive and integrated risk management.

Information Management Committee

The Information Management Committee works to control issues related to information management.

Group Synergy Committee

The Group Synergy Committee is composed of subcommittees that consider themes shared throughout the Group. For example, by sharing the know-how cultivated by each operating company in such areas as product development and promotion, the committee creates safe, reliable, and useful products and services of high quality, such as the private-brand *Seven Premium* products. The committee is working to reduce costs by making use of the Group's economies of scale in collaborative purchasing of goods, materials, equipment, and other items.



Statements at Meetings of the Board of Directors and the Audit & Supervisory Board in Fiscal 2017

The Outside Directors gave advice and made proposals to ensure the validity and appropriateness of the Board's decision-making, primarily by expressing their opinions. Mr. Scott Trevor Davis expressed opinions mainly from the perspective of management and administration and corporate social responsibility (CSR), Mr. Yoshio Tsukio mainly from the perspective of media policy, Mr. Kunio Ito mainly from the perspective of accounting and management theory, and Mr.

Toshiro Yonemura mainly from the perspective of crisis management.

The Outside Audit & Supervisory Board Members asked questions and expressed their opinions as appropriate. Ms. Yoko Suzuki expressed opinions mainly from a legal perspective, Mr. Tsuguoki Fujinuma mainly from a specialized finance and accounting perspective, and Ms. Kazuko Rudy mainly from a marketing theory perspective.

Attendance at Meetings of the Board of Directors and the Audit & Supervisory Board

Outside Directors

Name	Principal occupation outside the Company	Status of important concurrent positions	Attendance at meetings of Board of Directors
Scott Trevor Davis	Academic	<ul style="list-style-type: none"> Professor of the Department of Global Business, College of Business, Rikkyo University Outside Director of Bridgestone Corporation Outside Director of Sampo Holdings, Inc. 	12 of 13 meetings
Yoshio Tsukio	Academic	<ul style="list-style-type: none"> Representative Director, Tsukio Research Institute 	13 of 13 meetings
Kunio Ito	Academic	<ul style="list-style-type: none"> Research Professor, Graduate School of Commerce and Management, Hitotsubashi University Outside Director of Akebono Brake Industry Co., Ltd. Outside Director of Sumitomo Chemical Company, Limited Outside Director of KOBAYASHI PHARMACEUTICAL CO., LTD. Outside Director of Toray Industries, Inc. 	13 of 13 meetings
Toshiro Yonemura	Outside Director	<ul style="list-style-type: none"> Outside Director of UNIZO Holdings Company, Limited 	12 of 13 meetings

Outside Audit & Supervisory Board Members

Name	Principal occupation outside the Company	Attendance at meetings of Board of Directors	Attendance at meetings of Audit & Supervisory Board
Yoko Suzuki	Lawyer	13 of 13 meetings	19 of 19 meetings
Tsuguoki Fujinuma	Certified Public Accountant	13 of 13 meetings	19 of 19 meetings
Kazuko Rudy	Academic	13 of 13 meetings	19 of 19 meetings

Basic Approach to Compensation of Directors and Audit & Supervisory Board Members

In regard to the compensation of Directors and Audit & Supervisory Board Members, the Company emphasizes compensation that is linked with financial results and enterprise value. To further increase motivation and the desire to contribute to improved financial results and increased enterprise value, and to secure highly capable human resources who will support enhanced corporate governance through appropriate supervision and auditing of operational execution, the Company provides compensation levels and compensation systems that are appropriate to responsibilities.

Compensation of Directors and Audit & Supervisory Board Members

The compensation of Directors and Audit & Supervisory Board Members is decided within the following compensation framework limits determined by the General Shareholders' Meeting.

- Directors: Not more than ¥1.0 billion per year (not including amounts paid as salaries for employees to Directors who serve concurrently as employees)

Maximum issue value for stock options for stock-linked compensation share subscription rights for Directors awarded under these compensation framework limits: ¥200 million per year

- Audit & Supervisory Board Members: Not more than ¥100 million per year

Compensation of Directors

- System for compensation of Directors

The basic components of compensation for Directors are fixed monthly compensation and results-linked compensation (bonuses or stock options for stock-linked compensation). The compensation system is based on the position of each Director.

The compensation of the Outside Directors, who are independent from business execution, consists only of fixed monthly compensation. Outside Directors are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).

- Method of determining compensation of Directors

Through deliberations by the Nomination and Compensation Committee, the compensation of Directors is determined in accordance with the evaluation of each Director's function and degree of contribution as well as the Group's results.

Compensation of Audit & Supervisory Board Members

- System for compensation of Audit & Supervisory Board Members

With an emphasis on further strengthening the independence of Audit & Supervisory Board Members from management, the compensation of Audit & Supervisory Board Members consists only of fixed monthly compensation. Audit & Supervisory Board Members are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).

- Method of determining compensation of Audit & Supervisory Board Members

The compensation of Audit & Supervisory Board Members is determined through discussions by the Audit & Supervisory Board.

Reinforcing Internal Control Systems

Seven & i Holdings has worked to enhance its internal control systems to achieve the required conditions of internal control: 1) operational effectiveness and efficiency; 2) reliability in financial reporting; 3) strict compliance with laws and regulations in operating activities; and 4) appropriate preservation of assets.

The Board of Directors responded to the enforcement of the Companies Act of Japan in May 2006 by passing a resolution concerning the Company's "Basic Policy on Internal Control Systems." The Board of Directors continually monitors the establishment of various rules as well as the status of risk management.

In February 2009, as one facet of initiatives implemented in response to the introduction of the internal control reporting system under the Financial Instruments and Exchange Act, the

Company formulated the "Rules for Establishing Internal Control Concerning Financial Reporting" and the "Rules for Evaluating Internal Control Concerning Financial Reporting." In accordance with these rules, in March 2009 the Company established the position of internal control evaluation director in the Auditing Office. The internal control evaluation director implements evaluations of internal control concerning financial reporting for the Group as a whole.

In addition to this type of system enhancement, the Company has prepared an *Internal Control Handbook*. The Company is working to ensure that all of the Group's employees understand the objectives and importance of internal control.

Moreover, following revisions to the Companies Act and the Ordinance for Enforcement of the Companies Act in May 2015, the Company established systems for ensuring appropriate operations within the corporate group formed by the Company and its subsidiaries and enhanced and clarified the regulations relating to systems for supporting audits and so forth.

Compliance

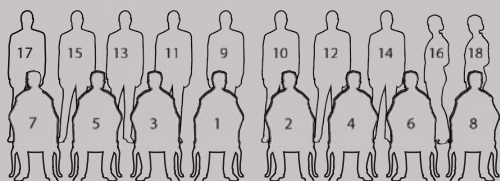
Each of the Group's core operating companies has established a Corporate Ethics Committee and is working to ensure that all employees have knowledge of the "Seven & i Holdings Corporate Action Guidelines" and rigorously comply with laws and regulations. The "Seven & i Holdings Corporate Action Guidelines" were revised in September 2011 in line with changes in the Group's fields of business and operating environment. In addition, each operating company formulated "Principles for Action Guidelines" and specified standards for the actions of employees. Moreover, the personnel responsible for the operating companies' Corporate Ethics Committees participate in the Seven & i Holdings Corporate Ethics and Culture Subcommittee. In this way, the Company is working to foster shared objectives and a common understanding throughout the Group and to share measures that have proven effective. Further, the operating companies' Corporate Ethics Committees analyze and verify the details of consultations from the help lines for company employees and from the Groupwide Help Line, a consultation help desk that is operated by a third-party organization for all employees of domestic consolidated subsidiaries. Through these committees, we are taking steps to improve the workplace environment, such as working to limit and prevent actions that violate the "Seven & i Holdings Corporate Action Guidelines" and to resolve any problems.



Key information on the Company's corporate governance is summarized, organized and explained in Company terms for ease of understanding. ►
Corporate Governance Report

Corporate Governance

Board of Directors, Audit & Supervisory Board Members, and Executive Officers (As of May 25, 2017)



1. Ryuichi Isaka, 2. Katsuhiro Goto, 3. Junro Ito, 4. Katsutane Aihara, 5. Kimiyoshi Yamaguchi, 6. Kazuki Furuya, 7. Takashi Anzai, 8. Zenko Ohtaka, 9. Joseph Michael DePinto, 10. Scott Trevor Davis, 11. Yoshio Tsukio, 12. Kunio Ito, 13. Toshiro Yonemura, 14. Masao Eguchi, 15. Noriyuki Habano, 16. Yoko Suzuki, 17. Tsuguoki Fujinuma, 18. Kazuko Rudy

Ryuichi Isaka
President and Representative
Director

Katsuhiro Goto
Vice President and Representative
Director

Junro Ito
Director and Managing Executive
Officer

Katsutane Aihara
Director and Executive Officer

Kimiyoshi Yamaguchi
Director and Executive Officer

Kazuki Furuya
Director



Takashi Anzai
Director

Zenko Ohtaka
Director

Joseph Michael DePinto
Director

Scott Trevor Davis
Outside Director

Yoshio Tsukio
Outside Director

Kunio Ito
Outside Director

Toshiro Yonemura
Outside Director

Masao Eguchi
Full-time Audit & Supervisory
Board Member

Noriyuki Habano
Full-time Audit & Supervisory
Board Member

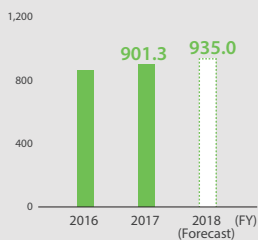
Yoko Suzuki
Outside Audit & Supervisory Board
Member

Tsuguoki Fujinuma
Outside Audit & Supervisory Board
Member

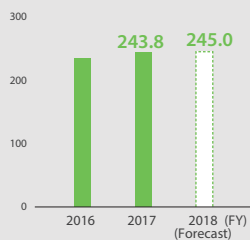
Kazuko Rudy
Outside Audit & Supervisory Board
Member

Review of Operations Domestic Convenience Store Operations

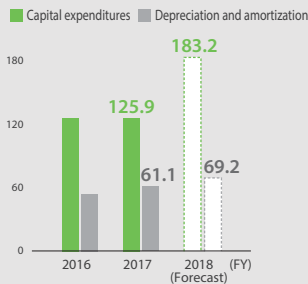
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



Core Operating Companies

Seven-Eleven Japan Co., Ltd.
SEVEN-ELEVEN HAWAII, INC.
SEVEN-ELEVEN (CHINA) INVESTMENT CO., LTD.
SEVEN-ELEVEN (BEIJING) CO., LTD.
SEVEN-ELEVEN (CHENGDU) CO., LTD.
SEVEN-ELEVEN (TIANJIN) CO., LTD.
(9 consolidated subsidiaries, 5 affiliates;
14 companies, in total)



Kazuki Furuya
President and
Representative Director
Seven-Eleven Japan Co., Ltd.

Business Overview for Fiscal 2017

Revenues from domestic convenience store operations rose 4.4% year on year, to ¥901,306 million, and operating income increased 3.7%, to ¥243,839 million.

Seeking to translate structural changes in society into growth opportunities, Seven-Eleven Japan (SEJ) continued to promote aggressive store-opening policies and reinforced efforts to develop products and improve quality. SEJ aggressively implemented a relocation plan to enhance store quality and also opened new stores based on a thorough review of store-opening standards. As a result, the domestic network reached 19,422 stores, as of February 28, 2017, up 850 from the end of the previous fiscal year. In merchandising, SEJ vigorously revamped basic products, such as sandwiches and fryer items, and worked to boost product quality, leading to a favorable shift in sales. Consequently, sales at existing stores continued to chart upward, extending growth for 55 consecutive months since August 2012. Total store sales—the combination of sales from directly operated stores and franchised stores—hit ¥4,515,605 million, up 5.2% from the previous fiscal year.

SEJ's store network in China comprised 219 stores in Beijing, 82 stores in Tianjin and 67 stores in Chengdu, as of February 28, 2017.



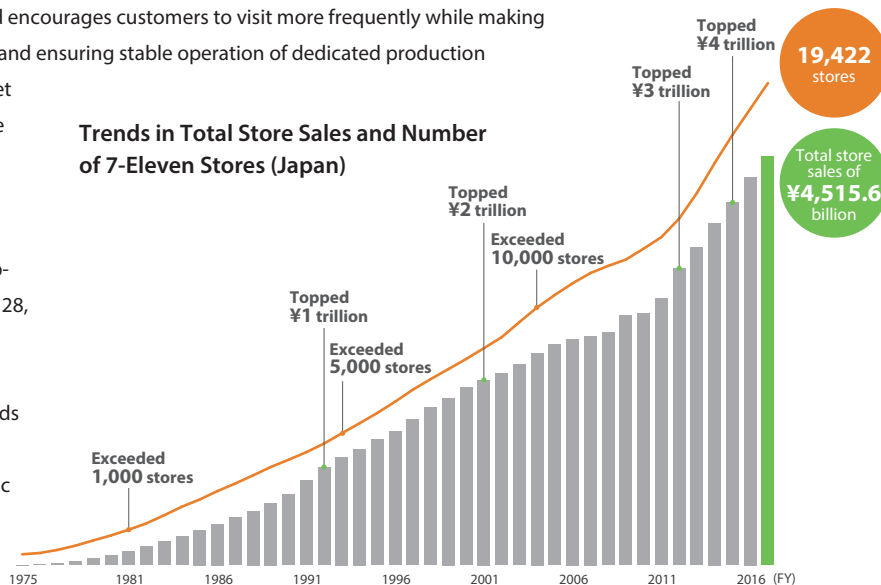
Sustained Growth Through Untiring Responsiveness to Change

Domestic convenience store operations are a pillar of growth for the Seven & i Group. At SEJ, we strive to create high-quality stores that address changes in society, and we take a vigorous approach to store openings. In the fiscal year ended February 28, 2017, SEJ captured a 42.7% share of net sales of the convenience store market in Japan.

From our earliest days, we have adhered to a market concentration strategy under which we expand the store network in a region by opening new stores bordering the catchment areas of existing stores. This store-opening method keeps the 7-Eleven profile high and encourages customers to visit more frequently while making advertising and distribution activities more efficient and ensuring stable operation of dedicated production facilities in each region. The advantages of the market concentration strategy contribute significantly to the development of original product strategies and the creation of stores with close ties to the community. During the fiscal year ended February 28, 2017, we opened 1,682 stores. We will continue with our scrap-and-build strategy in the fiscal year ending February 28, 2018, opening 1,600 new stores for a net increase of 700 stores. Going forward, we will achieve further growth through detailed responses to changing needs at the community level and society in general. Ultimately, our goal is to capture 50% of the domestic convenience store market on a net sales basis.

For details, see Special Feature 1

Trends in Total Store Sales and Number of 7-Eleven Stores (Japan)



Stronger Front-Line Capabilities Achieved Through Close Communication Between Stores and Head Office

7-Eleven strengths are products, exemplified by flavor and quality that are carefully pursued, location of stores and services, such as ATM access, that underpin customer satisfaction and the social infrastructure. In addition, the stores benefit from a nationwide team of about 2,500 Operations Field Consultants (OFCs), who support franchised store management. OFCs make regular visits to the seven or eight franchised stores under their supervision and help solve franchise-specific issues, with an emphasis on four basic principles—product lineup, freshness management, friendly service and cleanliness. They offer suggestions to improve the accuracy of ordering and enhance the product lineup and display method, based on hypothesis and verification, and also implement customer service training for staff and strive to boost front-line motivation and the level of service by encouraging each store owner and store staff to embrace a team spirit.

OFCs from all over Japan gather at the Tokyo Head Office every other week to share information on basic strategies and the latest market trends, success stories in each area, new product features and the background and purpose of such product launches. These meetings are also a venue to confirm action plans for achieving monthly and weekly targets. The direction and approaches shared there are then carefully conveyed to all domestic stores by OFCs. This process of franchisees and the Head Office working as a cohesive unit facilitates store management.



Consultants Meeting

OFCs, who are responsible for providing management advice to stores, get together every other week to share information and know-how to strengthen front-line capabilities.

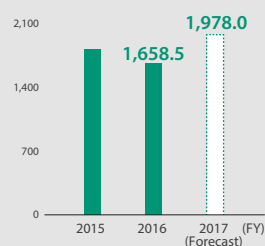


Conversations Through OFC Visits

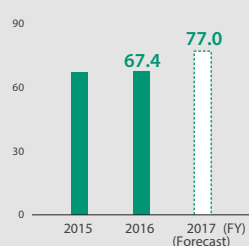
OFCs work with owners and their staff to solve issues specific to respective stores, with an emphasis on four basic principles—product lineup, freshness management, friendly service and cleanliness.

Review of Operations Overseas Convenience Store Operations

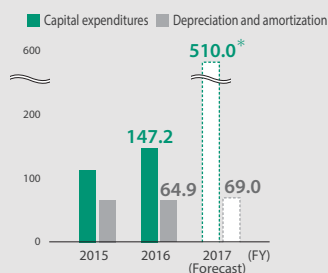
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



* Includes acquisition of some of the business of Sunoco LP

Core Operating Companies

7-Eleven, Inc.
SEJ Asset Management & Investment Company
(75 consolidated subsidiaries,
2 affiliates; 77 companies, in total)



Joseph Michael DePinto
President and
Representative Director
7-Eleven, Inc.

Business Overview for Fiscal 2016

Revenues from overseas convenience store operations decreased 8.9% year on year, to ¥1,658,542 million, but operating income increased 0.9%, to ¥67,421 million. 7-Eleven, Inc. (SEI), which pursues business in North America, promoted opening stores in urban areas but closed some existing and acquired stores, based on profitability. In July 2016, SEI acquired the stores of CST Brands, Inc., in the United States, and later that year, in September, began a phased acquisition of stores from Imperial Oil Limited of Canada. As a result, SEI's store network reached 8,707 stores, as of December 31, 2016, up 207 from a year earlier.

On the product front, SEI continued to direct effort into the development and sale of *7-Select* private-brand products and fast foods. SEI saw sales of soft drinks and alcoholic beverages increase. These trends fueled a positive year-on-year shift in sales at existing stores in the United States on a U.S.-dollar basis, but the impact of exchange rates caused total store sales—that is, sales from directly operated stores and franchised stores—to decrease 7.3%, to ¥2,735,199 million.



Establishment of a Foundation for Growth Through the Market Concentration Strategy and M&As

In recent years, SEI has been working to make distribution and sales more efficient by emphasizing the market concentration strategy, especially on the east and west coast and in the midwest—areas of the United States with noticeably high population density. Within this strategy, we are reinforcing store-opening activity in urban office districts where demand for fresh foods, such as sandwiches, salads and cut fruits, is high. Of the roughly 150,000 convenience stores in the United States, SEI has barely 6%, so there is still sufficient room for growth. We aim to capture a larger share of the market through M&A opportunities, as appropriate, to accelerate the formation of a more extensive store network.

The market concentration strategy is directly related to the conversion of stores to franchise status. Typically in the United States, convenience stores are directly operated stores attached to gas stations, which are the core source of sales. But a sustained focus on the market concentration strategy and consistent efforts to convert directly operated stores into franchises have prompted an increase in the number of franchised stores oriented toward merchandise sales. As a result, royalty revenues are contributing to enhanced SEI profitability. As of December 31, 2016, franchised stores represented about 80% of all stores, not including those in Canada, and average daily sales per store continued to expand, reflecting a stronger fresh foods lineup, stricter standards for opening stores and repeated excellent-quality M&A targets.

As part of our strategic M&A pursuit, in April 2017, we decided to acquire some of the retail business of Sunoco LP, adding 1,108 stores, primarily in Texas and New York, regions that overlap with our store-opening area. Through this acquisition, we expect to greatly reinforce our store network, enhance the supply chain and improve profitability.

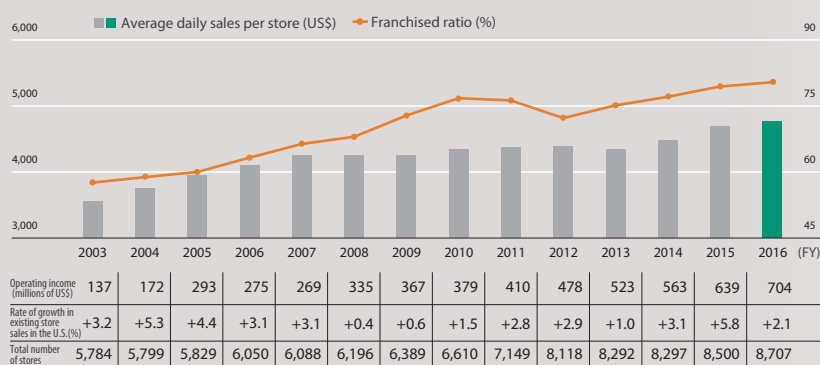


Merchandising Attuned to Market Characteristics and Customer Purchasing Behavior

Our merchandising hinges on highly precise marketing and efforts to promote differentiation through top-quality fast foods and 7-Select private-brand products. In the United States, with its very diverse cultural landscape, foods tend to be more regionally distinctive than in Japan. In addition, consumers have noticeably high standards for food quality and are always looking for time-saving options. We analyzed these market characteristics in detail and applied the insight gained to the development process for fresh foods, which have not been particularly well stocked in the market as a whole. At the same time, an analysis of customer purchasing behavior has enabled us to implement detailed responses with an emphasis on best-selling products by time of day. For example, the data prompted us to reinforce sales of hot foods, such as pizza and fried chicken, which are customer favorites in the evening and late at night.

We will enhance the appeal of products and continue to expand the store network as we work toward goals of \$5,000 in average daily sales per store, a network of 10,000 stores and \$1.0 billion in operating income by the fiscal year ending December 31, 2019. Going forward, we will improve profitability by further increasing the franchised ratio and enhancing the quality of each store.

Average Daily Sales per Store and Franchised Ratio



Key Numerical Targets for Fiscal 2017

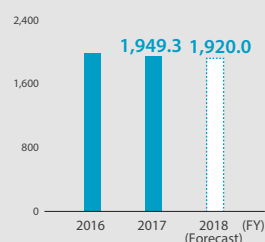
	Fiscal 2017 Targets	Year-on-Year Change
Total store sales	¥3,141.0 billion	+¥405.8 billion
Operating income	¥89.0 billion	+¥12.3 billion
Existing store year-on-year change	103.1%	—
Gross profit margin	34.9%	+0.1%
Store openings	1,408 stores	+1,052 stores
Net increase in number of stores	1,188 stores	+981 stores
Capital expenditures*	¥510.0 billion	+¥293.2 billion

Note: Exchange rates: US\$1 = ¥108.78 in Fiscal 2017 and ¥110.00 assumed for Fiscal 2018

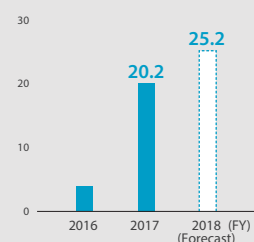
*Includes acquisition of Sunoco business

Review of Operations Superstore Operations

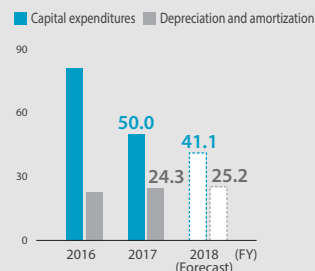
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



Core Operating Companies

Ito-Yokado Co., Ltd.
 York-Benimaru Co., Ltd.
 York Mart Co., Ltd.
 Ito-Yokado (China) Investment Co., Ltd.
 Hua Tang Yokado Commercial Co., Ltd.
 Chengdu Ito-Yokado Co., Ltd.
 (21 consolidated subsidiaries,
 5 affiliates; 26 companies, in total)



Tomihiro Saegusa
 President and
 Representative Director
 Ito-Yokado Co., Ltd.



Yukio Mafune
 President and
 Representative Director
 York-Benimaru Co., Ltd.

Business Overview for Fiscal 2017

Revenues from superstore operations slipped 1.7% year on year, to ¥1,949,313 million, but operating income skyrocketed 417.3%, to ¥20,228 million.

In Japan, Ito-Yokado superstores pursued a process of business restructuring, including opening four stores—three *Shokuhinkan* (food specialty stores) and SEVEN PARK *Ario* Kashiwa—and also reviewed the sales area configuration, based on the existing store-tenant mix, and closed 15 stores. The number of stores as of February 28, 2017, was 171, down 11 from a year earlier. In regard to merchandise, the emphasis was on efforts to enhance product lineups matched to individual stores and regional characteristics and to boost sales of differentiated products, exemplified by *Seven Premium*. As a result, the rate of growth in existing store sales for the fiscal year ended February 28, 2017, fell below the level recorded in the previous fiscal year, but profitability dramatically improved, primarily due to a reduction in sales promotion expenses, a better gross profit margin and apparel inventory optimization.

