

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.

7. Earthquakes and Other Natural Disasters or Accidents

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

8. Information Systems and Other Operational Infrastructure

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

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

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

9. Credit Management

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

10. Financial Services Operations

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

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

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

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

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

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

12. Store Development

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

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

13. Personal Information Protection Law

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

14. Amendments to Other Laws

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

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

15. Significant Suits and Other Legal Incidents

In the fiscal year under review, no suits that significantly affect the Group's performance were filed against the Group. However, if decisions unfavorable to the Group resulted from suits with a potentially significant effect on business results or social standing, the Group's business performance or financial position could be affected.

16. Brand Image

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