FINANCIAL REVIEW

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the years ended February 28, 2007 and 2006

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

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

	Millions of yen		Thousands of U.S. dollars (Note)	Millions of yen	
	Seven & i Holdings			Ito-Yokado	
	2007	2006	2007	2005	2004
Revenues from operations:					
Convenience store operations:					
Merchandise	¥1,182,717	¥1,069,684	$10,023,025	¥ 986,435	¥ 989,787
Gasoline	689,568	575,726	5,843,797	462,538	395,993
Franchise commission from franchised stores	359,770	356,907	3,048,898	343,617	324,187
Other	17,594	12,919	149,102	13,579	11,491
Total	2,249,649	2,015,236	19,064,822	1,806,169	1,721,458
Superstore operations	1,882,935	1,687,735	15,957,076	1,642,265	1,669,330
Department store operations	988,358	—	8,375,915	—	—
Restaurant operations	121,684	124,025	1,031,221	126,181	126,189
Financial services	100,295	82,289	849,958	61,236	37,219
Others	32,341	19,781	274,076	17,196	14,738
Eliminations	(37,455)	(33,294)	(317,415)	(29,492)	(26,788)
Consolidated total	¥5,337,807	¥3,895,772	$45,235,653	¥3,623,555	¥3,542,146

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=US$1, the approximate rate of exchange on February 28, 2007.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues from Operations and Operating Income

In the fiscal year ended February 28, 2007, Seven & i Holdings recorded revenues from operations of ¥5,337.8 billion, up 37.0% year on year, and operating income of ¥286.8 billion, up 17.1%.

Due to continued aggressive store openings by Seven-Eleven Japan (SEJ), the core operating company in domestic convenience store operations, the number of SEJ stores at the end of February 2007 was 11,735, a net increase of 425 from a year earlier. SEJ has continued to focus on introducing differentiated products and expanding offerings of limited regional products. As a result, a 0.4% gain was recorded in sales of fast food items, which include boxed lunches, rice balls and other rice-based products, and noodles, and a 0.6% increase was registered in sales of daily food items, which include bread, pastries, and milk and other dairy products. Sales of nonfood products, which include tobacco and sundries, were up 4.3%. With the trend toward an aging population continuing, the Seven-Meal meal delivery service was extended throughout the country. SEJ completed the introduction of the Sixth-Generation Total Information System in all stores and worked to raise ordering accuracy.

Total store sales in Japan, which comprise corporate and franchised store sales, rose 1.4%, to ¥2,533.5 billion. Revenues from operations, which mainly comprise revenues from franchisees and sales at corporate stores, were up 4.9%, to ¥517.0 billion.

Overseas, 7-Eleven, Inc., had 6,050 stores in the United States and Canada as of the end of December 2006. In addition to favorable sales of fast food, beverages, and other merchandise, gasoline sales rose due to higher retail prices for gasoline.
As a result, 7-Eleven, Inc.'s sales increased on a U.S. dollar basis. The yen-dollar exchange rate used in the consolidation of 7-Eleven, Inc.'s accounts for the fiscal year was ¥116.38, reflecting the depreciation of the yen. Thus, 7-Eleven, Inc.'s net sales increased 13.8% on a yen basis, to ¥1,690.6 billion. In China, SEVEN-ELEVEN (BEIJING) had 50 stores at the end of December 2006, a rise of 20 from the previous year-end, and the company recorded a favorable increase in sales.

As a result, in convenience store operations, revenues from operations were ¥2,249.6 billion, up 11.6% year on year, and operating income was ¥206.1 billion, down 1.8% year on year.