In domestic food supermarkets, York-Benimaru had 213 stores in operation—a year-on-year increase of eight stores—mainly in the southern Tohoku area, and York Mart had 78 stores in operation—up two—mainly in the Tokyo metropolitan area, as of February 28, 2017. Of note, York-Benimaru reinforced sales of fresh foods and also worked to enhance the lineup of *sozai* prepared dishes to meet demand for ready-to-serve and easy meals as well as to differentiate itself with products showcasing security, safety, flavor and quality. As a result, the rate of growth in existing store sales for the fiscal year ended February 28, 2017, was up from the previous fiscal year.

As for superstores in China, the Group had six stores in Chengdu and two stores in Beijing, as of December 31, 2016.

Cooperation with Production Areas to Bring Fresh Foods under *Seven Premium* Private Brand

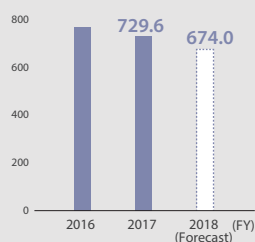
Superstores are engaged in structural reforms designed to achieve a quick performance recovery and crystallize a strategy for medium- to long-term growth. This segment is rolling out merchandise that meets changing customer needs to strengthen foods, a growth category. *Seven Premium*, a private brand celebrating its 10th anniversary, will be redefined for the next 10 years, and *Seven Premium Fresh*, featuring fresh foods, will draw on the Group's overall capabilities to deepen ties with local providers and give customers access to fresh items with underlying security and safety.

A noteworthy feature of our superstore operations is the wide selection of fruits and vegetables, meats and seafood, including *richly flavorful bananas*, *Canadian pork* and *Atlantic salmon*. Going forward, we will take advantage of the high profile and reputation for reliability that *Seven Premium* has acquired and enrich the lineup of fresh foods that make meal preparation easier for customers from two-income households and one-person households. This will turn the brand into a driver of growth in the food category. Our corporate gaze goes beyond Ito-Yokado and York-Benimaru superstore operations to sales at stores in a diverse range of formats as well as overseas development.

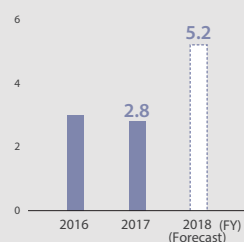


Review of Operations Department Store Operations

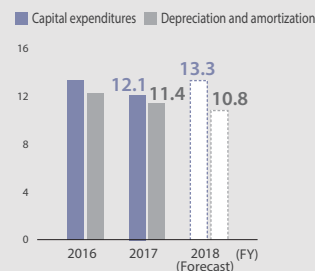
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



Core Operating Company

Sogo & Seibu Co., Ltd.
(5 consolidated subsidiaries,
5 affiliates; 10 companies, in total)



Takuji Hayashi
President and
Representative Director
Sogo & Seibu Co., Ltd.

Business Overview for Fiscal 2017

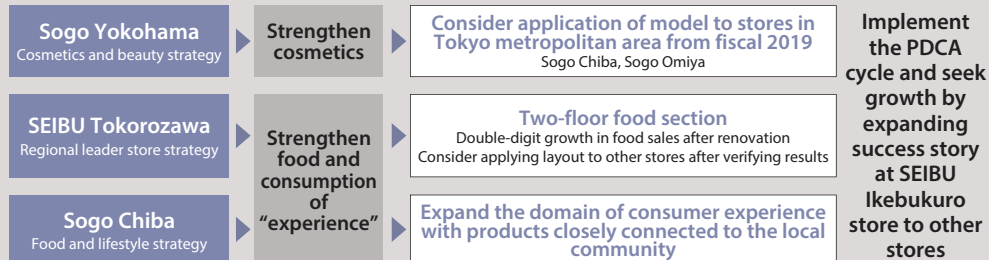
Revenues from department store operations dropped 5.1% year on year, to ¥729,612 million, and operating income fell 5.7%, to ¥2,867 million.

Department stores are known for high-quality customer service, and Sogo & Seibu worked to polish this facet of operations and enhance the ability of specialist sales staff, such as beauty advisors, to highlight total advice capabilities. However, the rate of growth in sales at existing stores was down in the fiscal year ended February 28, 2017, compared with the previous fiscal year, mainly because of sluggish interest in apparel. We closed four stores—Sogo Kashiwa, SEIBU Asahikawa, SEIBU Yao and SEIBU Tsukuba—in line with business restructuring and called for voluntary retirement to bring the number of essential employees to a more suitable level. At the end of February 2017, we had 19 stores in operation, down four from a year earlier.

Concentration of Management Resources into Flagship Stores in the Tokyo Metropolitan Area, and Establishment of Model for Suburban-Type Department Stores

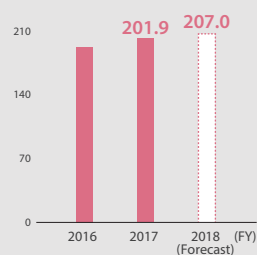
Business restructuring for department store operations is now under way. We have been accelerating reforms, focusing on stores that contribute effectively to overall performance and concentrating management resources into flagship stores, particularly those in the Tokyo metropolitan area with its giant consumer market. At the same time, we have undertaken large-scale renovations aimed at creating a new department store model appropriate to the suburbs around the Tokyo metropolitan area. A fine example of this approach is SEIBU Tokorozawa. As a model for suburban-type department stores with close ties to the community, this store got a new layout, highlighted by a two-floor food section. With this change, the number of customers surged more than 150% over the previous fiscal year. Efforts at SEIBU Tokorozawa have already proven successful, establishing the store as a regional leader store, mainly through the enhanced food section, which encourages customers to visit more often, and through a food and lifestyle strategy. We will apply this to other stores as a model for success.

Expand Success Story

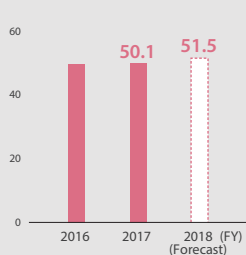


Review of Operations Financial Services

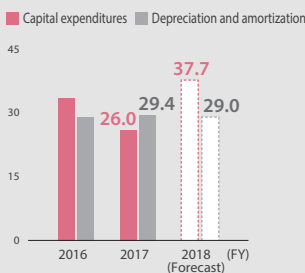
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



Core Operating Companies

- Seven Bank, Ltd.
- Seven Financial Service Co., Ltd.
- Seven Card Service Co., Ltd.
- Seven CS Card Service Co., Ltd.
- (8 consolidated subsidiaries)



Business Overview for Fiscal 2017

Revenues from financial services operations rose 4.9% year on year, to ¥201,932 million, and operating income increased 0.9%, to ¥50,136 million.

As of February 28, 2017, the number of installed Seven Bank ATMs stood at 23,353, up 965 from a year earlier, largely paralleling aggressive store openings by SEJ. The total number of transactions also increased. In credit card operations, the closure of some Sogo & Seibu stores led to a decrease in transaction volume for Seven CS Card Service. But Seven Card Service saw higher transaction volume for its credit card operations and electronic money services, and delivered favorable results.

Promoting Secure, Convenient Financial Services for Everyday Life

Seven Bank installs ATMs at various locations, including stores under the Seven & i Group umbrella as well as at train stations and airports. In addition, Seven Bank provides convenient and easy-to-use account services. In card operations, transaction volume continues to expand inside and outside the Group, with notable customer interest in *nanaco* electronic money.

Business with a View toward Coexistence and Coprosperity

We provide ATM services that enable customers who use ATMs to do so anytime, anywhere and with peace of mind. We also provide various advantages to the financial institutions with which we have formed alliances, from a cost perspective and a customer service perspective. Seven Bank and its partner financial institutions have built a unique business model with a view toward coexistence and coprosperity.

Advantages to Customers

Convenient hours and locations

- In principle, accessible 24 hours a day, 365 days a year
- No need to carry large sums of cash on business trips or personal travel
- Same services available at all ATMs across the country

Convenient hours and locations

- Many ATMs are installed inside brightly lit 7-Eleven stores for greater security during use at night

Advantages to Partner Financial Institutions

Facilitates national development of ATMs accessible year-round without typical costs associated with own bank-operated ATMs

Can be used as bank's own ATMs

- Each partner banks can decide on ATM service fee charged to customers
- Unit can display same screen as ATMs of partner banks

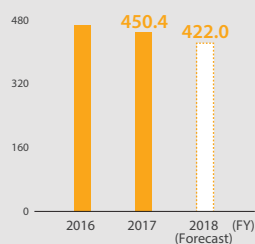
And...

Banks can devise marketing strategies that utilize Seven Bank's ATMs

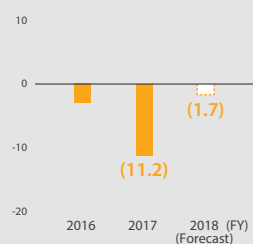


Review of Operations Specialty Store Operations

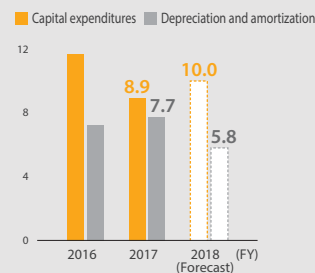
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



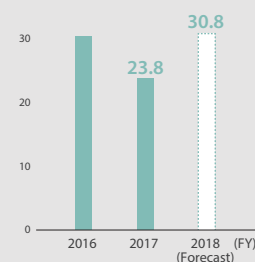
Core Operating Companies

Akachan Honpo Co., Ltd.
Seven & i Food Systems Co., Ltd.
THE LOFT CO., LTD.
Nissen Holdings Co., Ltd.
(21 consolidated subsidiaries,
5 affiliates; 26 companies, in total)

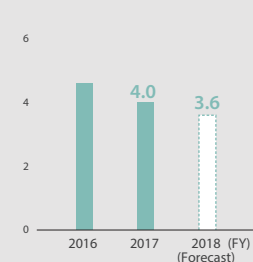


Review of Operations Others

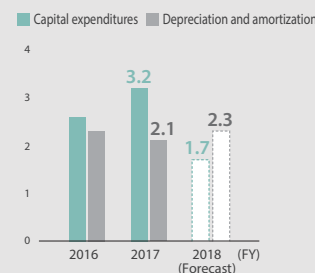
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization
(Billions of yen)



Core Operating Companies

Seven & i Create Link., Ltd.
Seven & i Asset Management Co., Ltd.
Seven & i Net Media Co., Ltd.
SEVEN & i Publishing Co., Ltd.
Seven Culture Network Co., Ltd.
IY Real Estate Co., Ltd.
Yatsugatake Kogen Lodge Co., Ltd.
K.K. Terre Verte
ling Co., Ltd.
PIA Corporation
(9 consolidated subsidiaries, 4 affiliates;
13 companies, in total)

Financial and Non-Financial Highlights

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28 or 29

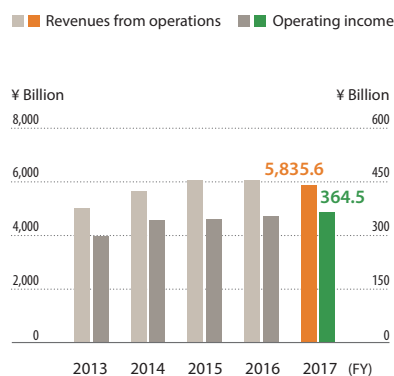
	2008	2009	2010	2011
For the fiscal year:				
Revenues from operations	¥5,752,392	¥5,649,948	¥5,111,297	¥5,119,739
Operating income	281,088	281,865	226,666	243,346
Profit attributable to owners of parent	130,657	92,336	44,875	111,961
At fiscal year-end:				
Total assets	¥3,886,680	¥3,727,060	¥3,673,605	¥3,732,111
Owners' equity ⁴	1,985,018	1,785,189	1,721,967	1,702,514
Per share data:				
Earnings per share	¥ 137.03	¥ 100.54	¥ 49.67	¥ 126.21
Owners' equity ⁴	2,081.85	1,975.95	1,905.97	1,927.09
Cash dividends	54.00	56.00	56.00	57.00
Financial ratios:				
Owners' equity ratio	51.1%	47.9%	46.9%	45.6%
Debt/equity ratio (times)	0.39	0.44	0.41	0.43
Return on equity (ROE)	6.7%	4.9%	2.6%	6.5%
Return on total assets (ROA)	3.4%	2.4%	1.2%	3.0%
Dividend payout ratio	39.4%	55.7%	112.7%	45.2%

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥113=U.S.\$ 1, the approximate rate of exchange prevailing on February 28, 2017.

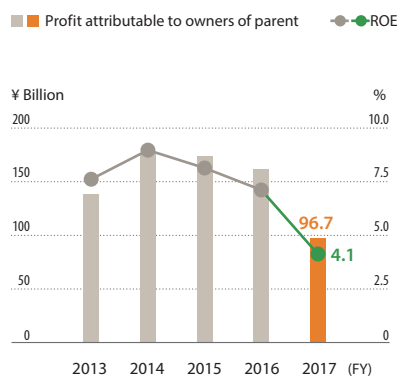
2. In the fiscal year ended December 31, 2011, 7-Eleven, Inc. changed its accounting method for revenues from operations related to franchise agreements from "gross amount" to "net amount."

3. ROE and ROA are calculated based on the average of owners' equity and total assets at the beginning and end of each fiscal year.

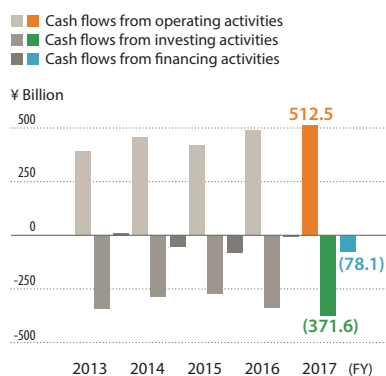
Revenues from Operations/Operating Income



Profit Attributable to Owners of Parent/ROE



Cash Flows



Millions of yen						Thousands of U.S. dollars
2012	2013	2014	2015	2016	2017	2017
¥4,786,344	¥4,991,642	¥5,631,820	¥6,038,948	¥6,045,704	¥5,835,689	\$51,643,265
292,060	295,685	339,659	343,331	352,320	364,573	3,226,309
129,837	138,064	175,691	172,979	160,930	96,750	856,194
255,426	334,216	336,758	341,075	399,204	384,119	3,399,283
139,994	155,666	147,379	172,237	195,511	207,483	1,836,132
462,642	391,406	454,335	416,690	488,973	512,523	4,535,601
(342,805)	(340,922)	(286,686)	(270,235)	(335,949)	(371,602)	(3,288,513)
(40,561)	10,032	(55,227)	(79,482)	(2,312)	(78,190)	(691,946)
119,836	50,484	167,648	146,454	153,023	140,921	1,247,088
¥3,889,358	¥4,262,397	¥4,811,380	¥5,234,705	¥5,441,691	¥5,508,888	\$48,751,221
1,765,983	1,891,163	2,095,746	2,299,662	2,372,274	2,336,057	20,673,070
yen						U.S. dollars
¥ 146.96	¥ 156.26	¥ 198.84	¥ 195.66	¥ 182.02	¥ 109.42	\$ 0.96
1,998.84	2,140.45	2,371.92	2,601.23	2,683.11	2,641.40	23.37
62.00	64.00	68.00	73.00	85.00	90.00	0.79
45.4%	44.4%	43.6%	43.9%	43.6%	42.4%	
0.40	0.45	0.45	0.41	0.43	0.45	
7.5%	7.6%	8.8%	7.9%	6.9%	4.1%	
3.4%	3.4%	3.9%	3.4%	3.0%	1.8%	
42.2%	41.0%	34.2%	37.3%	46.7%	82.3%	

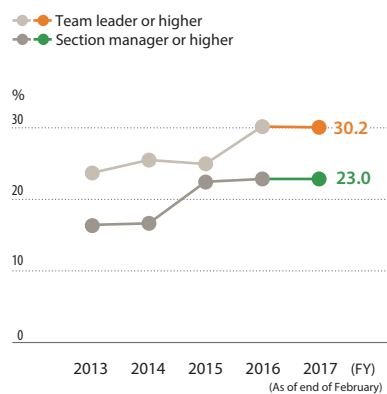
*1. Capital expenditures include long-term leasehold deposits and advances for store construction.

*2. In the fiscal year ended February 28, 2014, the Company and its domestic consolidated subsidiaries (except for certain operating companies) changed the depreciation method for property and equipment from the declining-balance method to the straight-line method.

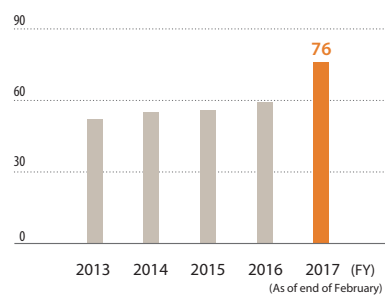
*3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

*4. Owners' equity = Net assets - Non-controlling interests - Subscription rights to shares

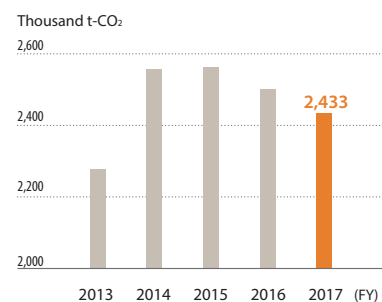
Percentage of Female Managers⁵



Number of Municipalities with which Comprehensive Alliance Agreements Have Been Concluded



CO₂ Emissions Resulting from Store Operations⁶



*5. Total for eight companies: Seven & i Holdings, Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank

*6. Total for nine companies (Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, York Mart, SHELL GARDEN, THE LOFT, Akachan Honpo). Figures for the fiscal year ended February 28, 2017, are preliminary.

Consolidated Financial Summary

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2017, February 29, 2016 and February 28, 2015

	Millions of yen			Thousands of U.S. dollars (Note A)
	2017	2016	2015	2017
For the fiscal year:				
Revenues from operations	¥5,835,689	¥6,045,704	¥6,038,948	\$51,643,265
Operating income (loss)	364,573	352,320	343,331	3,226,309
Profit before income taxes	217,569	303,775	310,195	1,925,389
Profit attributable to owners of parent	96,750	160,930	172,979	856,194
Capital expenditures (Note B)	384,119	399,204	341,075	3,399,283
Depreciation and amortization (Note C)	207,483	195,511	172,237	1,836,132
At fiscal year-end:				
Total assets	¥5,508,888	¥5,441,691	¥5,234,705	\$48,751,221
Cash and cash equivalents	1,209,497	1,147,086	1,000,762	10,703,513
Total current assets	2,274,403	2,249,966	2,133,185	20,127,460
Total current liabilities	1,947,618	1,880,903	1,826,791	17,235,557
Long-term debt	812,176	789,642	719,066	7,187,398
Total net assets	2,475,806	2,505,182	2,430,917	21,909,787

	Yen			U.S. dollars (Note A)
	2017	2016	2015	2017
Per share data:				
Earnings per share (basic)	¥109.42	¥182.02	¥195.66	\$0.96
Earnings per share (diluted)	109.31	181.84	195.48	0.96
Cash dividends	90.00	85.00	73.00	0.79
Financial ratios:				
Operating income ratio (Note D)	6.2%	5.8%	5.7%	6.2%
Ratio of profit (loss) attributable to owners of parent (to net sales) (Note D)	1.7%	2.7%	2.9%	1.7%
ROE	4.1%	6.9%	7.9%	4.1%
ROA	1.8%	3.0%	3.4%	1.8%

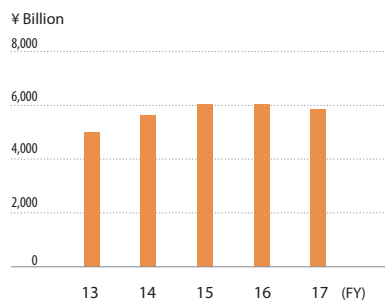
Notes: (A) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥113=U.S.\$1, the approximate rate of exchange prevailing on February 28, 2017.

(B) Capital expenditures include property and equipment, intangible assets, long-term leasehold deposits, and advances for store construction.

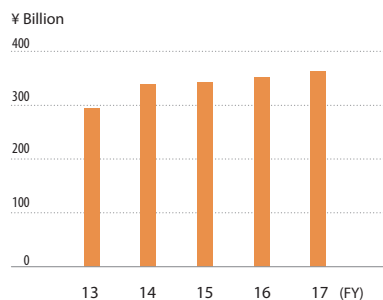
(C) Depreciation and amortization are included in cost of sales as well as selling, general and administrative expenses.

(D) Revenues from operations are used as the denominator for the operating income ratio and the ratio of profit (loss) attributable to owners of parent (to net sales).

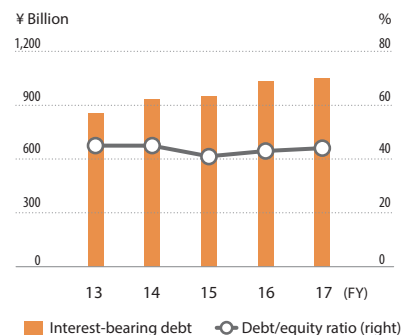
Revenues from Operations



Operating Income



Interest-Bearing Debt
Debt/Equity Ratio



Management's Discussion and Analysis

ANALYSIS OF RESULTS OF OPERATIONS

Revenues From Operations and Operating Income

In the fiscal year ended February 28, 2017, Seven & i Holdings ("the Company") recorded consolidated revenues from operations of ¥5,835.6 billion, a decrease of ¥210.0 billion, or 3.5%, year on year. Operating income increased ¥12.2 billion, or 3.5%, to ¥364.5 billion.

Convenience Store Operations

Seven-Eleven Japan (SEJ) had 19,422 domestic stores at the end of the fiscal year under review, an increase of 850 stores from the end of the previous fiscal year. As for store operations, SEJ aggressively relocated stores in an effort to improve quality, as well as strictly reviewed its standards for new store openings. On the product front, owing to efforts to actively renew basic offerings such as sandwiches and fryer products, with a view to further improving quality, sales remained strong. As a result of these initiatives, the rate of growth in existing store sales has increased for 55 consecutive months since August 2012. Total store sales, which comprise directly operated and franchised store sales, rose 5.2% year on year, to ¥4,515.6 billion. By product category, sales of processed foods, which include soft drinks and confectionery, were up 6.0%, to ¥1,183.0 billion, and sales of fast food products, which include boxed lunches, rice balls and other rice-based products as well as noodles and *sozai* prepared foods, increased 5.6%, to ¥1,350.1 billion. Sales of daily food items, which include bread, pastries and milk, were up 6.0%, to ¥614.1 billion. Sales of nonfood products, which include cigarettes and sundries, increased 3.9%, to ¥1,368.2 billion. Revenues from operations, which mainly comprise

revenues from franchisees and sales at directly operated stores, were up 5.1%, to ¥833.7 billion, while operating income increased 3.6%, to ¥243.4 billion.

7-Eleven, Inc. (SEI) of North America had 8,707 stores as of December 31, 2016, an increase of 207 stores from the end of the previous fiscal year. As for store operations, SEI proceeded with opening stores in urban areas, while closing some existing stores and acquired stores with a focus on profitability. SEI also made step acquisition of stores from Imperial Oil Limited of Canada from September 2016, in addition to acquiring stores of CST Brands, Inc. of the United States in July 2016. On the product front, SEI continued to focus on the development and sale of fast food products and 7-Select private-brand products, and sales of soft drinks and alcoholic beverages grew. As a result, on a U.S. dollar basis, the rate of growth in merchandise sales at existing stores in the United States increased from the previous fiscal year. However, due to the effects of foreign exchange rate fluctuations, total store sales, which comprise merchandise sales and gasoline sales at directly operated stores and franchised stores, fell 7.3% year on year, to ¥2,735.1 billion.

In China, the Group had 219 stores in Beijing, 82 stores in Tianjin and 67 stores in Chengdu, as of December 31, 2016.

As a result, revenues from operations in convenience store operations were ¥2,550.6 billion, down 4.7% year on year, while operating income was ¥313.1 billion, up 3.0%.

Superstore Operations

Revenues from operations in superstore operations were down 1.7%, to ¥2,025.5 billion, while operating income was up 216.6%, to ¥22.9 billion.

