

TO OUR SHAREHOLDERS AND FRIENDS



■ **Toshifumi Suzuki**
Chairman and Chief Executive Officer

SEVEN & i HOLDINGS' FIRST FISCAL YEAR

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

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

ESTABLISHMENT OF THE HOLDING COMPANY

In recent years, as a result of rapid globalization and trends toward fewer children per family and an aging population, the pace of change in Japan's economic and social conditions has accelerated. Domestic markets are characterized by consumption saturation and a surplus of material goods, and consumers are looking for more than just low prices. With the economy recovering, the deflationary trend seems to have bottomed out, and now consumers increasingly want products with superior quality and products with a level of value that was not previously



■ **Noritoshi Murata**
President and Chief Operating Officer

available. One distinctive characteristic of the retail market in Japan is that the income differential is comparatively small, and customers choose different types of stores in accordance with their intended purchases.

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

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

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

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

Since making the transition to a holding company structure, we have moved forward aggressively, taking such steps as establishing core operating companies in our major fields of business and working to leverage synergies. As one facet of our initiatives regarding core operating companies, in November 2005 we made 7-Eleven, Inc., of the United States, a wholly owned subsidiary with the aim of further improving profitability in convenience store operations. As a result, we established a framework from which to raise the profitability of convenience store operations in North America and boost the competitiveness of 7-Eleven as a global chain. In superstore operations, we have begun to revitalize core operating company Ito-Yokado, with special attention to improving apparel merchandising and rebuilding the store network. In department store operations, in January 2006 we acquired about 65% of the shares of Millennium Retailing, Inc., and in June we acquired 100% of the stock of Millennium Retailing, which, as of the end of February 2006, operated 30 department stores under the Sogo and Seibu banners with revenues from operations of about ¥960 billion in the fiscal year then ended. As a result, Millennium Retailing, which is in the top ranks of Japan's department store sector, joined Seven & i Holdings. In financial services, Seven Bank, Ltd., is recording strong growth, and in spring 2007 we plan to begin issuing our own electronic money. Leveraging our distinctive position as the only retail group in Japan that includes both a bank and a credit card company, we will use retail operations and financial services in tandem, thereby increasing customer

convenience and raising sales and profits. In IT/services, we are drawing on our nationwide network of more than 12,000 stores to promote our operations. For example, we have already made Seven and Y Corp., an Internet retailer of books and other media, into a subsidiary, and we are considering a comprehensive tie-up with Yahoo Japan Corporation. Furthermore, in April 2006 we announced the acquisition of all of the shares of York-Benimaru Co., Ltd., which will become the core operating company in our supermarket operations. We will make York-Benimaru a wholly owned subsidiary in September 2006.

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

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

RETURNING PROFITS TO SHAREHOLDERS

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

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

DEVELOPMENTS REGARDING THE SHARES OF GROUP COMPANIES

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

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

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

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

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

for operating income to ¥380.0 billion while leaving that for ROE at 10%.

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

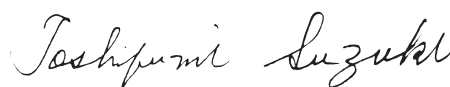
CREATION OF "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY" AND MAXIMIZATION OF ENTERPRISE VALUE

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

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

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

June 2006



Toshifumi Suzuki
Chairman and Chief Executive Officer



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President and Chief Operating Officer