Ito-Yokado is the core operating company in our superstore operations. In apparel, Ito-Yokado focused on developing and introducing private-brand products. At the same time, by reevaluating the percentage of items procured on a consignment basis in accordance with product characteristics, we worked to create more attractive sales areas and to improve gross profit margins. In household goods, we advanced the development of products that satisfy customers through joint planning with business partners. In food, we worked to expand sales by taking steps to focus on freshness and safety, such as bolstering the procurement of field vegetables. As a result of these types of initiatives, Ito-Yokado's net sales in the year under review rose 1.2%, to ¥1,487.5 billion. By product category, apparel sales were down 5.5%, to ¥290.6 billion; sales of household goods rose 2.5%, to ¥264.0 billion; and sales of food increased 0.4%, to ¥672.3 billion. In store openings, Ito-Yokado opened 3 stores, including Ario format mall-type shopping centers, and closed 7 Ito-Yokado stores, for a total of 174 stores at the end of the fiscal year.

In September 2006, equity-method affiliate York-Benimaru was made a wholly owned subsidiary through a stock-for-stock exchange. In superstore operations, revenues from operations totaled ¥1,882.9 billion, up 11.6%, and operating income was ¥29.2 billion, up 89.6%.

In department store operations, with a focus on products, we implemented detailed marketing development in accordance with the characteristics of the market and the competitive situation in each region. We took steps to attract tenants that customers enjoy and find to be appealing and to update our tenant composition.

At the same time, in corporate business, we worked to uncover new customers. Moreover, we implemented full-scale store remodeling initiatives, with careful attention paid to individual store characteristics, such as location, competing stores, and customer base. Seibu implemented a full-scale remodeling of its Akita store and reopened its Yurakucho store in a comprehensive specialty format for “beauty” targeting working women. Sogo completed a full-scale remodeling of its Chiba store that lasted two years. Moreover, we made a decisive transition from defense to offense and prepared the foundation for a new stage of growth in department store operations. As a result of these measures to bolster marketing, revenues from operations in the year under review were ¥988.4 billion and operating income was ¥26.8 billion.

In restaurant operations, we worked on the basics—responding to growing concerns about healthy and safe meals, offering prompt and sincere service, and providing clean restaurants and atmospheres that are aligned with customer motivations. We closed unprofitable restaurants, remodeled existing restaurants to meet regional needs, and introduced new business formats on a trial basis. However, due to unseasonable weather throughout the year, revenues from operations were ¥121.7 billion, a decline of 1.9%, and operating income was ¥932 million, down 64.5%.

Seven Bank, the core operating company in financial services operations, expanded the range of regions where it has ATMs and boosted the density of ATMs in regions where it already offers service. As a result, the number of ATMs installed at the end of the year was 12,101. Due to aggressive expansion of tie-ups with allied financial institutions and advertising and promotion activities, the convenience of ATM services increased, and the average daily transaction volume per ATM was 97 transactions. As a result of these measures, revenues from operations and operating income recorded substantial growth. Also, IY Card Service, which handles card operations, expanded the number of its cardholders, the scope of its business activities, and the scale of its operations, and as a result its profitability improved. Due to higher customer awareness of these two companies, revenues from operations in financial services were ¥100.3 billion, up 21.9%, and operating income was ¥24.5 billion, up 42.1%.

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

Other expenses, net, totaled ¥43.8 billion, a decline of ¥22.6 billion. There were two principal reasons for this decrease. In superstore operations, impairment loss on property and equipment declined substantially, and costs in relation to tender offer of ¥20.8 billion were recorded in the previous fiscal year as a result of 7-Eleven, Inc., being made a wholly owned subsidiary.

As a result, income before income taxes and minority interests was up 36.2%, to ¥243.1 billion.

Income Taxes (Including Deferred Income Taxes) and Net Income

Income taxes were ¥100.6 billion, up ¥19.1 billion from the previous fiscal year. After the application of tax effect accounting, the effective tax rate was 41.4%.

As a result, net income was ¥133.4 billion, up 51.7% from the previous fiscal year. Net income per share was ¥142.90, an increase of ¥42.07 per share from ¥100.83 per share in the previous fiscal year.