PLAN FOR FISCAL 2018

CONSOLIDATED FINANCIAL FORECASTS

	Amount	YoY%	YoY increase/decrease
Revenues from operations	¥ 6,100.0 billion	4.5 %	¥ 264.3 billion
Operating income	¥ 386.5 billion	6.0 %	¥ 21.9 billion
Profit attributable to owners of parent	¥ 177.0 billion	82.9 %	¥ 80.2 billion

CONSOLIDATED OPERATING INCOME FORECASTS BY BUSINESS SEGMENT

	Amount	YoY%	YoY increase/decrease
Consolidated operating income	¥ 386.5 billion	6.0 %	¥ 21.9 billion
Domestic convenience store operations	¥ 245.0 billion	0.5 %	¥ 1.1 billion
Overseas convenience store operations	¥ 77.0 billion	14.2 %	¥ 9.5 billion
Superstore operations	¥ 25.2 billion	24.6 %	¥ 4.9 billion
Department store operations	¥ 5.2 billion	81.4 %	¥ 2.3 billion
Financial services	¥ 51.5 billion	2.7 %	¥ 1.3 billion
Specialty store operations	¥ (1.7) billion	-	¥ 9.5 billion
Others	¥ 3.6 billion	(10.1) %	¥ (0.4) billion
Eliminations/corporate	¥ (19.3) billion	-	¥ (6.6) billion

Management's Discussion and Analysis

The domestic superstore Ito-Yokado (IY) had 171 stores at the end of the fiscal year under review, a decrease of 11 stores from the end of the previous fiscal year. In store operations, IY opened a total of four stores, comprising three *Shokuhinkan* and SEVEN PARK Ario Kashiwa. IY reviewed the configuration of the sales areas through tenant mix and implemented business structural reforms, including the closure of 15 stores. On the product front, IY enhanced a lineup of products tailored to individual stores and regional characteristics, and strengthened the sale of differentiated products, such as *Seven Premium*. Although the rate of growth in existing store sales for the fiscal year under review decreased from the previous fiscal year, profitability improved substantially due mainly to the suppression of sales promotion expenses, improvement in the gross profit margin and inventory adjustment of apparel.

With respect to domestic food supermarkets, as of the end of the fiscal year under review, York-Benimaru operated 213 stores, centered on the southern Tohoku region, an increase of eight stores from the end of the previous fiscal year, and York Mart operated 78 stores, centered on the Tokyo metropolitan area, an increase of two stores. York-Benimaru made efforts to differentiate its products with a focus on safety, reliability, taste and quality by stepping up its sales of fresh food while strengthening its lineup of *sozai* prepared dishes to respond to demand for ready-to-serve and convenient meals through its subsidiary Life Foods. As a result of these initiatives, the rate of growth in existing store sales for the fiscal year under review increased year on year.

Akachan Honpo, which sells baby and maternity products, operated 106 stores at the end of the fiscal year under review, an increase of three stores from the end of the previous fiscal year.

As for superstores in China, the Group had six stores in Chengdu and two stores in Beijing as of December 31, 2016.

Department Store Operations

Revenues from operations in department store operations decreased 3.7%, to ¥852.1 billion, and operating income was down 4.2%, to ¥3.6 billion.

Sogo & Seibu operated 19 stores at the end of the fiscal year under review, a decrease of four stores from the end of the previous fiscal year. In sales initiatives, Sogo & Seibu reinforced the high-quality customer service that is the hallmark of department stores and worked to enhance the total advisory service functions that are provided by specialist sales staff, such as beauty advisors. Despite these initiatives, the rate of growth in existing store sales for the fiscal year under review decreased year on year due to lackluster sales mainly of apparel. In store operations, based on the business structural reforms, Sogo & Seibu closed four stores, namely, the Sogo Kashiwa store, the SEIBU Asahikawa store, the SEIBU Yao store and the SEIBU Tsukuba store, by February 28, 2017, and implemented a voluntary early retirement program to optimize personnel in October 2016.

THE LOFT, which operates miscellaneous goods specialty stores, had 109 stores at the end of the fiscal year under review, an

increase of seven stores from the end of the previous fiscal year.

Food Services

Revenues from operations in food services were ¥82.5 billion, a decrease of 1.5% year on year, and operating income was ¥0.5 billion, a decrease of 43.8% year on year.

Seven & i Food Systems operated 815 restaurants at the end of the fiscal year under review, a decrease of 36 restaurants from the end of the previous fiscal year, including 386 restaurants in the restaurant division, a decrease of three restaurants. Although the restaurant division saw a recovery in sales per customer during the fiscal year under review, the rate of growth in sales at existing restaurants decreased from the previous fiscal year due to sluggish growth in the number of customers.

Financial Services

In financial services, revenues from operations were ¥201.9 billion, up 4.9% year on year, and operating income was ¥50.1 billion, up 0.9% year on year.

As of the end of the fiscal year under review, the number of installed Seven Bank ATMs increased to 23,353, up 965 from the end of the previous fiscal year, due primarily to aggressive opening of stores by SEJ. In addition, the daily average number of transactions per ATM during the fiscal year under review was 95.6 transactions, down 3.6 transactions year on year. This decline was primarily attributable to the implementation of transaction fees for customers of certain affiliated banks and a shift in consumer sentiment following the introduction of "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" by the Bank of Japan. However, the total number of transactions increased year on year, reflecting the increase in the number of installed ATMs.

With regard to card operating companies, although the transaction volumes of the Seven CS Card Service declined due mainly to the closure of certain Sogo & Seibu stores, Seven Card Service recorded favorable results in both the credit card and electronic money businesses, with an increase in the transaction volumes, among other things.

Mail Order Services

Revenues from operations in mail order services were down 12.3%, to ¥139.2 billion, and an operating loss of ¥15.0 billion was incurred, representing an expansion of ¥6.6 billion in loss from the previous fiscal year.

The Company made Nissen Holdings a wholly owned subsidiary through an exchange of shares of Seven & i Net Media, the Company's wholly owned subsidiary, on November 1, 2016 in promoting structural reforms. Nissen Holdings changed the fiscal year-end start for the fiscal year under review from December 20 to the end of February, and the fiscal period under review therefore consisted of 14 months.

Others

In others operations, revenues from operations were ¥57.4 billion, a decrease of 6.8% from the previous fiscal year. Operating income was ¥4.6 billion, a decrease of 16.7%.

Eliminations/Corporate

Under the Omni-Channel Strategy being pursued by the Group, Groupwide expenses, such as system-related operating and maintenance expenses and software-related depreciation and amortization expenses, are included in Eliminations/Corporate. The operating loss for this segment increased ¥4.8 billion from the previous fiscal year, to ¥15.3 billion.

Profit before Income Taxes

In other income (expenses), net other expenses were ¥147.0 billion, compared with net other expenses of ¥48.5 billion in the previous fiscal year. This change was mainly due to the recording of restructuring expenses and increases in impairment loss on property and equipment and amortization of goodwill. Consequently, profit before income taxes decreased ¥86.2 billion year on year, to ¥217.5 billion.

Profit Attributable to Owners of Parent

Income taxes decreased ¥28.3 billion year on year, to ¥106.7 billion. After the application of tax effect accounting, the effective tax rate was 49.1%. As a result, profit attributable to owners of parent declined ¥64.1 billion year on year, to ¥96.7 billion. Earnings per share was ¥109.42, down ¥72.6 per share from ¥182.02 in the previous fiscal year.

ANALYSIS OF FINANCIAL POSITION

Assets, Liabilities and Net Assets

Total assets on February 28, 2017 stood at ¥5,508.8 billion, up ¥67.1 billion from the end of the previous fiscal year. In current assets, cash and cash equivalents rose ¥62.4 billion, while securities decreased ¥80.0 billion and merchandise and finished goods decreased ¥19.3 billion. As a result, total current assets were ¥2,274.4 billion, up ¥24.4 billion from the end of the previous fiscal year. Property and equipment increased ¥35.4 billion, mainly due to new store openings and existing store remodeling at SEJ and IY. Intangible assets were down ¥49.7 billion, primarily due to a decrease in goodwill resulting from the application of "Accounting Standard for Business Combinations," etc. Furthermore, investments and other assets increased ¥57.0 billion, due primarily to the acquisition of Japanese government bonds by Seven Bank. As a result, non-current assets were up ¥42.7 billion from the end of the previous fiscal year, to ¥3,234.4 billion.

Total liabilities increased ¥96.5 billion, to ¥3,033.0 billion. In current liabilities, accrued expenses increased ¥23.1 billion, deposits received were up ¥31.2 billion and deposits received in banking business associated with Seven Bank increased ¥20.6

billion, while current portion of long-term debt decreased ¥37.0 billion. As a result, total current liabilities rose ¥66.7 billion, to ¥1,947.6 billion. In non-current liabilities, bonds decreased ¥49.9 billion due to transfer of current portion, and long-term debt increased ¥72.9 billion. Consequently, non-current liabilities rose ¥29.8 billion, to ¥1,085.4 billion.

Total net assets were down ¥29.3 billion, to ¥2,475.8 billion. Capital surplus was down ¥118.3 billion, mainly due to a decrease of ¥116.4 billion reflecting retroactive adjustment following the application of "Accounting Standard for Business Combinations," etc. Retained earnings increased ¥75.2 billion, primarily due to an increase of ¥59.2 billion reflecting retroactive adjustment following the application of "Accounting Standard for Business Combinations," etc., an increase of ¥96.7 billion owing to the recording of profit attributable to owners of parent and a decrease of ¥80.8 billion due to cash dividend payments. Foreign currency translation adjustments, principally the translation of the financial statements of SEI, decreased ¥14.5 billion. As a result of the above, owners' equity per share was down ¥41.71 per share from a year earlier, to ¥2,641.40 per share, and the owners' equity ratio was 42.4%, compared with 43.6% a year earlier.

Cash Flows

Cash and cash equivalents (hereafter "cash") were ¥1,209.4 billion, up ¥62.4 billion from a year earlier. Cash was used to open new stores and remodel existing stores, mainly by SEJ, but cash flow was provided by businesses with a high capacity for the generation of revenues from operations, centered on convenience store operations.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥512.5 billion, up ¥23.5 billion from the previous fiscal year. This mainly reflected a decrease of ¥86.2 billion in profit before income taxes, an increase of ¥30.9 billion in impairment loss on property and equipment, an increase of ¥32.3 billion in amortization of goodwill, an increase of ¥20.2 billion in decrease (increase) in notes and accounts receivable, trade and an increase of ¥23.6 billion in increase (decrease) in deposits received.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥371.6 billion, an increase of ¥35.6 billion from the previous fiscal year. This mainly reflected an increase of ¥34.3 billion in proceeds from sales of property and equipment, an increase of ¥31.2 billion in payment for purchase of investments in securities and a decrease of ¥32.0 billion in proceeds from sales of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥78.1 billion, an increase of ¥75.8 billion from the previous fiscal year. This primarily reflected an increase of ¥42.9 billion in proceeds from long-term debts and a decrease of ¥119.6 billion in proceeds from issuance of bonds at the Company.

Risk Factors

Seven & i Holdings and its operating companies (“the Group”) has established the framework under which it implements a Groupwide risk assessment survey to recognize potential risks through identifying and evaluating risks in an integrated and comprehensive manner on a regular basis. Based on that recognition, it prioritizes these risks, takes countermeasures that correspond to the materiality and urgency of each risk, and seeks continuous improvements through monitoring of the progress of such countermeasures.

The Group is exposed to a variety of risks and uncertainties in conducting its business, which may have a significant influence on the judgment of investors, including, but not limited to, the following. Many of these risks are interdependent and the occurrence of one risk may lead to an increase in other risks in quality and quantity.

Any of these risks may affect its business performance, operating results and financial condition. Recognizing the potential for these risks, the Group strives to take measures to prevent risks from materializing while taking other effective measures to promptly and adequately respond to risks when they materialize.

This section includes forward-looking statements and future expectations as of the submission date of Securities Report (*Yuhō*).

1. RISKS RELATED TO ECONOMIC CONDITIONS

Japanese and Global Economies

The Group carries on its core operations in Japan and also operates around the world. As a result, economic conditions such as business climate and trends in consumer spending in Japan as well as in other countries and regions where the Group does business may affect the Group’s operating results and financial condition. To cater appropriately to the needs of consumers, the Group is actively selling and developing products in accordance with sales strategies. However, unexpected changes in consumer behavior due to such external factors as economic policies or unseasonable weather may affect its business performance and financial condition.

Interest Rate Fluctuations

The Group is exposed to interest rate fluctuation risks that may affect interest expenses, interest income and the value of financial assets and liabilities. Accordingly, interest rate fluctuations may affect its business performance and financial condition.

Foreign Exchange Rate Fluctuations

Foreign exchange rate changes can affect the yen value of assets and liabilities of the Group’s overseas companies because Seven & i Holdings’ consolidated financial statements are presented in Japanese yen. In addition, products sold by the Group include products that are sourced overseas and affected by changes in

foreign exchange rates. Accordingly, foreign exchange rate fluctuations may affect its business performance and financial condition.

2. RISKS RELATED TO THE GROUP’S BUSINESS

GROUPWIDE RISKS

Procurement of Products, Raw Materials, etc., and Fluctuations in Purchase Prices

The Group’s operations depend on obtaining products, raw materials and other supplies in adequate quality and quantity in a timely manner. The Group strives to decentralize its operations to avoid significant dependence on specific producing areas, suppliers, products, technologies, etc. However, the disruption of procurement routes may affect its operations.

In addition, there are products in the Group’s lineups whose purchase prices change due to external factors, including products affected by fluctuations in the prices of such raw materials as crude oil. Accordingly, fluctuations in purchase prices may affect the Group’s business performance and financial condition.

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 its products and incur costs stemming from countermeasures. If such is the case, the Group’s business performance and financial condition could be affected. Further, the Group is striving to provide customers with newly value-added and high-quality products and services through the aggressive introduction of *Seven Premium* private-brand products and original products developed by respective Group companies. Therefore, the occurrence of a major incident that involves its products and leads to product recalls or product liability claims could affect its business performance and financial condition.

Product Development upon Due Consideration of Regional Characteristics

In order to respond to customers’ diversified preferences, the Group is enhancing capabilities to develop and assort products upon due consideration of regional characteristics. However, if the support from customers fell below its expectations, its business performance and financial condition may be affected.

Store-Opening Strategy

The Group’s opening of stores is subject to various laws and regulations, such as the Large-Scale Retail Store Location Law, the City Planning Law and the Building Standards Law. In the event

that those laws are amended or local authorities change related regulations, it may become difficult to open stores in accordance with initially prepared store-opening plans or remodel existing stores; there may be a decline in potential candidate areas for future store openings; or costs related to legal or regulatory compliance may be incurred. If such is the case, the Group's business performance and financial condition may be affected.

M&As, Alliances and Strategic Investments

The Group develops new businesses and reorganizes its operations by M&A, forming alliances or joint ventures with other companies, etc. However, the Group may not be able to achieve expected results or the strategic objectives of these investments. If such is the case, its business performance and financial condition may be affected.

Credit Management

The Group, in leasing stores, has paid deposits and/or guarantee deposits to store lessors. Deterioration in the economic condition of the store lessors or a drop in the value of the collateral properties received as a pledge for the deposits and/or guarantee deposits may affect its business performance and financial condition.

Impairment of Fixed Assets

The Group has many non-current assets, including property and equipment and goodwill. The Group has already adopted asset impairment accounting. However, further recognition of asset impairment may become necessary due to deterioration in profitability of stores or a drop in market value of the assets. If such is the case, its business performance and financial condition may be affected.

The Omni-Channel Strategy

The Group is promoting its Omni-Channel Strategy to cope with the changes in customers' buying behavior due to a change in social structure. The Group aims to create a new retail environment where every product and service can be available to customers anytime and anywhere by taking advantage of the Group's nationwide networks of stores, logistics and other infrastructures.

The Group is trying to stimulate latent customer demand through *omni7*, the Group's integrated portal site, while developing high-quality products and enhancing service quality. However, the Group may not attain its objectives completely because of some internal and/or external factors. If such is the case, its business performance and financial condition may be affected.

Human Resource Management

It is indispensable for the Group's business operations to secure human resources with the capability of good communication with stakeholders, especially customers. If fiercer competition for human resources in various business fields or regions in the future leads to difficulty in securing appropriate staff and/or the loss of existing

staff, the Group's business performance and financial condition may be affected.

Ryuichi Isaka, the president of Seven & i Holdings, and the Group's top management are strengthening cooperation with each other coherently, and implementing the Group's business strategies. However, the Group may not attain its objectives completely because of certain factors. If such is the case, its business performance and financial condition could be affected.

RISKS BY SEGMENT

Convenience Store Operations

The Group's convenience store operations are primarily organized under a franchise system, and chain operations are conducted under the identical name, Seven-Eleven. The franchise system is a joint enterprise in which franchised stores and the Group fulfill their respective roles based on an equal partnership and a relationship of trust. In the event that agreements with numerous franchised stores become unsustainable because either the Group or the franchised stores did not fulfill their respective roles, its business performance could be affected.

In its 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 was no longer able to maintain operational relationships with business partners in its convenience store operations or if business partners' technical capabilities declined conspicuously, its business performance and financial condition could be affected.

7-Eleven, Inc. has been proactively increasing stores, especially those with a gas station, in the United States and Canada, and the sales of gasoline have accounted for about half of the total sales. 7-Eleven, Inc. has focused on strategies such as vertically integrating the fuel supply operations so that it can offset the risk of profit margin decline resulting from retail fuel price fluctuations, however, unexpected changes in business environment such as drastic fluctuation of the fuel price may affect the Group's business performance and financial condition.

As of February 28, 2017, Seven-Eleven has grown into a global chain with more than 61,000 stores in 17 countries and regions around the world, including stores outside the Group that operate under the area license agreements with 7-Eleven, Inc. A reduction in royalties or sales resulting from misconduct by area licensees that do not belong to the Group or by stores operated by area licensees could affect its business performance and financial condition.

Risk Factors

Superstore Operations

The Group's superstore operations mainly comprise superstores and food supermarkets. In order to respond appropriately to the changes in consumer needs, for the part of superstores, the Group is striving to implement a business structural reform. On the one hand, the Group is advancing the store-first policy under which an individual store plays a leading role to assort products that can meet regional market needs and continuously promoting merchandising innovation and communication with customers through enhancing customer service levels and sales techniques. On the other hand, the Group is embarking on closing underperforming stores. For the part of food supermarkets, the Group endeavors to establish the new model of lifestyle-proposal supermarkets through promoting differentiation strategies on products and improving operational efficiency. However, the Group may not attain its objectives completely because of such unforeseen factors as changes in the operating environment. If such is the case, its business performance and financial condition may be affected.

Department Store Operations

The Group is striving to implement structural reform to create a new type of department store. On the one hand, the Group is advancing the reform of stores to realize a desirable store structure and the reform of regional stores in response to characteristics of respective regions. On the other hand, the Group is embarking on the closure of underperforming stores. However, the Group may not attain its objectives completely because of such unforeseen factors as changes in business environments. If such is the case, its business performance and financial condition may be affected.

Food Services

In food services, the Group, which operates restaurants, meal provision services and fast food services, is implementing a growth strategy by strengthening the development of products in response to changes in customer segments based on shifts in demographics, lifestyles and customer needs and by enhancing productivity. However, the Group may not attain its objectives completely because of such unforeseen factors as changes in business environments. If such is the case, its business performance and financial condition may be affected.

Financial Services

The Group provides financial services, including banking, credit card and electronic money operations.

Seven Bank owes its revenues mainly to ATM operations. Therefore, the occurrence of such circumstances as the growing use of alternatives to cash for settlement, intensifying competition for ATM services and/or the peaking out of ATM network expansion may affect the Group's business performance and financial condition.

In its credit card operations, the Group is striving to provide customers with highly convenient financial services integrated

with retail services through issuing and promoting the use of the Seven Card Plus/Seven Card credit card, CLUB ON/Millennium CARD SAISON credit cards and *nanaco* electronic money. However, regarding credit card operations, an increase in the default rate, unexpected default losses or restriction on the total volume of lending pursuant to the Money Lending Business Act, etc., may affect the Group's business performance and financial condition. Regarding electronic money operations, the Group has built an original system and worked to achieve differentiation, but the rapid spread of electronic money in Japan has been accompanied by such qualitative changes as increased versatility, etc. In the event that the Group fails to maintain its competitiveness, its business performance and financial condition may be affected.

Mail Order Services

In mail order services, the Group, which faces such negative changes in its business environment as a deterioration of product competitiveness, lowered catalog sales efficiency due to evolving Internet businesses, rising shipping costs and others, is striving to implement structural reform and improve profitability through primarily enhancing product competitiveness and the efficiency of sales promotion, as well as realizing synergy with other Group operations. However, the Group may not attain its objectives completely because of such unforeseen factors as changes in business environments. If such is the case, its business performance and financial condition may be affected.

3. LEGAL RESTRICTIONS AND LITIGATIONS

Changes in Accounting Standards and Tax Systems

The introduction of new accounting standards or tax systems or changes thereof, which the Group cannot predict, could affect its business performance and financial condition.

Environmental Regulations or Issues

The Group is subject to a variety of environment-related laws and regulations such as those relating to food recycling, containers and packaging recycling, waste management and global warming countermeasures. These laws and regulations may become more stringent or additional laws and regulations may be adopted in the future, which may cause the Group to incur additional compliance costs or restrict its operating activities.

Leaks of Confidential Information

In the normal course of business, such as in financial services, the Group holds confidential information about customers regarding privacy, creditworthiness and other information, including personal information, as well as confidential information about companies and other third parties. Such information could be leaked inadvertently or deliberately, and any material leakage of confidential information could face damage liability claims and/or damage society's trust in the Group. Moreover, there is a risk that

the Group's trade secrets could be leaked by misappropriation or negligence. If such is the case, the Group's business performance and financial condition could be affected.

Litigation and Regulatory Actions

The Group is exposed to the risk that it will be subject to various legal procedures stemming from lawsuits, etc., or regulatory authorities in regard to the execution of its business activities.

Currently, no lawsuits that significantly affect the Group's performance have been filed against the Group. However, if decisions unfavorable to the Group result from lawsuits with a potentially significant effect on business results or social standing, its operating results and financial condition may be affected.

Also, a substantial legal liability or adverse regulatory outcome, and the substantial cost to defend the litigation or regulatory proceedings due to the implementation of stricter laws and regulations or stricter interpretations, may affect the Group's business performance, financial condition and reputation.

4. RISKS RELATED TO DISASTERS OR UNPREDICTABLE EVENTS

Influence of Disasters or Other Unpredictable Events

The Group's Head Office, stores and facilities for core operations are located in Japan. The Group also operates businesses around the world. Major natural disasters such as earthquakes, typhoons, floods and tsunamis; fires; power outages; nuclear power plant disasters; wars; illegal activities such as terrorist attacks; or other contingencies could lead to a halt of business activities or incurring expenses related to such damages, which could have a serious impact on the business operations of the Group. If such is the case, its business performance and financial condition could be affected. In particular, the occurrence of a large natural disaster or other event in the Tokyo metropolitan area—where stores for core operations, including convenience store operations and superstore operations are concentrated—could likely have a serious effect.

In addition, as network and information systems have become increasingly important to the Group's operating activities, network and information system shutdowns caused by such unpredictable events as power outages, disasters, terrorist attacks, hardware or software defects or computer viruses and computer hacking could impede business operations, which could affect the Group's business performance and financial condition.

Pandemic of Infectious Diseases, Such as New Strain of Influenza

The Group operates retail businesses as its core operations, which play a role as a lifeline. While it places top priority on the security and safety of customers and employees, in order to fulfill its social responsibilities, the Group has come up with business continuity plans that respond to a pandemic of such infectious diseases as a new strain of influenza. However, according to the development of a pandemic phase, the Group could take such appropriate

measures as shortening operating hours or limiting the number of stores it operates, etc. If such is the case, its business performance and financial condition could be affected.

5. OTHER RISKS

Retirement Benefit Obligations and Retirement Benefit Expenses

The Group calculates retirement benefit obligations and retirement benefit expenses based on assumptions such as the discount rates and the expected rates of return on plan assets. However, unexpected changes in such underlying factors as domestic and international share prices, foreign exchange rates or interest rates; deterioration in the return on plan assets due to such changes; or changes in the general pension system may affect its business performance and financial condition.

Deferred Tax Assets

Some of the Group companies record deferred tax assets based on estimates of future taxable income or the time period within which the underlying temporary differences become taxable or deductible. However, if estimates of taxable income are lowered due to a worsening business climate or other significant changes, the Group may be required to reduce the amount of its deferred tax assets, resulting in an effect on its business performance and financial condition. Seven & i Holdings and its eligible consolidated subsidiaries introduced a consolidated taxation system in the fiscal year ended February 28, 2013.

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 it could be difficult to secure the necessary personnel, which could affect the Group's business performance and financial condition.

Consolidated Balance Sheets

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries at February 28, 2017 and February 29, 2016

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Current assets:			
Cash and cash equivalents (Note 4)	¥ 1,209,497	¥ 1,147,086	\$ 10,703,513
Notes and accounts receivable:			
Trade (Note 4)	347,838	354,554	3,078,212
Financial services	91,052	86,877	805,769
Franchisees and other	149,451	136,416	1,322,575
Allowance for doubtful accounts (Note 4)	(4,983)	(5,404)	(44,097)
	583,359	572,443	5,162,469
Inventories	192,463	212,187	1,703,212
ATM-related temporary payments	98,710	91,725	873,539
Deferred income taxes (Note 10)	30,239	38,866	267,601
Prepaid expenses and other current assets (Note 4)	160,131	187,656	1,417,088
Total current assets	2,274,403	2,249,966	20,127,460
Property and equipment, at cost (Notes 7, 8, 13 and 18)	3,869,243	3,767,902	34,241,088
Less: Accumulated depreciation	(1,861,414)	(1,795,547)	(16,472,690)
	2,007,829	1,972,355	17,768,398
Intangible assets:			
Goodwill	270,055	313,667	2,389,867
Software and other (Notes 8 and 13)	225,880	232,003	1,998,938
	495,935	545,670	4,388,805
Investments and other assets:			
Investments in securities (Notes 4, 5 and 18)	188,162	141,371	1,665,150
Long-term loans receivable	15,315	15,795	135,530
Long-term leasehold deposits (Notes 4 and 18)	396,707	395,979	3,510,681
Net defined benefit asset (Note 11)	44,628	26,059	394,938
Deferred income taxes (Note 10)	25,261	27,636	223,548
Other	64,454	71,201	570,389
Allowance for doubtful accounts (Note 4)	(3,808)	(4,345)	(33,699)
	730,720	673,697	6,466,548
Total assets	¥ 5,508,888	¥ 5,441,691	\$ 48,751,221

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
LIABILITIES AND NET ASSETS	2017	2016	2017
Current liabilities:			
Short-term loans (Notes 12 and 18)	¥ 150,376	¥ 130,782	\$ 1,330,761
Current portion of long-term debt (Notes 4, 12 and 18)	130,758	159,862	1,157,150
Notes and accounts payable:			
Trade (Notes 4 and 6)	247,515	251,403	2,190,398
Trade for franchised stores (Notes 4 and 19)	167,833	162,179	1,485,247
Other	177,326	191,577	1,569,256
	592,675	605,159	5,244,911
Accrued expenses	131,871	108,696	1,167,000
Income taxes payable	34,462	44,744	304,973
Deposits received	188,798	157,530	1,670,778
ATM-related temporary advances	46,072	48,366	407,716
Deposits received in banking business (Note 4)	538,815	518,127	4,768,274
Allowance for bonuses to employees	14,159	13,432	125,300
Allowance for sales promotion expenses	21,409	21,530	189,460
Allowance for loss on future collection of gift certificates	1,807	2,063	15,991
Provision for sales returns	77	142	681
Call money	20,000	–	176,991
Other (Notes 4,10 and 14)	76,333	70,463	675,513
Total current liabilities	1,947,618	1,880,903	17,235,557
Long-term debt (Notes 4, 6, 12 and 18)	812,176	789,642	7,187,398
Allowance for retirement benefits to Directors and Audit & Supervisory Board Members	939	2,010	8,309
Net defined benefit liability (Note 11)	9,163	8,564	81,088
Deferred income taxes (Note 10)	49,080	64,859	434,336
Deposits received from tenants and franchised stores (Notes 4 and 18)	55,327	56,574	489,619
Asset retirement obligations (Note 14)	77,640	72,034	687,079
Other liabilities (Note 18)	81,136	61,918	718,017
Total liabilities	3,033,082	2,936,508	26,841,433
Commitments and contingent liabilities (Note 18)			
Net assets (Note 16):			
Shareholders' equity:			
Common stock, authorized 4,500,000,000 shares, issued 886,441,983 shares in 2017 and 2016	50,000	50,000	442,477
Capital surplus	409,095	527,474	3,620,309
Retained earnings	1,793,035	1,717,771	15,867,566
Treasury stock, at cost, 2,039,799 shares in 2017 and 2,290,888 shares in 2016	(5,074)	(5,688)	(44,902)
	2,247,056	2,289,557	19,885,451
Accumulated other comprehensive income (loss):			
Unrealized gains on available-for-sale securities, net of taxes (Note 5)	28,467	20,655	251,920
Unrealized gains on hedging derivatives, net of taxes	23	33	203
Foreign currency translation adjustments	56,391	70,927	499,035
Remeasurements of defined benefit plan	4,117	(8,900)	36,433
Total accumulated other comprehensive income (loss)	89,000	82,716	787,610
Subscription rights to shares (Note 17)	2,594	2,995	22,955
Non-controlling interests	137,154	129,912	1,213,752
Total net assets	2,475,806	2,505,182	21,909,787
Total liabilities and net assets	¥ 5,508,888	¥ 5,441,691	\$ 48,751,221

Consolidated Statements of Income

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Revenues from operations:			
Net sales	¥ 4,646,370	¥ 4,892,133	\$ 41,118,318
Operating revenues (Note 20)	1,189,318	1,153,571	10,524,938
	5,835,689	6,045,704	51,643,265
Costs and expenses:			
Cost of sales	3,602,038	3,803,968	31,876,442
Selling, general and administrative expenses (Notes 11, 13, 17 and 20)	1,869,077	1,889,415	16,540,504
	5,471,116	5,693,383	48,416,955
Operating income	364,573	352,320	3,226,309
Other income (expenses):			
Interest and dividend income	6,446	6,360	57,044
Interest expenses and interest on bonds	(8,759)	(9,559)	(77,513)
Equity in earnings of affiliates	2,062	1,958	18,247
Impairment loss on property and equipment (Note 8)	(49,108)	(22,691)	(434,584)
Gain on sales of property and equipment (Note 20)	3,487	2,171	30,858
Loss on disposals of property and equipment (Note 20)	(18,369)	(11,557)	(162,557)
Compensation income for expropriation	9	2,849	79
Restructuring expenses (Notes 8, 20 and 21)	(25,637)	(10,695)	(226,876)
Amortization of goodwill (Note 22)	(39,300)	(1,878)	(347,787)
Other, net (Note 5)	(17,833)	(5,501)	(157,814)
	(147,003)	(48,544)	(1,300,911)
Profit before income taxes	217,569	303,775	1,925,389
Income taxes (Note 10):			
Current	117,686	124,031	1,041,469
Deferred	(10,939)	11,062	(96,805)
	106,747	135,093	944,663
Profit	110,822	168,681	980,725
Profit attributable to non-controlling interests			
Profit attributable to owners of parent	¥ 96,750	¥ 160,930	\$ 856,194

	Yen		U.S. dollars (Note 3)
	2017	2016	2017
Per share information:			
Earnings per share (Basic)	¥ 109.42	¥ 182.02	\$ 0.96
Earnings per share (Diluted)	109.31	181.84	0.96
Cash dividends	90.00	85.00	0.79

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Profit	¥ 110,822	¥ 168,681	\$ 980,725
Other comprehensive income (loss) (Note 15):			
Unrealized gains (losses) on available-for-sale securities, net of taxes	7,738	(974)	68,477
Unrealized gains (losses) on hedging derivatives, net of taxes	(563)	(1,029)	(4,982)
Foreign currency translation adjustments	(14,915)	(9,701)	(131,991)
Remeasurements of defined benefit plans	13,118	(12,318)	116,088
Share of other comprehensive income (loss) of entities accounted for using equity method	(25)	(54)	(221)
Total other comprehensive income (loss)	5,352	(24,077)	47,362
Comprehensive income	¥ 116,175	¥ 144,603	\$ 1,028,097
Comprehensive income attributable to:			
Owners of parent	¥ 103,034	¥ 137,661	\$ 911,805
Non-controlling interests	13,140	6,942	116,283

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2017 and February 29, 2016

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income (loss)						Total
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plan	Subscription rights to shares	Non-controlling interests	
Balance at March 1, 2015	¥ 50,000	¥ 527,470	¥ 1,622,090	¥ (5,883)	¥ 21,571	¥ 557	¥ 80,342	¥ 3,512	¥ 2,427	¥ 128,827	¥ 2,430,917
Cumulative effects of changes in accounting policies			21								21
Restated balance	¥ 50,000	¥ 527,470	¥ 1,622,111	¥ (5,883)	¥ 21,571	¥ 557	¥ 80,342	¥ 3,512	¥ 2,427	¥ 128,827	¥ 2,430,938
Profit attributable to owners of parent			160,930								160,930
Cash dividends			(66,309)								(66,309)
Purchase of treasury stock				(28)							(28)
Disposal of treasury stock		4		224							228
Other			1,039	(0)							1,038
Net changes of items other than shareholders' equity					(916)	(523)	(9,414)	(12,413)	567	1,085	(21,615)
Net increase (decrease) for the year	-	4	95,659	195	(916)	(523)	(9,414)	(12,413)	567	1,085	74,243
Balance at March 1, 2016	¥ 50,000	¥ 527,474	¥ 1,717,771	¥ (5,688)	¥ 20,655	¥ 33	¥ 70,927	¥ (8,900)	¥ 2,995	¥ 129,912	¥ 2,505,182
Cumulative effects of changes in accounting policies		(116,446)	59,221				5,900				(51,324)
Restated balance	¥ 50,000	¥ 411,028	¥ 1,776,993	¥ (5,688)	¥ 20,655	¥ 33	¥ 76,827	¥ (8,900)	¥ 2,995	¥ 129,912	¥ 2,453,857
Profit attributable to owners of parent			96,750								96,750
Cash dividends			(80,890)								(80,890)
Purchase of treasury stock				(2,276)							(2,276)
Disposal of treasury stock		132		857							989
Change in the Company's ownership interest of the subsidiary in connection with the transactions with non-controlling shareholders		(2,033)		2,033							-
Other		(31)	182	(0)							150
Net changes of items other than shareholders' equity					7,812	(10)	(20,436)	13,018	(400)	7,241	7,224
Net increase (decrease) for the year		(1,933)	16,042	614	7,812	(10)	(20,436)	13,018	(400)	7,241	21,948
Balance at February 28, 2017	¥ 50,000	¥ 409,095	¥ 1,793,035	¥ (5,074)	¥ 28,467	¥ 23	¥ 56,391	¥ 4,117	¥ 2,594	¥ 137,154	¥ 2,475,806

Thousands of U.S. dollars (Note 3)

	Shareholders' equity				Accumulated other comprehensive income (loss)						Total
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plan	Subscription rights to shares	Non-controlling interests	
Balance at March 1, 2016	\$ 442,477	\$ 4,667,911	\$ 15,201,513	\$ (50,336)	\$ 182,787	\$ 292	\$ 627,672	\$ (78,761)	\$ 26,504	\$ 1,149,663	\$ 22,169,752
Cumulative effects of changes in accounting policies		(1,030,495)	524,079				52,212				(454,194)
Restated balance	\$ 442,477	\$ 3,637,415	\$ 15,725,601	\$ (50,336)	\$ 182,787	\$ 292	\$ 679,884	\$ (78,761)	\$ 26,504	\$ 1,149,663	\$ 21,715,548
Profit attributable to owners of parent			856,194								856,194
Cash dividends			(715,840)								(715,840)
Purchase of treasury stock				(20,141)							(20,141)
Disposal of treasury stock		1,168		7,584							8,752
Change in the Company's ownership interest of the subsidiary in connection with the transactions with non-controlling shareholders		(17,991)		17,991							-
Other		(274)	1,610	(0)							1,327
Net changes of items other than shareholders' equity					69,132	(88)	(180,849)	115,203	(3,539)	64,079	63,929
Net increase (decrease) for the year		(17,106)	141,964	5,433	69,132	(88)	(180,849)	115,203	(3,539)	64,079	194,230
Balance at February 28, 2017	\$ 442,477	\$ 3,620,309	\$ 15,867,566	\$ (44,902)	\$ 251,920	\$ 203	\$ 499,035	\$ 36,433	\$ 22,955	\$ 1,213,752	\$ 21,909,787

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 217,569	¥ 303,775	\$ 1,925,389
Depreciation and amortization	207,483	195,511	1,836,132
Impairment loss on property and equipment	59,719	28,800	528,486
Amortization of goodwill	55,458	23,110	490,778
Increase (decrease) in allowance for bonuses to employees	728	540	6,442
Decrease (increase) in net defined benefit asset	554	(3,685)	4,902
Interest and dividend income	(6,446)	(6,360)	(57,044)
Interest expenses and interest on bonds	8,759	9,559	77,513
Equity in losses (earnings) of affiliates	(2,062)	(1,958)	(18,247)
Gain on sales of property and equipment	(3,487)	(2,171)	(30,858)
Loss on disposals of property and equipment	18,516	12,068	163,858
Decrease (increase) in notes and accounts receivable, trade	6,525	(13,765)	57,743
Decrease (increase) in notes and accounts receivable, financial services	(4,175)	(15,678)	(36,946)
Decrease (increase) in inventories	18,438	(141)	163,168
Increase (decrease) in notes and accounts payable, trade and trade for franchised stores	3,632	5,556	32,141
Increase (decrease) in deposits received	31,094	7,433	275,168
Net increase (decrease) in loans in banking business	(5,000)	(1,000)	(44,247)
Net increase (decrease) in deposits received in banking business	20,688	42,918	183,079
Net decrease (increase) in call loans in banking business	10,000	-	88,495
Net increase (decrease) in call money in banking business	20,000	-	176,991
Net change in ATM-related temporary accounts	(9,276)	56,349	(82,088)
Other	8,171	(20,686)	72,309
Subtotal	656,892	620,176	5,813,203
Interest and dividends received	3,712	4,018	32,849
Interest paid	(7,452)	(9,552)	(65,946)
Income taxes paid	(140,629)	(125,668)	(1,244,504)
Net cash provided by operating activities	512,523	488,973	4,535,601
Cash flows from investing activities:			
Acquisition of property and equipment (Note 9)	(321,089)	(304,501)	(2,841,495)
Proceeds from sales of property and equipment	66,359	31,986	587,247
Acquisition of intangible assets	(27,347)	(42,937)	(242,008)
Payment for purchase of investments in securities	(55,010)	(23,710)	(486,814)
Proceeds from sales of investments in securities	18,806	50,815	166,424
Payment for purchase of investments in subsidiaries	-	(56)	-
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 9)	326	-	2,884
Payment for long-term leasehold deposits	(29,116)	(32,219)	(257,663)
Refund of long-term leasehold deposits	33,352	35,613	295,150
Proceeds from deposits from tenants	3,542	2,966	31,345
Refund of deposits from tenants	(3,269)	(2,637)	(28,929)
Payment for acquisition of business (Note 9)	(71,471)	(48,479)	(632,486)
Payment for time deposits	(10,850)	(13,478)	(96,017)
Proceeds from withdrawal of time deposits	28,233	13,188	249,849
Other	(4,067)	(2,498)	(35,991)
Net cash used in investing activities	(371,602)	(335,949)	(3,288,513)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans	19,341	(20)	171,159
Proceeds from long-term debts	139,451	96,550	1,234,079
Repayment of long-term debts	(98,739)	(70,903)	(873,796)
Proceeds from commercial paper	75,161	6,114	665,141
Payment for redemption of commercial paper	(75,161)	(6,114)	(665,141)
Proceeds from issuance of bonds	-	119,679	-
Payment for redemption of bonds	(40,000)	(60,000)	(353,982)
Capital contribution from non-controlling interests	0	-	0
Dividends paid	(80,834)	(66,289)	(715,345)
Dividends paid to non-controlling interests	(6,142)	(5,792)	(54,353)
Purchase of treasury stock	(2,276)	(28)	(20,141)
Other	(8,991)	(15,507)	(79,566)
Net cash used in financing activities	(78,190)	(2,312)	(691,946)
Effect of exchange rate changes on cash and cash equivalents	(154)	(3,880)	(1,362)
Net increase (decrease) in cash and cash equivalents	62,576	146,830	553,769
Cash and cash equivalents at beginning of year	1,147,086	1,000,762	10,151,203
Decrease in cash and cash equivalents resulting from exclusion of the subsidiary from consolidation	(164)	(506)	(1,451)
Cash and cash equivalents at end of year	¥ 1,209,497	¥ 1,147,086	\$ 10,703,513

The accompanying notes are an integral part of these financial 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. and its consolidated subsidiaries (the "Companies") have been prepared in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS"), and are compiled from the Consolidated Financial Statements prepared by Seven & i Holdings Co., Ltd. (the "Company") as required by the Financial Instruments and Exchange Act of Japan.

The accompanying Consolidated Financial Statements also include the accounts of the Company's foreign consolidated subsidiaries. The accounts of the Company's foreign consolidated subsidiaries are prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"), with adjustments for the specific five items as applicable.

The accompanying Consolidated Financial Statements have been restructured and translated into English from the Consolidated Financial Statements prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan. Certain supplementary information included in the statutory Japanese language Consolidated Financial Statements, but not required for fair presentation, is not presented in the accompanying Consolidated Financial Statements.

As permitted under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying Consolidated Financial Statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and 149 consolidated subsidiaries as of February 28, 2017 (120 as of February 29, 2016) which include Seven-Eleven Japan Co., Ltd., 7-Eleven, Inc., Ito-Yokado Co., Ltd., York-Benimaru Co., Ltd., Sogo & Seibu Co., Ltd., Seven & i Food Systems Co., Ltd., Seven Bank, Ltd., and Nissen Holdings Co. Ltd.

35 entities have been newly consolidated for the fiscal year ended February 28, 2017 by among others establishing a new company by a subsidiary of 7-Eleven, Inc.

On the other hand, six entities were excluded from the scope of consolidation for the fiscal year ended February 28, 2017 following the liquidation of Seven Farm Tsukuba Co., Ltd. and four subsidiaries of Nissen Holdings Co. Ltd.; and the sale of a subsidiary of Nissen Holdings Co. Ltd.

The fiscal year-end of some consolidated 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. All material transactions that occur during the period from the closing date to February 28, 2017 are adjusted in the consolidation process.

The fiscal year-end of Seven Bank, Ltd. is March 31. Pro forma financial statements as of the end of February, prepared in a manner that is substantially identical to the preparation of the official financial statements, are prepared in order to facilitate its consolidation.

During the consolidated fiscal year ended February 28, 2017, 11 consolidated subsidiaries in Mail order services changed the

dates of their fiscal year-ends from December 20 or 31 to the end of February. Accordingly, their accounting period in the fiscal year ended February 28, 2017 is from December 21, 2015 or January 1, 2016 through February 28, 2017.

All material intercompany transactions and account balances have been eliminated.

26 affiliates as of February 28, 2017 (26 affiliates as of February 29, 2016), which include PRIME DELICA CO., LTD. and PIA CORPORATION, are accounted for using the equity method.

When an affiliate has a deficit net worth, the Company's share of such deficit is reduced from its loan receivable from that affiliate. For the affiliates that have a balance sheet date other than February 28, 2017, their individual financial statements are used in preparing the Consolidated Financial Statements.

(2) Inventories

Inventories are stated mainly at cost determined by the following method with book value written down to the net realizable value. Cost is determined principally by the retail method for domestic consolidated subsidiaries (excluding subsidiaries in the mail order services segment) and by the FIFO method (except for gasoline inventory that is determined mainly by the weighted-average cost method) for subsidiaries in the mail order services segment and foreign consolidated subsidiaries. Some consolidated subsidiaries are included using the moving-average method.

Supplies are carried at cost, which is mainly determined by the last purchase price method, with book value written down to the net realizable value.

(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 net assets at a net-of-tax amount. Cost of securities sold 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 (excluding lease assets)

Depreciation of property and equipment is computed using the straight-line method.

(6) Intangible assets (excluding lease assets)

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

Internal use software is amortized using the straight-line method over an estimated useful life, generally 5 years.

Goodwill and negative goodwill arising from consolidated subsidiaries that occurred prior to March 1, 2011 are mainly amortized over a period of 20 years on a straight-line basis, or charged to income when incurred, if they are immaterial. Negative goodwill arising from consolidated subsidiaries that occurred on or after March 1, 2011 is charged to income when incurred. The difference between the cost of investments and equity in their net assets at the date of acquisition recognized in applying the equity method is treated in the same manner.

(7) Lease assets

The method of accounting for finance leases that do not transfer ownership of the leased property to the lessee changed from treating such leases as rental transactions to treating them as sale/purchase transactions, recognizing them as lease assets.

Under the existing accounting standards, finance leases commenced prior to March 1, 2009 that do not transfer ownership of the leased property to the lessee are permitted to be accounted for in the same manner as operating leases if certain "as if capitalized" information is disclosed in a note to the lessee's financial statements.

(8) Income taxes

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

From the fiscal year ended February 28, 2013, the Company and its wholly owned domestic subsidiaries have applied the Consolidated Taxation System.

Deferred tax accounting is applied.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for income tax purposes.

(9) Allowances

(a) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historical rate of losses.

(b) Allowance for sales promotion expenses

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.

(c) Allowance for bonuses to employees

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 loss on future collection of gift certificates

Allowance for loss on future collection of gift certificates issued by certain domestic consolidated subsidiaries is provided for future collection of gift certificates recognized as income after remaining uncollected for certain periods from their issuance. The amount is calculated using the historical results of collection.

(e) Provision for sales returns

Provision for sales returns is provided at the amount of estimated future loss due to sales returns. The amount is calculated using the historical result of sales returns.

(f) Allowance for retirement benefits to Directors and Audit & Supervisory Board Members

Allowance for retirement benefits to Directors and Audit & Supervisory Board Members is provided at the amount required to be paid in accordance with internal rules.

The Company and some of its consolidated subsidiaries abolished the retirement benefit system for Directors and Audit & Supervisory Board Members, for which some consolidated subsidiaries have determined to pay the balance at the time of retirement.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(10) Accounting method for retirement benefits

(a) Allocation method of estimated total retirement benefits
Benefit formula basis

(b) Amortization method of the actuarial difference and the prior service costs
Actuarial differences are amortized on a straight-line basis over the period of 10 years from the year following the year in which they arise, which is shorter than the average remaining years of service of the eligible employees.

Prior service costs are amortized on a straight-line basis over the period of 5 years or 10 years, which are shorter than the average remaining years of service of the eligible employees.

(11) Hedge accounting

Forward foreign exchange contracts are utilized as hedging instruments and the related hedged items are foreign currency-denominated monetary claims and liabilities. Interest rate swap contracts are utilized as hedging instruments and the related hedged items are loans payable. The Companies have policies to utilize derivative instruments for the purposes of hedging their exposure to fluctuations in foreign currency rates, interest rates and reducing finance costs.

The Companies do not hold or issue derivative instruments for trading or speculative purposes. 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. The forward foreign exchange contracts are accounted for by the short-cut method when they meet certain criteria for the method. Certain interest rate swap contracts that 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 expenses as incurred. The hedge effectiveness is assessed quarterly except for those that meet specific hedging criteria.

(12) Per share information

Net assets (excluding non-controlling interests and subscription rights to shares) per share as of February 28, 2017 and February 29, 2016 are ¥2,641.40 (\$23.37) and ¥2,683.11, respectively. Earnings per share for the fiscal years ended February 28, 2017 and February 29, 2016 are ¥109.42 (\$0.96) and ¥182.02, respectively. Diluted earnings per share for the fiscal years ended February 28, 2017 and February 29, 2016 are ¥109.31 (\$0.96) and ¥181.84, respectively.

Earnings per share of common stock are computed based on the weighted-average number of shares of common stock outstanding and diluted earnings per share are computed based on the weighted-average number of shares of common stock outstanding during each year after incorporating the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

The basis for the calculation of earnings per share for the fiscal years ended February 28, 2017 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Profit attributable to owners of parent	¥96,750	¥160,930	\$856,194
Less components not pertaining to common shareholders	–	–	–
Profit pertaining to common shareholders	96,750	160,930	856,194
Weighted-average number of shares of common stock outstanding (shares)	884,214,252	884,132,485	884,214,252

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

(13) Treasury stock

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

(14) Accounting for consumption taxes and excise tax

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying Consolidated Statements of Income. The excise tax levied in the United States and Canada is included in the accompanying Consolidated Statements of Income.

(15) Foreign currency translation

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 Statements of Income.

All balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates except for shareholders' equity, which is translated at the historical rates. 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 Sheets under "Non-controlling interests" and "Foreign currency translation adjustments."

(16) Cash and cash equivalents

Cash and cash equivalents in the accompanying Consolidated Balance Sheets and Consolidated Statements 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.

(17) Accounting for franchised stores in convenience store operations

Seven-Eleven Japan Co., Ltd. and 7-Eleven, Inc. recognize franchise commission from their franchised stores as revenues and include it in operating revenues.

(18) Changes in significant accounting policies for the preparation of Consolidated Financial Statements

(Application of Accounting Standard for Business Combinations and other accounting standards)

From the beginning of the consolidated fiscal year ended February 28, 2017, the Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013; hereinafter, "the business combinations accounting standard"), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013; hereinafter, "the consolidated financial statements accounting standard"), and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013; hereinafter, "the business divestitures accounting standard"). As a result, the Company has switched to a method with respect to the posting to capital surplus of differences arising from changes in equity in a subsidiary by the parent company in cases in which control continues, and the posting of acquisition-related costs as expenses for the consolidated fiscal year in which they are incurred. For business combinations occurring after the beginning of the current consolidated fiscal year, the Company has switched to a method in which revisions to the distribution of the cost of the acquisition

due to the finalization of provisional accounting treatment are reflected in the consolidated financial statements applicable to the consolidated fiscal year in which the date of the business combination falls. Additionally, the Company has made changes in the presentation of net income, etc. and the change of the presentation from minority interests to non-controlling interests. Financial statements for the previous fiscal year have been reconfigured to reflect these changes in presentation. In the consolidated statements of cash flows for current consolidated fiscal year, cash flows from the purchase or sales of shares of subsidiaries without change in scope of consolidation are presented in cash flows from financing activities, and cash flows relating to the acquisition-related costs of shares of subsidiaries with change in scope of consolidation and cash flows relating to the costs incurred in acquisitions or sales of shares of subsidiaries without change in scope of consolidation are presented in cash flows from operating activities.