ANALYSIS OF FINANCIAL POSITION

Assets, Liabilities, and Net Assets

In September 2006, equity-method affiliate York-Benimaru was made a wholly owned subsidiary through a stock-for-stock exchange. Total assets rose ¥384.3 billion, to ¥3,809.2 billion.

Total current assets were up ¥171.6 billion, to ¥1,274.4 billion. Cash and cash equivalents declined ¥40.7 billion; however, accompanying growth in the operations of financial services subsidiaries, notes and accounts receivable–financial services rose ¥35.2 billion. In addition, due to a net increase of ¥131.3 billion in call loan in banking business for Seven Bank, prepaid expenses and other current assets were up ¥152.4 billion, to ¥271.2 billion.

Property and equipment, net, increased ¥132.7 billion, to ¥1,333.2 billion, due in part to the consolidation of York-Benimaru and its subsidiaries and to the acquisition of securitized real estate. Intangible assets rose ¥109.8 billion, to ¥478.8 billion, principally because of goodwill arising from the implementation of stock-for-stock exchanges and the acquisition of additional equity in making York-Benimaru and Millennium Retailing wholly owned subsidiaries. Investments and other assets declined ¥29.7 billion, due primarily to the new consolidation of York-Benimaru, which had previously been an equity-method affiliate.

Total liabilities rose ¥133.0 billion, to ¥1,840.0 billion. Notes and accounts payable–trade were up ¥21.6 billion, to ¥203.7 billion, and short-term loans increased ¥62.5 billion, to ¥176.9 billion. Current portion of long-term debt rose ¥50.7 billion, to ¥101.1 billion, and long-term debt rose ¥18.2 billion, to ¥565.7 billion.

Net assets were ¥1,969.1 billion. Cancellation of treasury stock reduced capital surplus ¥70.5 billion, while stock-for-stock exchanges with Millennium Retailing and York-Benimaru raised capital surplus ¥223.5 billion. Thus, capital surplus at year-end was up ¥154.5 billion from the previous fiscal year-end. Retained earnings were reduced ¥48.9 billion by cash dividends and increased ¥133.4 billion by net income for the year. Therefore, retained earnings at year-end were ¥1,124.9 billion, up ¥84.3 billion from a year earlier. Minority interests declined ¥51.8 billion, to ¥62.4 billion, due primarily to Millennium Retailing becoming a wholly owned subsidiary.

As a result, net assets (excluding minority interests in consolidated subsidiaries) per share was up ¥227.52 from a year earlier, to ¥1,999.77, and the net assets (excluding minority interests in consolidated subsidiaries) ratio rose to 50.1%, from 46.8% a year earlier.

Cash Flows

Cash and cash equivalents (hereafter “cash”) were provided by operations with high revenue and profit generating capacity, centered on convenience store operations. However, the Company used funds to open new stores, remodel existing stores, and acquire property and equipment. As a result, cash declined ¥40.7 billion, to ¥570.1 billion at year-end.

Net cash provided by operating activities was ¥157.2 billion. Income before income taxes and minority interests was up ¥64.5 billion. The issuance of bonds by Seven Bank generated ¥60.0 billion, while net increase in call loan in banking business was ¥131.3 billion. Income taxes paid increased ¥54.9 billion.

Net cash used in investing activities was ¥236.0 billion, a decline of ¥152.1 billion from the previous fiscal year. Acquisition of property and equipment, principally for new store openings and store renovations, increased ¥74.4 billion. Acquisition of investments in subsidiaries declined ¥108.8 billion, and acquisition of investments in newly consolidated subsidiaries declined ¥68.5 billion.

Net cash provided by financing activities was ¥37.2 billion, a decline of ¥65.9 billion from the previous fiscal year. Purchase of treasury stock declined ¥127.0 billion, while proceeds from sale of treasury stock were down ¥228.0 billion.

OPERATIONAL AND OTHER RISK FACTORS

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

1. Domestic Market Trends

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

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

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

3. Changes in Purchase Prices

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

4. Product Safety and Labeling

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

5. Convenience Store Operations

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

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

6. Overseas Operations

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