Regarding application of the three accounting standards mentioned above, pursuant to pass-through handling procedures stipulated in Article 58-2(3) of the business combinations accounting standard, Article 44-5(3) of the consolidated financial statements accounting standard, and Article 57-4(3) of the business divestitures accounting standard, the cumulative monetary effect at the beginning of the consolidated fiscal year ended February 28, 2017 arising from the retroactive application of the new accounting policies to all past periods are added or subtracted from capital surplus and retained earnings.

As a result of this change, goodwill and capital surplus at the beginning of the consolidated fiscal year ended February 28, 2017 decreased by ¥51,324 million (\$454,194 thousand) and ¥116,446 million (\$1,030,495 thousand), respectively, while foreign currency translation adjustments and retained earnings increased by ¥5,900 million (\$52,212 thousand) and ¥59,221 million (\$524,079 thousand), respectively. Additionally, operating income increased by ¥4,149 million (\$36,716 thousand) and profit before income taxes increased by ¥17,037 million (\$150,769 thousand) for the consolidated fiscal year ended February 28, 2017.

Net assets per share decreased by ¥38.77 (\$0.34). Earnings per share and diluted earnings per share increased by ¥19.27 (\$0.17) and ¥19.25 (\$0.17), respectively.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(19) Accounting standards issued but not yet applied

(Implementation Guidance on Recoverability of Deferred Tax Assets)

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016; hereinafter the "Implementation Guidance")

(a) Overview

In the course of the relocation of the accounting related parts of the Audit Committee Report No.66, the Auditing Treatment on Determining the Recoverability of Deferred Assets ("Auditing Treatment"), issued by Japanese Institute of Certified Public Accountants ("JICPA") as well as other practical guidelines related to accounting for deferred taxes, from the JICPA to the ASBJ, the "Implementation Guidance" basically continues to apply the framework used in the Auditing Treatment. According to the Implementation Guidance, deferred tax assets to be recognized are estimated based on five types of entities.

The Implementation Guidance defines the guidelines for applying the "Accounting Standards for Tax Effect Accounting," issued by Business Accounting Council, by revising the following treatments of the Auditing Treatment:

(i) Treatment for an entity that does not meet any of the criteria in types 1 to 5;

(ii) Criteria for types 2 and 3;

(iii) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;

(iv) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and

(v) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(b) Effective date

The above revisions are scheduled to be applied from the beginning of the fiscal year ending February 28, 2018.

(c) Effects of application of the guidance

There will be no effect from the application of the above revisions.

(20) Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

3 U.S. 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 ¥113=US\$1, the approximate rate of exchange

prevailing as of February 28, 2017. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized, or settled in U.S. dollars at this rate or at any other rate.

4 FINANCIAL INSTRUMENTS

Qualitative information on financial instruments

(1) Policies relating to financial instruments

For the management of surplus funds, the Companies' basic policy is to give priority to safety, liquidity, and efficiency, investing only in instruments such as deposits at banks. The Companies mainly raise funds through bank loans and bond issuance.

Also, the Companies use derivative instruments to mitigate the risk of currency exchange rates fluctuations for receivables and payables denominated in foreign currencies and the risk of fluctuations in the interest rates of interest-bearing debt as well as to optimize cash flows for future interest payments. The Companies do not hold or issue derivative instruments for trading or speculative purposes.

(2) Details of financial instruments, associated risk, and risk management systems

The Companies' risk management policy is incorporated in the "Fundamental Risk Management Policy," which designated the divisions that are responsible for each type of risk and overall risk management. Further, in relation to financial instruments the Companies recognize and manage risk as follows.

Notes and accounts receivable, trade are exposed to individual customer's credit risk. The Companies regularly monitor due dates and outstanding balances, as well as customer creditworthiness, to identify any concerns and mitigate losses associated with their collectability.

Long-term leasehold deposits, mainly arising from store rental agreements, are also exposed to individual lessor's credit risk. As with notes and accounts receivable, trade, the Companies monitor lessor creditworthiness to identify any concerns and mitigate losses associated with their collectability.

Marketable securities mainly consist of negotiable certificates of deposit used for the management of surplus funds. Investments in securities mainly consist of shares of companies with which the Companies have operational relationships and Japanese government bonds held by Seven Bank, Ltd., which is a subsidiary of the Company. These investments are exposed to market risk. The Companies regularly reconsider the holding status of these securities by monitoring market prices and the issuers' financial position, in light of the Companies' business partnerships.

Among notes and accounts payable, trade, debts denominated in foreign currencies are exposed to the risk of currency exchange rate fluctuations.

In order to mitigate the risk, the Companies enter into forward exchange contracts that cover a portion of the settlement amount. With regards to the forward exchange contracts, the Companies regularly monitor their valuation.

Among loans, short-term loans and commercial paper are used mainly to raise operating funds, while long-term loans and bonds are used mainly for capital investments. These debts are managed comprehensively based on the asset-liability management ("ALM") model. Among these debts, long-term loans with variable interest rates are exposed to the risk of interest rate fluctuations, which is partially mitigated by interest rate swap contracts. The detailed explanation as to the specific hedge methods are set out in Note 2, "Summary of Significant Accounting Policies."

In relation to the derivative instruments (i.e. forward exchange contracts, interest rate swap contracts) discussed above, the Companies mitigate credit risk by restricting counterparties to financial institutions that have high creditworthiness.

Trade payables, loans and bonds are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Companies manage the risk through adequately maintaining fund management plans, as well as by the Company conducting entity-wide cash management.

(3) Supplementary information on fair values

Fair values of financial instruments are measured through quoted market prices when available. When quoted market prices are not available, fair values are estimated by using reasonable valuation methods. The assumptions of such estimations include variable factors and, accordingly, if different assumptions are adopted, estimated fair values may change. The contract amounts of the derivatives discussed in Note 6, "Derivative Transactions," below are not an indicator of the market risk associated with derivative transactions.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Fair values of financial instruments

Book values and fair values of the financial instruments on the Consolidated Balance Sheets as of February 28, 2017 and February 29, 2016 are as follows.

Certain items that are deemed to be immaterial are not included in the table. Financial instruments whose fair value is deemed highly difficult to measure are also excluded from the table (refer to Note 2 below).

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and cash equivalents	¥1,209,497	¥1,209,497	¥ –
Notes and accounts receivable, trade	347,838		
Allowance for doubtful accounts ^(a)	(2,993)		
	344,845	348,385	3,539
Investments in securities	145,458	148,292	2,833
Long-term leasehold deposits ^(b)	302,134		
Allowance for doubtful accounts ^(c)	(443)		
	301,691	316,473	14,781
Total assets	¥2,001,493	¥2,022,648	¥21,155
Notes and accounts payable, trade ^(d)	¥ 415,349	¥ 415,349	¥ –
Deposits received in banking business	538,815	539,337	522
Bonds ^(e)	399,996	408,000	8,003
Long-term loans ^(f)	498,116	495,895	(2,220)
Deposits received from tenants and franchised stores ^(g)	28,453	28,037	(415)
Total liabilities	¥1,880,731	¥1,886,620	¥ 5,889
Derivative instruments ^(h)	¥ 164	¥ 164	¥ –

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and cash equivalents	¥1,147,086	¥1,147,086	¥ –
Notes and accounts receivable, trade	354,554		
Allowance for doubtful accounts ^(a)	(3,013)		
	351,540	355,048	3,507
Marketable securities and investments in securities	98,483	98,176	(306)
Long-term leasehold deposits ^(b)	291,394		
Allowance for doubtful accounts ^(c)	(677)		
	290,716	310,832	20,115
Total assets	¥1,887,826	¥1,911,143	¥23,316
Notes and accounts payable, trade ^(d)	¥ 413,582	¥ 413,582	¥ –
Deposits received in banking business	518,127	518,830	703
Bonds ^(e)	439,994	451,491	11,497
Long-term loans ^(f)	462,193	464,960	2,767
Deposits received from tenants and franchised stores ^(g)	26,896	26,504	(392)
Total liabilities	¥1,860,794	¥1,875,370	¥14,575
Derivative instruments ^(h)	¥ 656	¥ 656	¥ –

Thousands of U.S. dollars (Note 3)

	2017		
	Book value	Fair value	Difference
Cash and cash equivalents	\$ 10,703,513	\$ 10,703,513	\$ –
Notes and accounts receivable, trade	3,078,212		
Allowance for doubtful accounts ^(a)	(26,486)		
	3,051,725	3,083,053	31,318
Investments in securities	1,287,238	1,312,318	25,070
Long-term leasehold deposits ^(b)	2,673,752		
Allowance for doubtful accounts ^(c)	(3,920)		
	2,669,831	2,800,646	130,805
Total assets	\$ 17,712,327	\$ 17,899,539	\$ 187,212
Notes and accounts payable, trade ^(d)	\$ 3,675,654	\$ 3,675,654	\$ –
Deposits received in banking business	4,768,274	4,772,893	4,619
Bonds ^(e)	3,539,787	3,610,619	70,823
Long-term loans ^(f)	4,408,106	4,388,451	(19,646)
Deposits received from tenants and franchised stores ^(g)	251,796	248,115	(3,672)
Total liabilities	\$ 16,643,637	\$ 16,695,752	\$ 52,115
Derivative instruments ^(h)	\$ 1,451	\$ 1,451	\$ –

Notes:

- (a) The amount of allowance for doubtful accounts relates only to notes and accounts receivable, trade.
(b) The amount of long-term leasehold deposits includes a portion of leasehold deposits maturing within one year.
(c) The amount of allowance for doubtful accounts relates only to long-term leasehold deposits.
(d) The amount of notes and accounts payable, trade includes trade for franchised stores.
(e) The amount of bonds includes bonds due within one year.
(f) The amount of long-term loans includes long-term loans due within one year.
(g) The amount of deposits received from tenants and franchised stores includes a portion of the deposits received maturing within one year.
(h) The value of assets and liabilities arising from derivative instruments is shown by net value. Net liabilities are shown in parentheses.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Note 1: Items relating to the calculation of the fair value of financial instruments and derivative instruments

Assets

(1) Cash and cash equivalents

The relevant book values are used as they are due in a short period; hence market prices are equivalent to book values.

(2) Notes and accounts receivable, trade

For notes and accounts receivable, trade the relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values. The fair value of items with long settlement periods is the present value, which is obtained by discounting the total sum of the capital and interest that reflects credit risk by the corresponding interest rate for government bonds over the remaining period.

(3) Marketable securities and investments in securities

For the fair value of equity securities, market prices are used. For debt securities, market prices or the prices shown by correspondent financial institutions are used. For negotiable certificates of deposit, the relevant book values are used, as they are due in a short period, hence market prices are equivalent to book values.

(4) Long-term leasehold deposits

The fair value of items with long settlement periods is the present value, which is calculated by discounting the future cash flows that reflect credit risks by the corresponding interest rate for government bonds over the remaining period.

Liabilities

(1) Notes and accounts payable, trade

The relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values.

(2) Deposits received in banking business

The fair value of deposit on demand is measured at the amount payable on demand at the balance sheet date (book value). The fair value of time deposits is measured at their present value, which is obtained by categorizing the balance in accordance with their maturity and discounting the relevant future cash flows by each category. The discount rate is the interest rate that would be applied to newly accepted deposits. For time deposits that are due within one year, the relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values.

(3) Bonds

The fair value of bonds that have market prices is based on those prices. The fair value of bonds that do not have market prices is based on the present value, which is obtained by discounting the total principal and interest over the remaining period by the interest rate that reflects credit risk.

(4) Long-term loans

The fair value of long-term loans is based on the present value, which is obtained by discounting the total of principal and interest by the interest rate that would be applied if similar new borrowings were entered into.

(5) Deposits received from tenants and franchised stores

The fair value of deposits received from tenants is the present value, which is obtained by discounting future cash flows by the corresponding interest rate for government bonds over the remaining period.

Derivative instruments

Refer to Note 6, "Derivative Transactions."

Note 2: Items for which fair value is deemed highly difficult to measure

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Book value			
Investments in securities ^(a) :			
Unlisted securities	¥ 13,496	¥ 13,453	\$ 119,433
Shares of affiliates	27,362	27,369	242,141
Other	1,844	2,065	16,318
Long-term leasehold deposits ^(b)	108,605	115,820	961,106
Deposits received from tenants and franchised stores ^(b)	29,822	32,618	263,911

Notes:

(a) These are not included in Assets (3) Marketable securities and investments in securities since determining their estimated fair values was deemed to be highly difficult, due to the fact that these do not have market prices and the future cash flows cannot be estimated.

(b) These are not included in Assets (4) Long-term leasehold deposits and Liabilities (5) Deposits received from tenants and franchised stores since determining their fair values was deemed to be highly difficult, due to the fact that the amount to be repaid cannot be reasonably estimated.

Note 3: Redemption schedule for receivables and marketable securities with maturities

	Millions of yen			
	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	¥1,209,497	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	334,623			171
Investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	6,700	21,820	–	–
Bonds	25,200	23,040	–	–
Other	–	–	–	–
Long-term leasehold deposits	28,371	88,351	76,854	108,557
Total	¥1,604,392	¥145,105	¥78,004	¥108,728

	Millions of yen			
	2016			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	¥1,147,086	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	341,715	11,632	1,072	132
Marketable securities and investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	–	–	–	–
Bonds	18,500	22,800	10	–
Other	–	–	–	–
Long-term leasehold deposits	26,425	88,083	77,730	99,155
Total	¥1,533,726	¥122,516	¥78,813	¥99,288

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Thousands of U.S. dollars (Note 3)

	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	\$ 10,703,513	\$ –	\$ –	\$ –
Notes and accounts receivable, trade	2,961,265	105,247	10,176	1,513
Investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	59,292	193,097	–	–
Bonds	223,008	203,893	–	–
Other	–	–	–	–
Long-term leasehold deposits	251,070	781,867	680,123	960,681
Total	\$ 14,198,159	\$ 1,284,115	\$ 690,300	\$ 962,194

Note 4: Redemption schedule for deposits received in banking business with maturities

Millions of yen

	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	¥433,497	¥105,318	¥–	¥–

Millions of yen

	2016			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	¥411,967	¥106,159	¥–	¥–

Thousands of U.S. dollars (Note 3)

	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	\$ 3,836,256	\$ 932,017	\$ –	\$ –

Note: Deposits received in banking business due within one year include deposits on demand.

Note 5: Redemption schedule for long-term debt with maturities

Millions of yen

2017						
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	¥ 50,000	¥ 74,996	¥ 50,000	¥ 80,000	¥ –	¥145,000
Long-term loans	64,301	72,496	85,875	28,665	114,135	132,641
Total	¥114,301	¥147,493	¥135,875	¥108,665	¥114,135	¥277,641

Millions of yen

2016						
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	¥ 40,000	¥ 50,000	¥ 74,994	¥ 50,000	¥ 80,000	¥145,000
Long-term loans	101,329	137,126	67,524	82,055	21,903	52,254
Total	¥141,329	¥187,126	¥142,519	¥132,055	¥101,903	¥197,254

Thousands of U.S. dollars (Note 3)

2017						
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	\$ 442,477	\$ 663,681	\$ 442,477	\$707,964	\$ –	\$1,283,185
Long-term loans	569,035	641,557	759,955	253,672	1,010,044	1,173,814
Total	\$1,011,513	\$1,305,247	\$1,202,433	\$961,637	\$1,010,044	\$2,457,000

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

5 SECURITIES INFORMATION

(1) The following tables summarize the acquisition cost and book value of available-for-sale securities whose fair value was available as of February 28, 2017 and February 29, 2016 (excluding non-marketable securities of ¥13,496 million (\$119,433 thousand) and ¥13,453 million as of February 28, 2017 and February 29, 2016, respectively):

Millions of yen			
2017			
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 58,996	¥20,786	¥38,209
Debt securities			
Governmental and municipal bonds, etc.	27,537	27,523	13
Corporate bonds	38,196	38,180	15
Subtotal	124,730	86,491	38,239
Securities with book value not exceeding acquisition cost:			
Equity securities	1,020	1,154	(134)
Debt securities			
Governmental and municipal bonds, etc.	1,505	1,505	(0)
Corporate bonds	10,276	10,280	(3)
Subtotal	12,802	12,940	(138)
Total	¥137,533	¥99,431	¥38,101

Millions of yen			
2016			
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥48,694	¥20,442	¥28,251
Debt securities			
Corporate bonds	41,335	41,305	29
Subtotal	90,030	61,748	28,281
Securities with book value not exceeding acquisition cost:			
Equity securities	1,066	1,464	(398)
Debt securities			
Corporate bonds	10	10	(0)
Subtotal	1,076	1,474	(398)
Total	¥91,106	¥63,223	¥27,882

Thousands of U.S. dollars (Note 3)

	2017		
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	\$ 522,088	\$ 183,946	\$ 338,132
Debt securities			
Governmental and municipal bonds, etc.	243,690	243,566	115
Corporate bonds	338,017	337,876	132
Subtotal	1,103,805	765,407	338,398
Securities with book value not exceeding acquisition cost:			
Equity securities	9,026	10,212	(1,185)
Debt securities			
Governmental and municipal bonds, etc.	13,318	13,318	(0)
Corporate bonds	90,938	90,973	(26)
Subtotal	113,292	114,513	(1,221)
Total	\$ 1,217,106	\$ 879,920	\$ 337,176

(2) Sales amounts and gain (loss) on sales of available-for-sale securities during the fiscal years ended February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Sales amounts	¥193	¥1,407	\$ 1,707
Gain on sales of available-for-sale securities	57	162	504
Loss on sales of available-for-sale securities	(11)	2	(97)

(3) Impairment loss on securities

For the fiscal years ended February 28, 2017 and February 29, 2016, the Companies recognized ¥10 million (\$88 thousand) and ¥166 million as impairment loss on securities, respectively.

The Companies consider securities to be irrecoverable where market prices decline by more than or equal to 50% of their acquisition cost. Where market prices decline by between 30% and 50% of their acquisition cost, the Companies assess the recoverability and, to the extent necessary, recognize impairment losses on such securities.

(4) Investments in affiliates included in investments in securities in the accompanying Consolidated Balance Sheets as of February 28, 2017 and February 29, 2016 were ¥35,288 million (\$312,283 thousand) and ¥34,746 million, respectively.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

6 DERIVATIVE TRANSACTIONS

The Companies have policies 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 Companies 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 non-performance is considered to be

low as the contracts are entered into with prestigious financial institutions. The responsible divisions in the Companies 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, 2017 and February 29, 2016 are summarized in the following tables. The estimated fair values of these contracts are based on values prepared by financial institutions.

Derivatives not designated as hedging instruments

Currency-related transactions

	Millions of yen			
	2017			
	Contract amount		Estimated fair value	Unrealized gains (losses)
Total	After one year			
Forward exchange contracts:				
Buy U.S. dollar	¥2,432	¥-	¥73	¥73
Buy euro	228	-	1	1
Buy Chinese yuan	128	-	(0)	(0)
Buy Hong Kong dollar	105	-	(3)	(3)
Sell U.S. dollar	49	-	(6)	(6)

	Millions of yen			
	2016			
	Contract amount		Estimated fair value	Unrealized gains (losses)
Total	After one year			
Forward exchange contracts:				
Buy U.S. dollar	¥4,598	¥-	¥(257)	¥(257)
Buy euro	365	-	(19)	(19)
Buy Chinese yuan	148	-	(8)	(8)
Buy Hong Kong dollar	126	-	(7)	(7)
Sell Indonesian rupiah	267	-	(23)	(23)

	Thousands of U.S. dollars (Note 3)			
	2017			
	Contract amount		Estimated fair value	Unrealized gains (losses)
Total	After one year			
Forward exchange contracts:				
Buy U.S. dollar	\$21,522	\$-	\$646	\$646
Buy euro	2,017	-	8	8
Buy Chinese yuan	1,132	-	(0)	(0)
Buy Hong Kong dollar	929	-	(26)	(26)
Sell U.S. dollar	433	-	(53)	(53)

Note: The estimated fair values of derivative contracts are measured by reference to prices or indices indicated by financial institutions.

Derivatives designated as hedging instruments

(1) Currency-related transactions

Millions of yen

	2017		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	¥1,500	¥ –	¥101 ^(a)
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	¥ 251	¥ –	¥ – ^(b)

Millions of yen

	2016		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	¥11,380	¥ –	¥973 ^(a)
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	¥ 328	¥ –	¥ – ^(b)

Thousands of U.S. dollars (Note 3)

	2017		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	\$13,274	\$ –	\$893 ^(a)
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	\$ 2,221	\$ –	\$ – ^(b)

Notes:

(a) The estimated fair values of derivative contracts are measured by reference to prices or indices indicated by financial institutions.

(b) Forward exchange contracts, accounted for by designation method are accounted for as part of notes and accounts payable, trade. Therefore, the estimated fair value of the contracts is included in the fair value of the underlying notes and accounts payable, trade.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(2) Interest rate related transactions

	Millions of yen		
	2017		
	Contract amount		Estimated fair value
Total	After one year		
Interest rate swap contracts, where certain criteria are met ^(b)			
Receive float / Pay fixed	¥10,550	¥10,000	¥ ^{-(a)}

	Millions of yen		
	2016		
	Contract amount		Estimated fair value
Total	After one year		
Interest rate swap contracts, where certain criteria are met ^(b)			
Receive float / Pay fixed	¥13,762	¥10,550	¥ ^{-(a)}

	Thousands of U.S. dollars (Note 3)		
	2017		
	Contract amount		Estimated fair value
Total	After one year		
Interest rate swap contracts, where certain criteria are met ^(b)			
Receive float / Pay fixed	\$93,362	\$88,495	\$ ^{-(a)}

Notes:

- (a) Interest rate swap contracts are accounted for as part of long-term debt. Therefore, the estimated fair value of the contracts is included in the fair value of the underlying long-term debt.
 (b) The estimated fair value of these interest rate swaps is, in effect, included in and presented with that of the hedged item. For details, refer to Note 2 (11), "Hedge accounting."

7 PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Buildings and structures	¥ 2,138,622	¥ 2,116,464	¥ 18,925,858
Furniture, fixtures and other	913,016	862,547	8,079,787
	3,051,639	2,979,012	27,005,654
Less: Accumulated depreciation	(1,861,414)	(1,795,547)	(16,472,690)
	1,190,225	1,183,464	10,532,964
Land	768,926	746,729	6,804,654
Construction in progress	48,677	42,161	430,769
Total	¥ 2,007,829	¥ 1,972,355	\$ 17,768,398

8 IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT

For the fiscal years ended February 28, 2017 and February 29, 2016, the Companies recognized ¥59,719 million (\$528,486 thousand) and ¥28,800 million of impairment loss, respectively, on the following groups of assets.

Fiscal year ended February 28, 2017:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars (Note 3)
Stores (Convenience stores)	Land and buildings, etc.	Tokyo Met. 109 stores Osaka Pref. 52 stores Others (including U.S.)	¥55,862	\$494,353
Stores (Superstores)	Land and buildings, etc.	Tokyo Met. 15 stores Kanagawa Pref. 6 stores Others 23 stores		
Stores (Department stores)	Land and buildings, etc.	Tokyo Met. 4 stores Kanagawa Pref. 2 stores Others 10 stores		
Stores (Food services)	Land and buildings, etc.	Tokyo Met. & others 37 stores		
Stores (Others)	Land and buildings, etc.	Tokyo Met. 1 store Saitama Pref. 1 store Others 2 stores		
Other facilities, etc.	Land and buildings, etc.	Kyoto Pref., Tokyo Met., Nagano Pref. & others	3,857	34,132
Total			¥59,719	\$528,486

Note: Impairment losses in the amount of ¥6,927 million (\$61,300 thousand) (Stores) and ¥3,683 million (\$32,592 thousand) (Other facility, etc.) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 29, 2016:

Description	Classification	Location	Millions of yen
Stores (Convenience stores)	Land and buildings, etc.	Tokyo Met. 79 stores Osaka Pref. 57 stores Others (including U.S.)	¥26,090
Stores (Superstores)	Land and buildings, etc.	Saitama Pref. 4 stores Tokyo Met. 3 stores Others 16 stores	
Stores (Department stores)	Land and buildings, etc.	Tokyo Met. 3 stores Kanagawa Pref. 3 stores Others 5 stores	
Stores (Food services)	Land and buildings, etc.	Tokyo Met. & others 32 stores	
Other facilities, etc.	Land and buildings, etc.	Kyoto Pref., Fukushima Pref., Nagano Pref. & others	2,710
Total			¥28,800

Note: Impairment losses in the amount of ¥3,792 million (Stores) and ¥2,315 million (Other facility, etc.) are included in "Restructuring expenses" in Consolidated Statements of Income.

The Companies group their fixed assets by store, which is the minimum cash-generating unit. The book values of stores whose land had significantly declined in market prices or which incurred consecutive operating losses were reduced to recoverable amounts when the book values exceed future cash flows before discount, and such deducted amounts were recorded as an impairment loss.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

A breakdown of impairment loss for the years ended February 28, 2017 and February 29, 2016 is as follows:

Fiscal year ended February 28, 2017:

Classification	Millions of yen		
	Stores	Other facilities, etc.	Total
Buildings and structures	¥43,328	¥ 994	¥44,322
Land	6,462	48	6,510
Software	74	1,043	1,117
Other	5,543	2,225	7,769
Total	¥55,407	¥4,311	¥59,719

Note: Impairment losses in the amount of ¥6,520 million (\$57,699 thousand) (Building and structures), ¥729 million (\$6,451 thousand) (Land), ¥1,033 million (\$9,141 thousand) (Software), and ¥2,328 million (\$20,601 thousand) (Other) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 29, 2016:

Classification	Millions of yen		
	Stores	Other facilities, etc.	Total
Buildings and structures	¥17,248	¥2,190	¥19,438
Land	4,706	200	4,907
Software	123	55	178
Other	4,011	263	4,275
Total	¥26,090	¥2,710	¥28,800

Note: Impairment losses in the amount of ¥4,950 million (Building and structures), ¥643 million (Land), ¥41 million (Software), and ¥473 million (Other) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 28, 2017:

Classification	Thousands of U.S. dollars (Note 3)		
	Stores	Other facilities, etc.	Total
Buildings and structures	\$ 383,433	\$ 8,796	\$ 392,230
Land	57,185	424	57,610
Software	654	9,230	9,884
Other	49,053	19,690	68,752
Total	\$ 490,327	\$ 38,150	\$ 528,486

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 1.6%-6.0% discount rates in 2017 and 3.0%-6.0% in 2016 were applied.

9 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Major non-cash transactions

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Finance lease obligation for property and equipment recorded in the Consolidated Balance Sheets for the fiscal year	¥ 6,713	¥13,384	\$ 59,407
Asset retirement obligations recorded in the Consolidated Balance Sheets for the fiscal year	11,501	5,745	101,778

(2) Acquisition of business

During the fiscal year ended February 28, 2017, payments for acquired businesses made by 7-Eleven, Inc. consist of the following.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2017	2017
Inventories	¥ 2,047		\$ 18,115
Goodwill	69,412		614,265
Other	11		97
Subtotal	71,471		632,486
Property and equipment	53,839		476,451
Total	¥125,310		\$1,108,938

The property and equipment set out above at an amount of ¥53,839 million (\$476,451 thousand) are included in acquisition of property and equipment in the Consolidated Statement of Cash Flows for the fiscal year ended February 28, 2017.

The figures in the table above include the acquisition of subsidiaries.

During the fiscal year ended February 29, 2016, payments for acquired businesses made by 7-Eleven, Inc. consist of the following.

	Millions of yen
	2016
Inventories	¥ 1,189
Goodwill	39,838
Other intangible assets	7,785
Other	(333)
Subtotal	48,479
Property and equipment	29,203
Total	¥77,683

The property and equipment set out above at an amount of ¥29,203 million are included in acquisition of property and equipment in the Consolidated Statement of Cash Flows for the fiscal year ended February 29, 2016.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

10 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 33.1% for the fiscal year ended February 28, 2017 and 35.6% for the fiscal year ended February 29, 2016.

(1) The significant components of deferred tax assets and liabilities as of February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Deferred tax assets:			
Allowance for bonuses to employees	¥ 4,408	¥ 4,477	\$ 39,008
Allowance for sales promotion expenses	6,398	6,839	56,619
Accrued payroll	9,889	9,005	87,513
Allowance for retirement benefits to Directors and Audit & Supervisory Board Members	290	647	2,566
Allowance for accrued pension and severance costs	1,332	1,562	11,787
Allowance for loss on future collection of gift certificates	574	690	5,079
Depreciation and amortization	13,494	13,763	119,415
Tax loss carried forward	39,256	34,319	347,398
Valuation loss on available-for-sale securities	774	880	6,849
Allowance for doubtful accounts	1,810	2,168	16,017
Unrealized loss on property and equipment	9,566	11,908	84,654
Impairment loss on property and equipment valuation and loss on land	50,651	42,050	448,238
Accrued enterprise taxes and business office taxes	4,329	5,357	38,309
Accrued expenses	17,239	16,619	152,557
Asset retirement obligations	20,273	18,572	179,407
Rights of trademark	2,080	3,942	18,407
Other	24,283	22,723	214,893
Subtotal	206,655	195,531	1,828,805
Less: Valuation allowance	(81,445)	(81,083)	(720,752)
Total	125,209	114,448	1,108,044
Deferred tax liabilities:			
Unrealized gains on property and equipment	(52,431)	(57,709)	(463,991)
Royalties, etc.	(26,737)	(23,227)	(236,610)
Reserve for advanced depreciation of property and equipment	(779)	(833)	(6,893)
Unrealized gains on available-for-sale securities	(9,860)	(7,372)	(87,256)
Net defined benefit asset	(13,620)	(8,363)	(120,530)
Unrealized intercompany profit	(4,594)	(4,759)	(40,654)
Removal cost related to asset retirement obligations	(7,181)	(6,715)	(63,548)
Other	(3,624)	(4,308)	(32,070)
Total	(118,830)	(113,289)	(1,051,592)
Net deferred tax assets ^(a)	¥ 6,378	¥ 1,158	\$ 56,442

Note:

(a) Net deferred tax assets are included in the assets and liabilities shown below.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Current assets - Deferred income taxes	¥ 30,239	¥ 38,866	\$ 267,601
Other assets - Deferred income taxes	25,261	27,636	223,548
Current liabilities - Other	(41)	(484)	(362)
Non-current liabilities - Deferred income taxes	(49,080)	(64,859)	(434,336)

(2) The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended February 28, 2017 and February 29, 2016 is as follows:

	2017	2016
Statutory tax rate	33.1%	35.6%
Adjustments:		
Equity in earnings of affiliates	(0.3)	(0.2)
Amortization of goodwill	8.4	2.7
Non-deductible items, such as entertainment expenses	2.1	0.3
Decrease in valuation allowance	3.3	4.6
Inhabitant taxes per capital	0.9	0.5
Decrease in deferred tax assets at the fiscal year-end due to changes in tax rate	0.9	1.6
Other	0.7	(0.6)
Effective tax rate	49.1%	44.5%

(3) Effect of change in rates of income taxes

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were promulgated on March 31, 2016. Furthermore, the "Act for Partial Amendment of Act for Partial Amendment of the Consumption Tax Act, etc. for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act for Partial Amendment of Act for Partial Amendment of the Local Tax Act and the Local Allocation Tax for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 86 of 2016) were promulgated on November 28, 2016. With these amendments, the rates of corporate tax, etc. will be reduced effective from the fiscal year beginning on or after April 1, 2016. In accordance

with these amendments, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities will be changed from the previous rate of 32.3% to 30.9% for temporary differences expected to be reversed in the fiscal year beginning on March 1, 2017 and 2018, and to 30.6% for temporary differences expected to be reversed in the fiscal year beginning on or after March 1, 2019.

As a result of these changes, the amount of deferred tax assets (after deducting deferred tax liabilities) decreased by ¥1,863 million (\$16,486 thousand). Income taxes-deferred, unrealized gains (losses) on available-for-sale securities, remeasurements of defined benefit plans and unrealized gains (losses) on hedging derivatives increased by ¥2,022 million (\$17,893 thousand), ¥46 million (\$407 thousand), ¥111 million (\$982 thousand) and ¥0 million (\$0 thousand), respectively.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

11 RETIREMENT BENEFITS

(1) Summary of the retirement benefit plans

The Company and its domestic consolidated subsidiaries mainly provide the employee pension fund plan in the form of a defined benefit plan, although some of the domestic subsidiaries provide a defined contribution pension plan or a lump severance payment

plan. Additional retirement benefits may be added upon the retirement of employees.

Certain consolidated subsidiaries in the United States have a defined contribution pension plan and a defined benefit plan.

(2) Defined benefit plans, including a plan applying a simplified method

(a) Change in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Balance at beginning of year	¥ 249,767	¥ 245,016	\$ 2,210,327
Cumulative effects of changes in accounting policies	–	3	–
Restated balance reflecting changes in accounting policies	¥ 249,767	¥ 245,019	\$ 2,210,327
Service cost	11,460	11,206	101,415
Interest cost	2,694	2,645	23,840
Actuarial differences	1,437	1,303	12,716
Benefits paid	(11,039)	(10,109)	(97,690)
Past service cost arising during year	–	(301)	–
Other	(340)	3	(3,008)
Balance at end of year	¥ 253,979	¥ 249,767	\$ 2,247,601

(b) Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Balance at beginning of year	¥ 267,262	¥ 277,237	\$ 2,365,150
Expected return on plan assets	6,657	6,907	58,911
Actuarial differences	14,490	(18,572)	128,230
Employer contribution	11,636	11,387	102,973
Benefits paid	(10,601)	(9,697)	(93,814)
Balance at end of year	¥ 289,444	¥ 267,262	\$ 2,561,451

(c) Reconciliation from retirement benefit obligations and plan assets to liabilities and assets for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Funded retirement benefit obligations	¥ 244,816	¥ 241,202	\$ 2,166,513
Plan assets	(289,444)	(267,262)	(2,561,451)
	(44,628)	(26,059)	(394,938)
Unfunded retirement benefit obligations	9,163	8,564	81,088
	¥ (35,465)	¥ (17,495)	\$ (313,849)
Net defined benefit liability	¥ 9,163	¥ 8,564	\$ 81,088
Net defined benefit asset	(44,628)	(26,059)	(394,938)
	¥ (35,465)	¥ (17,495)	\$ (313,849)

(d) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Service cost	¥11,460	¥11,206	\$101,415
Interest cost	2,694	2,645	23,840
Expected return on plan assets	(6,657)	(6,907)	(58,911)
Amortization of actuarial differences	5,406	1,660	47,840
Amortization of past service cost	(30)	4	(265)
Additional retirement benefits	556	123	4,920
Total retirement benefit expenses	¥13,429	¥ 8,733	\$118,840

(e) Remeasurements of defined benefit plans (pretax) recognized in other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Past service cost	¥ (30)	¥ 306	\$ (265)
Actuarial differences	18,526	(18,217)	163,946
Total	¥18,495	¥(17,910)	\$163,672

(f) Remeasurements of defined benefit plans (pretax) recognized in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Unrecognized past service cost	¥ (274)	¥ (302)	\$ (2,424)
Unrecognized actuarial differences	(5,554)	12,972	(49,150)
Total	¥(5,828)	¥12,669	\$(51,575)

(g) Plan assets

(i) Asset allocation for the plans

	2017	2016
Bonds	43%	49%
Equity	40%	36%
Other	17%	15%
Total	100%	100%

(ii) Method for setting long-term expected rate of return

To set the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets and the expected present and future long-term rate of return on the diverse range of assets that make up plan assets.

(h) Actuarial assumptions

	2017	2016
Discount rate	mainly 1.0%	mainly 1.0%
Discount rate (consolidated subsidiaries in the U.S.)	4.3%	4.6%
Long-term expected rate of return on plan assets	mainly 2.5%	mainly 2.5%
Expected rate of salary increase	mainly 2.9%	mainly 2.9%

(3) Defined contribution plans

Contribution made to the defined contribution plans by some of the Company's domestic consolidated subsidiaries and consolidated subsidiaries in the U.S. amounted to ¥8,060 million (\$71,327 thousand) and ¥3,138 million for the fiscal years ended February 28, 2017 and February 29, 2016, respectively.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

12 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)
	2017	2016	2017
Outstanding balance at fiscal year-end:			
Short-term bank loans ^(a)	¥ 150,376	¥ 130,782	\$ 1,330,761
Weighted-average interest rate at year-end:			
Short-term bank loans	0.27%	0.31%	0.27%

Note:

(a) The total amounts of short-term loans with collateral as of February 28, 2017 and February 29, 2016 were ¥5,200 million (\$46,017 thousand) and ¥1,900 million, respectively (Note 18).

Long-term debt as of February 28, 2017 and February 29, 2016 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Outstanding balance as of fiscal year-end:			
Loans, principally from banks and insurance companies, due fiscal 2016 to 2030 with interest rates ranging from 0.05% to 6.0% ^(b)	¥ 498,116	¥ 462,193	\$ 4,408,106
Lease obligations	44,821	47,317	396,646
Seven & i Holdings Co., Ltd.:			
1.94% unsecured straight bonds, due June 20, 2018	29,996	29,994	265,451
0.852% unsecured straight bonds, due June 20, 2017	20,000	20,000	176,991
1.3999% unsecured straight bonds, due June 19, 2020	60,000	60,000	530,973
0.258% unsecured straight bonds, due June 20, 2016	–	40,000	–
0.383% unsecured straight bonds, due June 20, 2019	40,000	40,000	353,982
0.671% unsecured straight bonds, due March 20, 2023	20,000	20,000	176,991
0.150% unsecured straight bonds, due June 20, 2018	30,000	30,000	265,486
0.514% unsecured straight bonds, due June 20, 2022	60,000	60,000	530,973
0.781% unsecured straight bonds, due June 20, 2025	30,000	30,000	265,486
Seven Bank, Ltd.:			
0.398% unsecured straight bonds, due June 20, 2017	30,000	30,000	265,486
0.613% unsecured straight bonds, due June 20, 2019	10,000	10,000	88,495
0.243% unsecured straight bonds, due March 20, 2018	15,000	15,000	132,743
0.460% unsecured straight bonds, due March 19, 2020	20,000	20,000	176,991
0.803% unsecured straight bonds, due March 20, 2023	20,000	20,000	176,991
0.536% unsecured straight bonds, due December 20, 2024	15,000	15,000	132,743
	942,934	949,505	8,344,548
Current portion of long-term debt	(130,758)	(159,862)	(1,157,150)
	¥ 812,176	¥ 789,642	\$ 7,187,398

Note:

(b) The total amounts of long-term debt with collateral as of February 28, 2017 and February 29, 2016 were ¥9,811 million (\$86,823 thousand) and ¥11,206 million, respectively (Note 18).

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

Fiscal year ending February 28 or 29:	Millions of yen	Thousands of U.S. dollars (Note 3)
2018	¥130,758	\$1,157,150
2019	152,616	1,350,584
2020	140,275	1,241,371
2021	112,203	992,946
2022	116,693	1,032,681
Thereafter	290,387	2,569,796
	¥942,934	\$8,344,548

13 Leases

Operating leases

The amounts of outstanding future lease payments under lease agreements other than finance leases, which are non-cancelable, including the interest portion, as of February 28, 2017 and February 29, 2016 are as follows:

As lessee:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Due within one year	¥ 95,704	¥ 89,371	\$ 846,938
Due after one year	543,277	492,666	4,807,761
Total	¥638,981	¥582,037	\$5,654,699

As lessor:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Due within one year	¥2,037	¥1,957	\$ 18,026
Due after one year	5,539	4,121	49,017
Total	¥7,576	¥6,078	\$67,044

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

14 ASSET RETIREMENT OBLIGATIONS

Fiscal years ended February 28, 2017 and February 29, 2016:

(1) Summary of asset retirement obligations

Asset retirement obligations recorded by the Companies are mainly related to the obligations to restore stores to their original condition upon termination of their lease contracts.

(2) Calculation method of the asset retirement obligations

In the calculation process of asset retirement obligations, the Companies estimate terms of use between 1 and 50 years and use a discount rate between 0.0% and 8.3%.

(3) Changes in the total amounts of applicable asset retirement obligations for the fiscal years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Balance at beginning of year	¥75,140	¥ 68,183	\$664,955
Increase due to acquisition of property and equipment	13,457	7,625	119,088
Adjustment due to passage of time	1,350	1,324	11,946
Decrease due to settlement of asset retirement obligations	(4,720)	(1,037)	(41,769)
Decrease due to release from restoration obligations	(489)	-	(4,327)
Decrease due to change in estimation	(251)	-	(2,221)
Others	(813)	(955)	(7,194)
Balance at end of year	¥83,672	¥ 75,140	\$740,460

(Change in estimation)

In the current consolidated fiscal year, the estimated amount for restoration expenses and the expected period of use for asset retirement obligation recognized for the restoration has been revised based on the latest information about the actual

restoration expenses, etc. As a result of this revision, asset retirement obligation decreased by ¥251 million (\$2,221 thousand) from the balance of asset retirement obligation before revision.

15 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) including reclassification adjustments and tax (expense) or benefits for the fiscal years ended February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	¥ 10,243	¥ (1,992)	\$ 90,646
Reclassification adjustments	10	(122)	88
Amount before tax	10,254	(2,114)	90,743
Tax (expense) or benefit	(2,515)	1,140	(22,256)
Subtotal	7,738	(974)	68,477
Unrealized gains (losses) on hedging derivatives, net of taxes:			
Increase (decrease) during the fiscal year	(872)	(1,664)	(7,716)
Reclassification adjustments	–	–	–
Amount before tax	(872)	(1,664)	(7,716)
Tax (expense) or benefit	308	634	2,725
Subtotal	(563)	(1,029)	(4,982)
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	(14,915)	(9,701)	(131,991)
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the fiscal year	13,268	(19,345)	117,415
Reclassification adjustments	5,227	1,434	46,256
Amount before tax	18,495	(17,910)	163,672
Tax (expense) or benefit	(5,377)	5,592	(47,584)
Subtotal	13,118	(12,318)	116,088
Share of other comprehensive income (loss) of associates accounted for using equity method:			
Increase (decrease) during the fiscal year	(25)	(54)	(221)
Total other comprehensive income (loss)	¥ 5,352	¥ (24,077)	\$ 47,362

16 NET ASSETS

Net assets are comprised of four subsections, which are shareholders' equity, accumulated other comprehensive income, subscription rights to shares, and non-controlling interests.

Under the Japanese Corporation Act ("the Act") and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Act, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the

accompanying Consolidated Balance Sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the Non-Consolidated Financial Statements of the Company in accordance with the Act.

At the annual shareholders' meeting held on May 25, 2017, the shareholders approved cash dividends amounting to ¥39,799 million (\$352,203 thousand). Such appropriations have not been accrued in the Consolidated Financial Statements as of February 28, 2017 because those are recognized in the period in which they are approved by the shareholders.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

17 STOCK OPTIONS

Stock option expense that is accounted for under selling, general and administrative expenses on the Consolidated Statements of Income for the fiscal years ended February 28, 2017 and February 29, 2016 amounted to ¥480 million (\$4,247 thousand) and ¥795 million, respectively.

(1) The Company

(a) Outline of stock options

	First grant	Second grant
Title and number of grantees	4 directors of the Company	92 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	15,900 ordinary shares	95,800 ordinary shares
Grant date	August 6, 2008	August 6, 2008
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From May 1, 2009 to August 6, 2028	From August 7, 2009 to August 6, 2038
	Third grant	Fourth grant
Title and number of grantees	6 directors of the Company	106 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	24,000 ordinary shares	129,700 ordinary shares
Grant date	June 15, 2009	June 15, 2009
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2010 to June 15, 2029	From February 28, 2010 to June 15, 2039
	Fifth grant	Sixth grant
Title and number of grantees	6 directors of the Company	115 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	21,100 ordinary shares	114,400 ordinary shares
Grant date	June 16, 2010	July 2, 2010
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2011 to June 16, 2030	From February 28, 2011 to July 2, 2040
	Seventh grant	Eighth grant
Title and number of grantees	6 directors of the Company	121 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	25,900 ordinary shares	128,000 ordinary shares
Grant date	June 15, 2011	June 15, 2011
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 29, 2012 to June 15, 2031	From February 29, 2012 to June 15, 2041

	Ninth grant	Tenth grant
Title and number of grantees	7 directors of the Company	118 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	27,000 ordinary shares	126,100 ordinary shares
Grant date	July 6, 2012	July 6, 2012
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2013 to July 6, 2032	From February 28, 2013 to July 6, 2042
	Eleventh grant	Twelfth grant
Title and number of grantees	7 directors of the Company	108 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	24,900 ordinary shares	110,500 ordinary shares
Grant date	August 7, 2013	August 7, 2013
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2014 to August 7, 2033	From February 28, 2014 to August 7, 2043
	Thirteenth grant	Fourteenth grant
Title and number of grantees	7 directors of the Company	113 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	24,000 ordinary shares	102,800 ordinary shares
Grant date	August 6, 2014	August 6, 2014
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2015 to August 6, 2034	From February 28, 2015 to August 6, 2044
	Fifteenth grant	Sixteenth grant
Title and number of grantees	8 directors of the Company	114 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	28,100 ordinary shares	101,800 ordinary shares
Grant date	August 5, 2015	August 5, 2015
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 29, 2016 to August 5, 2035	From February 29, 2016 to August 5, 2045
	Seventeenth grant	Eighteenth grant
Title and number of grantees	7 directors of the Company	107 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options ^(a)	16,500 ordinary shares	86,800 ordinary shares
Grant date	August 3, 2016	August 3, 2016
Exercise condition	(b)	(b)
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2017 to August 3, 2036	From February 28, 2017 to August 3, 2046

Notes :

(a) Number of stock options means total shares to be issued upon exercise of subscription rights to shares.

(b) Within 10 days from the day following the day that a subscription holder loses their position as a director or executive officer of the Company or of its subsidiaries.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(b) Scale and changes in stock options

The following describes the scale and changes in stock options that existed during the fiscal year ended February 28, 2017. The number of stock options is translated into the number of shares.

Fiscal year ended February 28, 2017:

Number of stock options

	First grant	Second grant	Third grant	Fourth grant
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	12,900	42,400	18,300	64,700
Vested	-	-	-	-
Exercised	11,100	10,900	14,200	21,600
Forfeited	-	-	-	-
Outstanding	1,800	31,500	4,100	43,100
	Fifth grant	Sixth grant	Seventh grant	Eighth grant
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	16,100	58,700	24,300	85,800
Vested	-	-	-	-
Exercised	12,300	12,600	18,000	17,500
Forfeited	-	-	-	-
Outstanding	3,800	46,100	6,300	68,300

	Ninth grant	Tenth grant	Eleventh grant	Twelfth grant
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	25,400	91,700	23,400	92,800
Vested	-	-	-	-
Exercised	17,800	17,200	16,400	18,000
Forfeited	-	-	-	-
Outstanding	7,600	74,500	7,000	74,800

	Thirteenth grant	Fourteenth grant	Fifteenth grant	Sixteenth grant
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	22,600	91,300	28,100	101,000
Vested	-	-	-	-
Exercised	16,200	17,000	18,500	17,100
Forfeited	-	-	-	-
Outstanding	6,400	74,300	9,600	83,900

	Seventeenth grant	Eighteenth grant
Before vested:		
As of February 29, 2016	-	-
Granted	16,500	86,800
Forfeited	1,400	3,000
Vested	15,100	83,800
Outstanding	-	-
After vested:		
As of February 29, 2016	-	-
Vested	15,100	83,800
Exercised	-	-
Forfeited	-	-
Outstanding	15,100	83,800

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Price information

	First grant	Second grant	Third grant	Fourth grant
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥4,725 (\$41.8) per subscription to share	¥4,702 (\$41.6) per subscription to share	¥4,725 (\$41.8) per subscription to share	¥4,667 (\$41.3) per subscription to share
Fair value at the grant date ^(a)	¥307,000 (\$2,716) per subscription to share	¥311,300 (\$2,754) per subscription to share	¥204,500 (\$1,809) per subscription to share	¥211,100 (\$1,868) per subscription to share
	Fifth grant	Sixth grant	Seventh grant	Eighth grant
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥4,724 (\$41.8) per subscription to share	¥4,627 (\$40.9) per subscription to share	¥4,721 (\$41.7) per subscription to share	¥4,603 (\$40.7) per subscription to share
Fair value at the grant date ^(a)	¥185,000 (\$1,637) per subscription to share	¥168,900 (\$1,494) per subscription to share	¥188,900 (\$1,671) per subscription to share	¥185,300 (\$1,639) per subscription to share
	Ninth grant	Tenth grant	Eleventh grant	Twelfth grant
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥4,720 (\$41.7) per subscription to share	¥4,600 (\$40.7) per subscription to share	¥4,720 (\$41.7) per subscription to share	¥4,595 (\$40.6) per subscription to share
Fair value at the grant date ^(a)	¥216,400 (\$1,915) per subscription to share	¥206,400 (\$1,826) per subscription to share	¥345,700 (\$3,059) per subscription to share	¥330,600 (\$2,925) per subscription to share
	Thirteenth grant	Fourteenth grant	Fifteenth grant	Sixteenth grant
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥4,719 (\$41.7) per subscription to share	¥4,578 (\$40.5) per subscription to share	¥4,705 (\$41.6) per subscription to share	¥4,574 (\$40.4) per subscription to share
Fair value at the grant date ^(a)	¥388,500 (\$3,438) per subscription to share	¥383,700 (\$3,395) per subscription to share	¥533,000 (\$4,716) per subscription to share	¥545,500 (\$4,827) per subscription to share
	Seventeenth grant	Eighteenth grant		
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share		
Average exercise price	–	–		
Fair value at the grant date ^(a)	¥361,300 (\$3,197) per subscription to share	¥381,600 (\$3,376) per subscription to share		

Note :

(a) The number of shares to be issued upon exercise of one subscription right to shares shall be 100 ordinary shares of the Company.

(c) Valuation method for estimating per share fair value of stock options

The valuation method used for valuating fair value of Seventeenth grant of subscription rights to shares and Eighteenth grant of subscription rights to shares during the fiscal year ended February 28, 2017 is as follows:

Valuation method used

Black-Scholes option-pricing model

Principal parameters and estimation method

	Seventeenth grant	Eighteenth grant
Expected volatility of the underlying stock price ^(a)	29.48%	24.07%
Remaining expected life of the option ^(b)	8.58 years	5.58 years
Expected dividends on the stock ^(c)	¥77 (\$0.68) per share	¥77 (\$0.68) per share
Risk-free interest rate during the expected option term ^(d)	(0.122)%	(0.158)%

Notes :

(a) The Seventeenth grant is calculated based on the actual stock prices during the eight years and seven months from January 6, 2008 to August 3, 2016.

The Eighteenth grant is calculated based on the actual stock prices during the five years and seven months from January 8, 2011 to August 3, 2016.

(b) The remaining expected life of the option was estimated assuming that the options were exercised at the weighted-average period from valuation date to each director's expected retirement date, based upon the numbers of stock options allocated to each director, plus 10 days of exercisable period.

(c) Expected dividends are determined based on the latest actual dividends on common stock for the fiscal year ended February 28, 2017.

(d) Japanese government bond yield corresponding to the remaining expected life.

(d) Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(2) Seven Bank, Ltd.

(a) Outline of stock options

	First grant-1	First grant-2
Title and number of grantees	5 directors of Seven Bank, Ltd.	3 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	184,000 ordinary shares	21,000 ordinary shares
Grant date	August 12, 2008	August 12, 2008
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 13, 2008 to August 12, 2038	From August 13, 2008 to August 12, 2038
	Second grant-1	Second grant-2
Title and number of grantees	4 directors of Seven Bank, Ltd.	5 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	171,000 ordinary shares	38,000 ordinary shares
Grant date	August 3, 2009	August 3, 2009
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 4, 2009 to August 3, 2039	From August 4, 2009 to August 3, 2039
	Third grant-1	Third grant-2
Title and number of grantees	5 directors of Seven Bank, Ltd.	4 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	423,000 ordinary shares	51,000 ordinary shares
Grant date	August 9, 2010	August 9, 2010
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 10, 2010 to August 9, 2040	From August 10, 2010 to August 9, 2040
	Fourth grant-1	Fourth grant-2
Title and number of grantees	5 directors of Seven Bank, Ltd.	8 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	440,000 ordinary shares	118,000 ordinary shares
Grant date	August 8, 2011	August 8, 2011
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 9, 2011 to August 8, 2041	From August 9, 2011 to August 8, 2041
	Fifth grant-1	Fifth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	7 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	363,000 ordinary shares	77,000 ordinary shares
Grant date	August 6, 2012	August 6, 2012
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 7, 2012 to August 6, 2042	From August 7, 2012 to August 6, 2042

	Sixth grant-1	Sixth grant-2
Title and number of grantees	6 executive officers of Seven Bank, Ltd.	7 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	216,000 ordinary shares	43,000 ordinary shares
Grant date	August 5, 2013	August 5, 2013
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 6, 2013 to August 5, 2043	From August 6, 2013 to August 5, 2043

	Seventh grant-1	Seventh grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	8 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	193,000 ordinary shares	44,000 ordinary shares
Grant date	August 4, 2014	August 4, 2014
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 5, 2014 to August 4, 2044	From August 5, 2014 to August 4, 2044

	Eighth grant-1	Eighth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	9 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	138,000 ordinary shares	39,000 ordinary shares
Grant date	August 10, 2015	August 10, 2015
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 11, 2015 to August 10, 2045	From August 11, 2015 to August 10, 2045

	Ninth grant-1	Ninth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	9 executive officers of Seven Bank, Ltd.
Number of stock options ^(a)	278,000 ordinary shares	72,000 ordinary shares
Grant date	August 8, 2016	August 8, 2016
Exercise condition	^(b)	^(c)
Intended service period	No provisions	No provisions
Exercise period	From August 9, 2016 to August 8, 2046	From August 9, 2016 to August 8, 2046

Notes:

(a) Number of stock options means total shares to be issued upon exercise of subscription rights to shares.

(b) Within 10 days from the day following the day that a subscription holder loses their position as a director of Seven Bank, Ltd.

(c) Within 10 days from the day following the day that a subscription holder loses their position as an executive officer of Seven Bank, Ltd.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(b) Scale and changes in stock options

The following describes the scale and changes in stock options that existed during the fiscal year ended February 28, 2017. The number of stock options is translated into the number of shares.

Fiscal year ended February 28, 2017:

Number of stock options

	First grant-1	First grant-2	Second grant-1	Second grant-2
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	157,000	7,000	171,000	16,000
Vested	-	-	-	-
Exercised	37,000	7,000	38,000	7,000
Forfeited	-	-	-	-
Outstanding	120,000	-	133,000	9,000

	Third grant-1	Third grant-2	Fourth grant-1	Fourth grant-2
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	423,000	13,000	440,000	90,000
Vested	-	-	-	-
Exercised	81,000	13,000	84,000	35,000
Forfeited	-	-	-	-
Outstanding	342,000	-	356,000	55,000

	Fifth grant-1	Fifth grant-2	Sixth grant-1	Sixth grant-2
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	363,000	67,000	216,000	34,000
Vested	-	-	-	-
Exercised	64,000	27,000	37,000	14,000
Forfeited	-	-	-	-
Outstanding	299,000	40,000	179,000	20,000

	Seventh grant-1	Seventh grant-2	Eighth grant-1	Eighth grant-2
Before vested:				
As of February 29, 2016	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding	-	-	-	-
After vested:				
As of February 29, 2016	193,000	44,000	138,000	39,000
Vested	-	-	-	-
Exercised	32,000	16,000	23,000	12,000
Forfeited	-	-	-	-
Outstanding	161,000	28,000	115,000	27,000

	Ninth grant-1	Ninth grant-2
Before vested:		
As of February 29, 2016	-	-
Granted	278,000	72,000
Forfeited	-	-
Vested	278,000	72,000
Outstanding	-	-
After vested:		
As of February 29, 2016	-	-
Vested	278,000	72,000
Exercised	-	-
Forfeited	-	-
Outstanding	278,000	72,000

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Price information

	First grant-1	First grant-2	Second grant-1	Second grant-2
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share
Fair value at the grant date ^(a)	¥236,480 (\$2,092) per subscription to share	¥236,480 (\$2,092) per subscription to share	¥221,862 (\$1,963) per subscription to share	¥221,862 (\$1,963) per subscription to share
	Third grant-1	Third grant-2	Fourth grant-1	Fourth grant-2
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share
Fair value at the grant date ^(a)	¥139,824 (\$1,237) per subscription to share	¥139,824 (\$1,237) per subscription to share	¥127,950 (\$1,132) per subscription to share	¥127,950 (\$1,132) per subscription to share
	Fifth grant-1	Fifth grant-2	Sixth grant-1	Sixth grant-2
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share
Fair value at the grant date ^(a)	¥175,000 (\$1,548) per subscription to share	¥175,000 (\$1,548) per subscription to share	¥312,000 (\$2,761) per subscription to share	¥312,000 (\$2,761) per subscription to share
	Seventh grant-1	Seventh grant-2	Eighth grant-1	Eighth grant-2
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average exercise price	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share	¥336,000 (\$2,973) per subscription to share	¥483,000 (\$4,274) per subscription to share
Fair value at the grant date ^(a)	¥370,000 (\$3,274) per subscription to share	¥370,000 (\$3,274) per subscription to share	¥537,000 (\$4,752) per subscription to share	¥537,000 (\$4,752) per subscription to share
	Ninth grant-1	Ninth grant-2		
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share		
Average exercise price	–	–		
Fair value at the grant date ^(a)	¥302,000 (\$2,672) per subscription to share	¥302,000 (\$2,672) per subscription to share		

Note :

(a) The number of shares to be issued upon exercise of one subscription right to shares shall be 1,000 ordinary shares of Seven Bank, Ltd.

(c) Valuation method for estimating per share fair value of stock options

The valuation method used for valuating fair value of Ninth grant-1 of subscription rights to shares and Ninth grant-2 of subscription rights to shares during the fiscal year ended February 28, 2017 is as follows:

Valuation method used

Black-Scholes option-pricing model

Principal parameters and estimation method

	Ninth grant-1	Ninth grant-2
Expected volatility of the underlying stock price ^(a)	30.354%	30.354%
Remaining expected life of the option ^(b)	7.69 years	7.69 years
Expected dividends on the stock ^(c)	¥8.5 (\$0.07) per share	¥8.5 (\$0.07) per share
Risk-free interest rate during the expected option term ^(d)	(0.187)%	(0.187)%

Notes :

(a) The Ninth grant-1 and the Ninth grant-2 are calculated based on the actual stock prices during the seven years and eight months from November 29, 2008 to August 8, 2016.

(b) The remaining expected life of the option was estimated assuming that the options were exercised at the weighted-average period from June 2016 to each director's expected retirement date, based upon the numbers of stock options allocated to each director, plus 10 days of exercisable period.

(c) Expected dividends are determined based on the latest actual dividends on common stock for the fiscal year ended March 31, 2017.

(d) Japanese government bond yield corresponding to the remaining expected life.

(d) Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

18 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Guarantees

As of February 28, 2017

The Companies are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥114 million (\$1,008 thousand).

As of February 29, 2016

The Companies are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥155 million.

(2) Pledged assets

(a) The amount of assets pledged as collateral by the Companies for their loans from certain financial institutions as of February 28, 2017 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Buildings and structures	¥ 6,420	¥ 893	\$ 56,814
Land	4,111	2,070	36,380
Investments in securities	73,876	30,622	653,769
Long-term leasehold deposits	4,758	4,856	42,106
Total	¥89,167	¥38,442	\$789,088

Debts for the pledged assets above as of February 28, 2017 are as follows: short-term loans, ¥5,200 million (\$46,017 thousand); long-term loans (including current portion), ¥9,811 million (\$86,823 thousand); and deposits received from tenants and franchised stores, ¥37 million (\$327 thousand).

Debts for the pledged assets above as of February 29, 2016 are as follows: short-term loans, ¥1,900 million; long-term loans (including current portion), ¥11,206 million; and deposits received from tenants and franchised stores, ¥54 million.

(b) The amount of assets pledged as collateral for the debts of affiliates as of February 28, 2017 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Buildings	¥ 370	¥ 391	\$ 3,274
Land	1,368	1,368	12,106
Total	¥1,738	¥1,759	\$15,380

Loans of affiliates for which above assets are pledged as collateral as of February 28, 2017 and February 29, 2016 are ¥2,943 million (\$26,044 thousand) and ¥3,043 million, respectively.

(c) Other

As of February 28, 2017

The amounts of assets pledged as collateral for fund transfer and real estate business are ¥2,512 million (\$22,230 thousand) and ¥55 million (\$486 thousand), respectively. The amount of assets pledged as collateral under installment sales law is ¥1,335 million (\$11,814 thousand). In addition, ¥232 million (\$2,053 thousand) of assets are pledged as collateral to secure the amount of prepaid tickets issued.

As of February 29, 2016

The amount of assets pledged as collateral for fund transfer and real estate business are ¥4,501 million and ¥55 million, respectively. The amount of assets pledged as collateral under installment sales law is ¥1,335 million. In addition, ¥308 million of assets are pledged as collateral to secure the amount of prepaid tickets issued.

(3) Cash loan business

Some financial subsidiaries conduct a cash loan business that is associated with their credit card business. Unused credit balance related to the cash loan business as of February 28, 2017 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Credit availability of cash loan business	¥870,462	¥890,170	\$7,703,203
Outstanding balance	(42,556)	(40,211)	(376,601)
Unused credit balance	¥827,905	¥849,958	\$7,326,592

Unused credit balance will not have a material effect on future cash flows because most of the unused credit balance will remain unused considering the historical record. Some financial subsidiaries will cease finance services or reduce the credit limit based on the credit situation of customers or other justifiable reasons.

(4) Others

Bonds held by Seven Bank, Ltd.

Seven Bank, Ltd., one of the Company's consolidated subsidiaries, holds bonds to serve as collateral for exchange settlement transactions and overdraft transactions with the Bank of Japan. These bonds are recorded in "Investments in securities" in the Consolidated Balance Sheets due to its nature of restriction even if they have redemption at maturity less than one year.

19 NOTES AND ACCOUNTS PAYABLE, TRADE FOR FRANCHISED STORES

The balance of notes and accounts payable, trade for franchised stores represents the amount payable to vendors for merchandise purchased by Seven-Eleven Japan Co., Ltd. and 7-Eleven, Inc. These two companies centralize all purchasing procedures for merchandise purchased by an individual franchised store and make collective payments to all vendors on behalf of the franchisees.

20 SUPPLEMENTARY PROFIT AND LOSS INFORMATION

(1) The franchise commission from Seven-Eleven Japan Co., Ltd.'s franchised stores and 7-Eleven, Inc.'s are included in operating revenues. The franchise commission from franchised stores and net sales of franchised stores are as follows:

Seven-Eleven Japan Co., Ltd.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Franchise commission from franchised stores	¥ 723,021	¥ 680,413	\$ 6,398,415
Net sales of franchised stores	4,409,084	4,182,231	39,018,442

7-Eleven, Inc.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Franchise commission from franchised stores	¥ 236,957	¥ 246,123	\$ 2,096,964
Net sales of franchised stores	1,336,735	1,401,665	11,829,513

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(2) Major items included in gain on sales of property and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Buildings and structures	¥1,711	¥ 937	\$ 15,141
Land	1,591	1,174	14,079
Others	184	60	1,628
Total	¥3,487	¥2,171	\$30,858

(3) Major items included in loss on disposals of property and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Buildings and structures	¥ 7,364	¥ 5,151	\$ 65,168
Furniture, fixtures and equipment	5,025	2,683	44,469
Others	6,126	4,232	54,212
Total	¥18,516	¥12,068	\$163,858

Note:

In the Consolidated Statements of Income for the year ended February 28, 2017, restructuring expenses include loss on disposals of Buildings and structures, Furniture, fixtures and equipment, and Others in the amount of ¥1 million (\$8 thousand), ¥12 million (\$106 thousand), and ¥133 million (\$1,176 thousand), respectively. For the year ended February 29, 2016, restructuring expenses include loss on disposals of Buildings and structures, Furniture, fixtures and equipment, and Others in the amount of ¥18 million, ¥7 million, and ¥484 million, respectively.

(4) Major items included in selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Advertising and decoration expenses	¥160,355	¥176,335	\$1,419,070
Salaries and wages	456,239	461,658	4,037,513
Provision for allowance for bonuses to employees	14,085	13,366	124,646
Retirement benefit expenses	16,009	11,846	141,672
Legal welfare expenses	61,750	62,580	546,460
Land and building rent	351,484	342,128	3,110,477
Depreciation and amortization	198,249	186,538	1,754,415
Utility expenses	111,427	125,062	986,079
Store maintenance and repair expenses	74,531	73,230	659,566

21 RESTRUCTURING EXPENSES

The Companies recognized restructuring expenses for the years ended February 28, 2017 and February 29, 2016 to pursue the Group Growth Strategy. A breakdown of restructuring expenses is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Impairment loss	¥10,611	¥ 6,108	\$ 93,902
Early retirement benefit	6,015	724	53,230
Store closing losses	7,341	1,584	64,964
Loss on inventory disposal on business closure	433	1,527	3,831
Others	1,235	749	10,929
Total	¥25,637	¥10,695	\$226,876

22 AMORTIZATION OF GOODWILL

The company recorded the loss on valuation of shares of subsidiaries and affiliates on its non-consolidated financial statements during the fiscal year ended February 28, 2017. In consequence, in accordance with the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" Article 32 (JICPA

Statement No. 7, November 28, 2014), the Company recorded amortization of goodwill of ¥39,300 million (\$347,787 thousand) (mainly ¥33,401 million (\$295,584 thousand) and ¥5,878 million (\$52,017 thousand) on Sogo & Seibu Co., Ltd. and Barneys Japan Co., Ltd., respectively).

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

23 BUSINESS COMBINATIONS

Fiscal year ended February 28, 2017

(1) Business combination by acquisition

(a) Outline of the business combination

- | | |
|---|---|
| <p>(i) Name and main business of the acquired company
Name: CST Brands, Inc.
Main business: Retail of gasoline and operation of convenience store business in the U.S.</p> | <p>(iii) Date of the business combination
July 7, 2016</p> |
| <p>(ii) Main reason for the business combination
7-Eleven, Inc., consolidated subsidiary of the Company, is strengthening its product competitiveness, expanding its store network, and aiming to expand revenues further in North America.</p> | <p>(iv) Legal form of the business combination
Acquisition of business</p> |
| | <p>(v) The acquired company's name after the business combination
No change</p> |
| | <p>(vi) Main reason for the decision of the acquiring company
7-Eleven, Inc. received the business with all consideration paid in cash.</p> |

(b) Period for which the acquired company's operating results are included in the consolidated financial statements

From July 7, 2016 to December 31, 2016

(c) Acquisition cost of acquired business and breakdown by type of consideration

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Consideration for acquisition Cash	¥41,694	\$412,896
Acquisition cost	¥41,694	\$412,896

(d) Details and amounts of main acquisition-related costs

Payment for financial and legal investigation: ¥40 million (\$405 thousand)

(e) Amount, reason for recognition, and period and method of amortization of goodwill

- | | |
|---|--|
| <p>(i) Amount of goodwill
¥33,447 million (\$331,228 thousand)</p> | <p>(iii) Period and method of amortization of goodwill
20 years using the straight-line method</p> |
| <p>(ii) Reason for recognition of goodwill
Expected excess earning power of future business development</p> | |

(f) Total amounts and principal breakdowns of assets received and liabilities assumed on the date of the business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 481	\$ 4,766
Non-current assets	8,281	82,013
Total assets	¥8,763	\$86,780
Non-current liabilities	¥ 516	\$ 5,111
Total liabilities	¥ 516	\$ 5,111

(g) Approximate amounts of effect of the business combination on the Company's consolidated statements of income for the fiscal year assuming the business combination was completed at the beginning of the fiscal year, and the calculation method thereof
Information is omitted since the amounts are insignificant.

Note: The yen amounts were calculated using the July 7, 2016 rate (US\$1 = ¥100.98).

(2) Business combination by acquisition

(a) Outline of the business combination

- | | |
|---|--|
| <p>(i) Name and main business of the acquired company
Name: Imperial Oil Limited
Main business: Retail of gasoline and operation of convenience store business in Canada</p> | <p>(iii) Date of the business combination
September 16, 2016</p> |
| <p>(ii) Main reason for the business combination
7-Eleven, Inc., consolidated subsidiary of the Company, is strengthening its product competitiveness, expanding its store network, and aiming to expand revenues further in North America.</p> | <p>(iv) Legal form of the business combination
Acquisition of business</p> <p>(v) The acquired company's name after the business combination
No change</p> <p>(vi) Main reason for the decision of the acquiring company
7-Eleven, Inc. received the business with all consideration paid in cash.</p> |

(b) Period for which the acquired company's operating results are included in the consolidated financial statements
From September 16, 2016 to December 31, 2016

(c) Acquisition cost of acquired business and breakdown by type of consideration

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Consideration for acquisition Cash	¥68,990	\$676,379
Acquisition cost	¥68,990	\$676,379

(d) Details and amounts of main acquisition-related costs
Payment for financial and legal investigation: ¥213 million (\$2,093 thousand)

(e) Amount, reason for recognition, and period and method of amortization of goodwill

- | | |
|---|--|
| <p>(i) Amount of goodwill
¥27,836 million (\$272,908 thousand)</p> | <p>(iii) Period and method of amortization of goodwill
20 years using the straight-line method</p> |
| <p>(ii) Reason for recognition of goodwill
Expected excess earning power of future business development</p> | |

(f) Total amounts and principal breakdowns of assets received and liabilities assumed on the date of the business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,345	\$ 13,195
Non-current assets	40,626	398,299
Total assets	¥41,972	\$411,495
Current liabilities	¥ 118	\$ 1,161
Non-current liabilities	700	6,862
Total liabilities	¥ 818	\$ 8,024

(g) Approximate amounts of effect of the business combination on the Company's consolidated statements of income for the fiscal year assuming the business combination was completed at the beginning of the fiscal year, and the calculation method thereof
Information is omitted since the amounts are insignificant.

Note: The yen amounts were calculated using the September 16, 2016 rate (US\$1 = ¥102.00).

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

24 RELATED PARTIES TRANSACTIONS

Fiscal years ended February 28, 2017 and February 29, 2016

No items required to report.

25 SEGMENT INFORMATION

(1) Overview of reportable segments

With respect to its reportable segments, the Company is able to obtain delineated financial data from its structural units. Its segments are subject to periodical review for the purpose of making decisions on allocation of managerial resources and evaluating business performance by the Board of Directors.

Under the holding company structure, the Company has classified its consolidated subsidiaries into seven segments which are "Convenience store operations," "Superstore operations," "Department store operations," "Food services," "Financial services," "Mail order services," and "Others" according to the nature of products, services and sales operations.

"Convenience store operations" operate corporate and franchised convenience stores under the name of "7-Eleven." "Superstore operations" operate superstores, supermarkets, specialty shops and others. "Department store operations" operate department store business which mainly consists of Sogo & Seibu Co., Ltd. "Food services" operate restaurant operations, meal provision service business (mainly for company cafeterias, hospitals and schools) and fast food operations. "Financial services" operate bank, credit card, lease, and other businesses. "Mail order services" operate mail order which mainly consists of Nissen Holdings Co., Ltd., and selling and wholesale of gifts. "Others" operate IT business and other services.

(2) Calculation methodology for revenues from operations, income or loss, assets and liabilities and other items for each reportable segment

The accounting treatment of each reportable segment is in line with the Note 1. "Basis of Presentation of Consolidated Financial Statements."

Segment income (loss) and segment liabilities as reported in this section are based on operating income and interest-bearing debt, respectively.

Intersegment revenues and transfers are calculated at prevailing market prices.

(Application of Accounting Standard for Business Combinations and other accounting standards)

As described in the Changes in accounting policies, effective from the beginning of the current consolidated fiscal year, differences caused by change in the Company's equity in the subsidiaries and affiliates remaining under the control of the Company are adjusted in capital surplus, and acquisition-related costs are recorded as expenses incurred during the consolidated financial year in which acquisitions take place.

As a result of the application and in comparison with the previous method, segment income in the current consolidated fiscal year increased by ¥3,125 million (\$27,654 thousand) in "Convenience store operations" segment, by ¥41 million (\$362 thousand) in "Superstore operations" segment, by ¥691 million (\$6,115 thousand) in "Department store operations" segment, by ¥284 million (\$2,513 thousand) in "Financial services" segment and by 5 million yen (\$44 thousand) in "Others" segment.

(3) Information on revenues from operations, income or loss, assets, liabilities and other monetary items for each reportable segment

Fiscal year ended February 28, 2017

Millions of yen

	Reportable segments							Total	Adjustments	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Revenues from operations:										
Customers	¥2,549,404	¥2,016,659	¥849,649	¥81,744	¥164,432	¥136,927	¥36,870	¥5,835,689	¥-	¥5,835,689
Intersegment	1,235	8,874	2,524	818	37,500	2,298	20,553	73,805	(73,805)	-
Total revenues	¥2,550,640	¥2,025,534	¥852,174	¥82,562	¥201,932	¥139,226	¥57,424	¥5,909,495	¥(73,805)	¥5,835,689
Segment income (loss)	¥313,195	¥22,903	¥3,672	¥515	¥50,130	¥(15,097)	¥4,632	¥379,952	¥(15,379)	¥364,573
Segment assets	¥2,105,931	¥1,004,561	¥431,589	¥26,399	¥1,925,815	¥56,610	¥179,884	¥5,730,793	¥(221,904)	¥5,508,888
Segment liabilities (interest bearing debt)	¥177,601	¥9,570	¥196,268	¥-	¥336,060	¥33,080	¥5,912	¥758,493	¥289,996	¥1,048,490
Other items:										
Depreciation	¥123,131	¥25,280	¥12,982	¥869	¥29,416	¥3,956	¥2,983	¥198,620	¥8,862	¥207,483
Amortization of goodwill	¥9,249	¥3,098	¥35,598	¥-	¥1,306	¥-	¥6,204	¥55,458	¥-	¥55,458
Investment in associates accounted for using the equity method	¥13,140	¥4,816	¥628	¥-	¥-	¥3,338	¥13,365	¥35,288	¥-	¥35,288
Impairment loss	¥10,374	¥24,040	¥18,681	¥1,102	¥-	¥3,854	¥1,666	¥59,719	¥-	¥59,719
Net increase in property and equipment, and intangible assets	¥256,934	¥40,095	¥13,847	¥1,946	¥20,796	¥1,831	¥4,686	¥340,139	¥9,629	¥349,768

Fiscal year ended February 29, 2016

Millions of yen

	Reportable segments							Total	Adjustments	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Revenues from operations:										
Customers	¥2,674,779	¥2,051,542	¥881,817	¥83,019	¥156,581	¥157,191	¥40,772	¥6,045,704	¥-	¥6,045,704
Intersegment	1,111	8,973	2,899	819	35,906	1,540	20,809	72,061	(72,061)	-
Total revenues	¥2,675,890	¥2,060,516	¥884,716	¥83,839	¥192,487	¥158,732	¥61,582	¥6,117,765	¥(72,061)	¥6,045,704
Segment income (loss)	¥304,110	¥7,234	¥3,832	¥917	¥49,697	¥(8,451)	¥5,559	¥362,898	¥(10,578)	¥352,320
Segment assets	¥1,982,681	¥1,047,824	¥485,700	¥25,200	¥1,929,839	¥81,941	¥186,078	¥5,739,265	¥(297,574)	¥5,441,691
Segment liabilities (interest bearing debt)	¥132,671	¥12,927	¥176,716	¥-	¥346,763	¥28,048	¥5,850	¥702,975	¥329,994	¥1,032,970
Other items:										
Depreciation	¥116,514	¥23,800	¥13,569	¥828	¥29,071	¥3,730	¥2,958	¥190,474	¥5,036	¥195,511
Amortization of goodwill	¥10,677	¥3,140	¥5,288	¥-	¥1,695	¥184	¥2,124	¥23,110	¥-	¥23,110
Investment in associates accounted for using the equity method	¥13,471	¥4,420	¥584	¥-	¥-	¥3,374	¥12,895	¥34,746	¥-	¥34,746
Impairment loss	¥9,369	¥12,273	¥3,972	¥636	¥28	¥2,358	¥161	¥28,800	¥-	¥28,800
Net increase in property and equipment, and intangible assets	¥219,793	¥70,259	¥15,446	¥1,749	¥26,544	¥4,725	¥3,676	¥342,195	¥18,057	¥360,252

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Fiscal year ended February 28, 2017

Thousands of U.S. dollars (Note 3)

	Reportable segments							Total	Adjustments	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Revenues from operations:										
Customers	\$ 22,561,097	\$ 17,846,539	\$ 7,519,017	\$ 723,398	\$ 1,455,150	\$ 1,211,743	\$ 326,283	\$ 51,643,265	\$ -	\$ 51,643,265
Intersegment	10,929	78,530	22,336	7,238	331,858	20,336	181,884	653,141	(653,141)	-
Total revenues	\$ 22,572,035	\$ 17,925,079	\$ 7,541,362	\$ 730,637	\$ 1,787,008	\$ 1,232,088	\$ 508,176	\$ 52,296,415	\$ (653,141)	\$ 51,643,265
Segment income (loss)	\$ 2,771,637	\$ 202,681	\$ 32,495	\$ 4,557	\$ 443,628	\$ (133,601)	\$ 40,991	\$ 3,362,407	\$ (136,097)	\$ 3,226,309
Segment assets	\$ 18,636,557	\$ 8,889,920	\$ 3,819,371	\$ 233,619	\$ 17,042,610	\$ 500,973	\$ 1,591,893	\$ 50,714,982	\$ (1,963,752)	\$ 48,751,221
Segment liabilities (interest bearing debt)	\$ 1,571,690	\$ 84,690	\$ 1,736,884	\$ -	\$ 2,973,982	\$ 292,743	\$ 52,318	\$ 6,712,327	\$ 2,566,336	\$ 9,278,672
Other items:										
Depreciation	\$ 1,089,654	\$ 223,716	\$ 114,884	\$ 7,690	\$ 260,318	\$ 35,008	\$ 26,398	\$ 1,757,699	\$ 78,424	\$ 1,836,132
Amortization of goodwill	\$ 81,849	\$ 27,415	\$ 315,026	\$ -	\$ 11,557	\$ -	\$ 54,902	\$ 490,778	\$ -	\$ 490,778
Investment in associates accounted for using the equity method	\$ 116,283	\$ 42,619	\$ 5,557	\$ -	\$ -	\$ 29,539	\$ 118,274	\$ 312,283	\$ -	\$ 312,283
Impairment loss	\$ 91,805	\$ 212,743	\$ 165,318	\$ 9,752	\$ -	\$ 34,106	\$ 14,743	\$ 528,486	\$ -	\$ 528,486
Net increase in property and equipment, and intangible assets	\$ 2,273,752	\$ 354,823	\$ 122,539	\$ 17,221	\$ 184,035	\$ 16,203	\$ 41,469	\$ 3,010,079	\$ 85,212	\$ 3,095,292

Notes:

- The adjustments of ¥(15,379) million (\$136,097 thousand) and ¥(10,578) million for segment income (loss) are eliminations of intersegment transactions and certain expense items that are not allocated to reportable segments for the fiscal years ended February 28, 2017 and February 29, 2016, respectively.
- The adjustments of ¥(221,904) million (\$1,963,752 thousand) and ¥(297,574) million for segment assets are eliminations of intersegment transactions and corporate assets for the fiscal years ended February 28, 2017 and February 29, 2016, respectively.
- The adjustments of ¥289,996 million (\$2,566,336 thousand) and ¥329,994 million for segment liabilities are corporate liabilities and the Company's bonds for the fiscal years ended February 28, 2017 and February 29, 2016, respectively. The amount of each segment liability does not include intersegment transactions.
- Segment income (loss) is reconciled with the operating income in the Consolidated Statements of Income.
- ¥10,611 million (\$93,902 thousand) and ¥6,108 million out of "Impairment loss" in the tables above are included in "Restructuring expenses" in the Consolidated Statements of Income for the years ended February 28, 2017 and February 29, 2016, respectively.

(Reference)

Revenues from operations and operating income by geographic area segments are as described below.

Millions of yen

Fiscal year ended February 28, 2017	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	¥4,032,077	¥1,690,509	¥113,102	¥5,835,689	¥ –	¥5,835,689
Intersegment	726	204	372	1,303	(1,303)	–
Total revenues	¥4,032,803	¥1,690,713	¥113,475	¥5,836,992	¥(1,303)	¥5,835,689
Operating income (loss)	¥ 299,251	¥ 65,548	¥ (238)	¥ 364,561	¥ 11	¥ 364,573

Millions of yen

Fiscal year ended February 29, 2016	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	¥4,055,345	¥1,855,096	¥135,262	¥6,045,704	¥ –	¥6,045,704
Intersegment	927	208	795	1,931	(1,931)	–
Total revenues	¥4,056,272	¥1,855,305	¥136,058	¥6,047,636	¥(1,931)	¥6,045,704
Operating income (loss)	¥ 288,068	¥ 65,148	¥ (842)	¥ 352,373	¥ (53)	¥ 352,320

Thousands of U.S. dollars (Note 3)

Fiscal year ended February 28, 2017	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	\$ 35,682,097	\$ 14,960,256	\$ 1,000,902	\$ 51,643,265	\$ –	\$ 51,643,265
Intersegment	6,424	1,805	3,292	11,530	(11,530)	–
Total revenues	\$ 35,688,522	\$ 14,962,061	\$ 1,004,203	\$ 51,654,796	\$ (11,530)	\$ 51,643,265
Operating income (loss)	\$ 2,648,238	\$ 580,070	\$ (2,106)	\$ 3,226,203	\$ 97	\$ 3,226,309

Notes:

1. The classification of geographic area segments is determined according to geographical distances.
2. Others consist of the business results in the People's Republic of China, etc.

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

Related Information

Fiscal years ended February 28, 2017 and February 29, 2016

1. Information on products and services

Information is omitted since it is described in the segment information.

2. Information by region

(1) Revenues from operations

Fiscal year ended February 28, 2017

Millions of yen			
Japan	North America	Others	Total
¥4,032,077	¥1,690,509	¥113,102	¥5,835,689

Fiscal year ended February 29, 2016

Millions of yen			
Japan	North America	Others	Total
¥4,055,345	¥1,855,096	¥135,262	¥6,045,704

Fiscal year ended February 28, 2017

Thousands of U.S. dollars (Note 3)			
Japan	North America	Others	Total
\$35,682,097	\$14,960,256	\$1,000,902	\$51,643,265

(2) Property and equipment

Fiscal year ended February 28, 2017

Millions of yen			
Japan	North America	Others	Total
¥1,433,687	¥571,775	¥2,366	¥2,007,829

Fiscal year ended February 29, 2016

Millions of yen			
Japan	North America	Others	Total
¥1,439,662	¥530,220	¥2,471	¥1,972,355

Fiscal year ended February 28, 2017

Thousands of U.S. dollars (Note 3)			
Japan	North America	Others	Total
\$12,687,495	\$5,059,955	\$20,938	\$17,768,398

3. Information about major customers

Information is omitted because there is no customer accounting for 10% or more of the net sales on the Consolidated Statements of Income.

4. Information regarding impairment loss on fixed assets by reportable segment

Information is omitted since it is described in the segment information.

5. Information on amortization and outstanding balance of goodwill by reportable segment

Millions of yen

Fiscal year ended February 28, 2017	Reportable segments							Total	Eliminations / Corporate	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Goodwill										
Amortization	¥ 9,249	¥ 3,098	¥35,598	¥ –	¥ 1,306	¥ –	¥ 6,204	¥ 55,458	¥ –	¥ 55,458
Balance at the end of year	225,882	29,444	4,171	–	10,700	22	–	270,220	–	270,220
Negative Goodwill										
Amortization	–	23	–	4	–	–	–	27	–	27
Balance at the end of year	–	140	–	25	–	–	–	165	–	165

Millions of yen

Fiscal year ended February 29, 2016	Reportable segments							Total	Eliminations / Corporate	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Goodwill										
Amortization	¥ 10,677	¥ 3,140	¥ 5,288	¥ –	¥ 1,695	¥184	¥2,124	¥ 23,110	¥ –	¥ 23,110
Balance at the end of year	205,036	33,137	53,814	–	15,589	32	6,250	313,860	–	313,860
Negative Goodwill										
Amortization	–	28	–	4	–	2	–	34	–	34
Balance at the end of year	–	163	–	29	–	–	–	193	–	193

Thousands of U.S. dollars (Note 3)

Fiscal year ended February 28, 2017	Reportable segments							Total	Eliminations / Corporate	Consolidated total
	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Mail order services	Others			
Goodwill										
Amortization	\$ 81,849	\$ 27,415	\$315,026	\$ –	\$11,557	\$ –	\$54,902	\$ 490,778	\$ –	\$ 490,778
Balance at the end of year	1,998,955	260,566	36,911	–	94,690	194	–	2,391,327	–	2,391,327
Negative Goodwill										
Amortization	–	203	–	35	–	–	–	238	–	238
Balance at the end of year	–	1,238	–	221	–	–	–	1,460	–	1,460

(Significant change in amount of goodwill)

As a result of the application of Accounting Standard for Business Combinations, Accounting Standard for Consolidated Financial Statements, and of Accounting Standard for Business Divestiture, etc., effective from the consolidated fiscal year ended February 28, 2017, the amount in goodwill has been reduced.

In accordance with the application, the amount of goodwill, as at the beginning of the current consolidated fiscal year ended, was reduced by ¥33,368 million (\$295,292 thousand) in the “Convenience store operations” segment, by ¥594 million (\$5,256 thousand) in the “Superstore operations” segment, by ¥14,044 million (\$124,283 thousand) in the “Department store operations”

segment, by ¥3,271 million (\$28,946 thousand) in the “Financial services” segment, and by ¥45 million (\$398 thousand) in the “Others” segment.

By recording amortization of goodwill in the “Department store operations” and “Others” in the current consolidated fiscal year, there have been significant changes in the amount of goodwill. In accordance with the application, the amount of goodwill was reduced by ¥33,422 million (\$295,769 thousand) in the “Department store operations” segment, and by ¥5,878 million (\$52,017 thousand) in the “Others” segment.

6. Information regarding gain on negative goodwill by reportable segment

None

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

26 SUBSEQUENT EVENTS

(1) Cash dividend

Subsequent to February 28, 2017, the Company's Board of Directors declared a year-end cash dividend of ¥39,799 million (\$352,203 thousand) to be payable on May 26, 2017 to shareholders on record as of February 28, 2017.

The dividend declared was approved by the shareholders at the meeting held on May 25, 2017.

(2) Change in segment classification

The Company announced its Medium-Term Management Plan in October 2016 under the new management formed in May 2016. Based on this plan, the numerical target in the fiscal year ending February 29, 2020 has been set to consolidated operating income of ¥450.0 billion (\$3,982,300 thousand) and ROE of 10%. In order to achieve this Medium-Term Management Plan, the Company resolved at a Board of Directors meeting held on April 6, 2017 to change the Group's segment classification as follows:

(a) Domestic convenience store operations

This is the operating segment of convenience store operations led by Seven-Eleven Japan Co., Ltd. (hereinafter "SEJ"), and includes SEJ, its subsidiaries and affiliates, and the overseas businesses (China, Hawaii) that SEJ provides sales support, and business promotion and management.

(b) Overseas convenience store operations

This is the operating segment of convenience store operations led by 7-Eleven, Inc. (hereinafter "SEI"), and includes SEI, its subsidiaries and affiliates, and the business operating companies that SEI provides sales support, and business promotion and management.

(c) Superstore operations

This is the operating segment of retail operations that comprehensively provide the necessary items for daily life such as popular consumer choices in foods and daily goods, and includes Ito-Yokado Co., Ltd., York-Benimaru Co., Ltd., York Mart Co., Ltd., SHELL GARDEN CO., LTD., and the subsidiaries and affiliates of these companies. Akachan Honpo Co., Ltd., etc. that provide high specialty products have been reorganized into specialty store operations.

(d) Department store operations

This is the operating segment of retail operations that provide diverse luxury goods and high specialty products operated in large scale stores, and includes Sogo & Seibu Co., Ltd. and its subsidiaries and affiliates. THE LOFT CO., LTD., which provides

high specialty products, has been reorganized into specialty store operations.

(e) Financial services

This is the operating segment of the operations that provide services related to the banking, credit cards and leases businesses, and includes Seven Bank, Ltd. and its subsidiaries and affiliates, Seven Financial Service Co., Ltd., Seven Card Service Co., Ltd. and Seven CS Card Service Co., Ltd. SEVEN & i Financial Center Co., Ltd. has been reorganized into corporate operations and not included in any reportable segment.

(f) Specialty store operations

This is the operating segment of retail operations that provide high specialty or characteristic products and services, and includes business operating companies such as Akachan Honpo Co., Ltd., THE LOFT CO., LTD., Seven & i Food Systems Co., Ltd., Barneys Japan Co., Ltd. and Nissen Co., Ltd.

(g) Others

This includes the operating segments that do not belong to the other six segments above, and includes Seven & i Create Link Co., Ltd. and Seven & i Asset Management Co., Ltd. dealing with the real estate businesses, SEVEN & i Publishing Co., Ltd. dealing with the publishing business, Seven Culture Network Co., Ltd. providing cultural education services and Yatsugatake Kogen Lodge Co., Ltd. running the hotel-operation, villa management, etc. business.

Note: The Company and SEVEN & i Financial Center Co., Ltd. are not included in any of the above segments, as they are classified as corporate operations.

The revenues from operations and income (loss) of each reportable segment for the fiscal year ended February 28, 2017 under the segment classification after the change are as follows:

Millions of yen

	Reportable segments							Total	Adjustments	Consolidated total
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others			
Revenues from operations:										
Customers	¥ 899,836	¥ 1,658,338	¥ 1,938,093	¥ 720,199	¥ 164,432	¥ 447,210	¥ 7,577	¥ 5,835,689	¥ -	¥ 5,835,689
Intersegment	1,470	204	11,219	9,412	37,499	3,277	16,276	79,360	(79,360)	-
Total revenues	901,306	1,658,542	1,949,313	729,612	201,932	450,488	23,854	5,915,050	(79,360)	5,835,689
Segment income (loss)	¥ 243,839	¥ 67,421	¥ 20,228	¥ 2,867	¥ 50,136	¥ (11,276)	¥ 4,005	¥ 377,223	¥ (12,650)	¥ 364,573

Thousands of U.S. dollars (Note 3)

	Reportable segments							Total	Adjustments	Consolidated total
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others			
Revenues from operations:										
Customers	\$ 7,963,150	\$ 14,675,557	\$ 17,151,265	\$ 6,373,442	\$ 1,455,150	\$ 3,957,610	\$ 67,053	\$ 51,643,265	\$ -	\$ 51,643,265
Intersegment	13,008	1,805	99,283	83,292	331,849	29,000	144,035	702,300	(702,300)	-
Total revenues	7,976,159	14,677,362	17,250,557	6,456,743	1,787,008	3,986,619	211,097	52,345,575	(702,300)	51,643,265
Segment income (loss)	\$ 2,157,867	\$ 596,646	\$ 179,008	\$ 25,371	\$ 443,681	\$ (99,787)	\$ 35,442	\$ 3,338,256	\$ (111,946)	\$ 3,226,309

(3) Major acquisition of business

Seven & i Holdings Co., Ltd. ("the Company") announced that its Board of Directors resolved on April 6, 2017 that the Company's consolidated subsidiary 7-Eleven, Inc. will acquire stores and other assets constituting most of convenience store business and gasoline retail business of U.S. company Sunoco LP ("SUN").

On the same date, 7-Eleven, Inc. has entered into an agreement with SUN to acquire the business.

(a) Outline of the business combination

(i) Name and main business of the acquired company

Name: Sunoco LP

Main business: Operation of gasoline wholesale and retail, and convenience store business

(ii) Main reason for the business combination

In accordance with the Medium-Term Management Plan of the Companies announced in October 2016, 7-Eleven, Inc. is aiming to achieve average daily merchandise sales per store of \$5,000 and 10,000 stores by the fiscal year ending February 29, 2020, and is working to strengthen its merchandizing capabilities and expand its store network. SUN has a large number of stores in the State of Texas and the eastern area of the United States, where 7-Eleven, Inc., currently operates stores. By acquiring part of SUN's convenience store business and gasoline retail business, 7-Eleven, Inc. will expand its store network and offer greater convenience, while also improving profitability. Regarding the stores to be acquired, 7-Eleven, Inc. plans to sign a contract in the future to receive gasoline from SUN for the next 15 years.

(iii) Date of the business combination

August 2017 (planned)

(iv) Legal form of the business combination

Acquisition of business

(v) The acquired company's name after the business combination

No change

Notes to Consolidated Financial Statements

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

(b) Acquisition cost of acquired business and breakdown by type of consideration

	Millions of yen	Millions of U.S. dollars
Consideration for acquisition Cash	¥ 365,996	\$ 3,305.6
Acquisition cost	¥ 365,996	\$ 3,305.6

Note: The amounts in yen were calculated using the exchange rate as of April 5, 2017 (\$1 = ¥110.72).

(c) Details and amounts of main acquisition-related costs

Not yet determined

(d) Amount, reason for recognition, and period and method of amortization of goodwill

Not yet determined

(e) Total amounts and principal breakdowns of assets received and liabilities assumed on the date of the business combination

Not yet determined



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Seven & i Holdings Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2017 and February 29, 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Seven & i Holdings Co., Ltd. and its consolidated subsidiaries as at February 28, 2017 and February 29, 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 26 Subsequent events to the consolidated financial statements, Seven & i Holdings Co., Ltd. ("the Company") announced that its Board of Directors resolved on April 6, 2017 that the Company's consolidated subsidiary 7-Eleven, Inc. will acquire stores and other assets constituting most of convenience store business and gasoline retail business of U.S. company Sunoco LP. On the same date, 7-Eleven, Inc. has entered into an agreement with Sunoco LP to acquire the business.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

May 26, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Stock Information and Rating Information

As of February 28, 2017

Head Office

8-8, Nibancho, Chiyoda-ku, Tokyo 102-8452, Japan
Tel: +81-3-6238-3000
URL: <http://www.7andi.com/en>

Date of Establishment

September 1, 2005

Number of Employees

54,448 (Consolidated)
575 (Non-consolidated)

Paid-in Capital

¥50,000 million

Number of Shares of Common Stock

Issued: 886,441,983 shares

Number of Shareholders

91,787

Stock Listing

Tokyo Stock Exchange, First Section

Transfer Agent and Registrar

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency

Annual Shareholders' Meeting

The annual shareholders' meeting of the Company is normally held in May each year in Tokyo, Japan.

Auditor

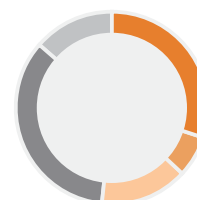
KPMG AZSA LLC

Principal Shareholders

	Number of shares held (Thousand shares)	Percentage of shares held (%)
Ito-Kogyo Co., Ltd.	68,901	7.8
The Master Trust Bank of Japan, Ltd. (Trust account)	45,605	5.2
Japan Trustee Services Bank, Ltd. (Trust account)	39,933	4.5
Nippon Life Insurance Company	17,672	2.0
Masatoshi Ito	16,799	1.9
Nomura Securities Co., Ltd.	16,656	1.9
MITSUI & CO., LTD.	16,222	1.8
Japan Trustee Services Bank, Ltd. (Trust account 4)	12,176	1.4
State Street Bank West Client - Treaty 505234	11,480	1.3
Japan Trustee Services Bank, Ltd. (Trust account 7)	11,165	1.3

Classification of Shareholders by Percentage of Shares Held

Financial Institutions	30.2%
Securities Companies	6.9%
Other Domestic Corporations	14.8%
Foreign Corporations	34.7%
Individuals and Others	13.4%

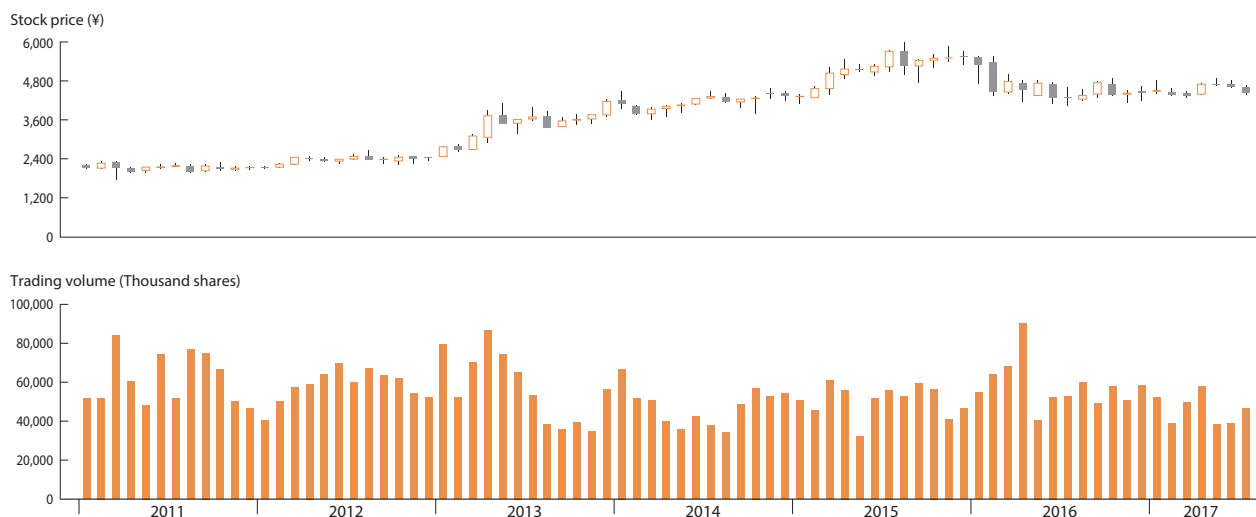


Ratings As of June 30, 2017

		S&P	Moody's	R&I	JCR
Seven & i Holdings	Long-term	AA-	A1	AA	AA+
	Long-term	AA-			AA+
Seven-Eleven Japan	Short-term*	A-1+	P-1		
7-Eleven, Inc.	Long-term	AA-	Baa1		
Seven Bank	Long-term	A+		AA	

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

Stock Price/Trading Volume Chart (Tokyo Stock Exchange)





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