NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Seven & i Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries 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, and are compiled from the Consolidated Financial Statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

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

The accompanying Consolidated Financial Statements have been restructured and translated into English from the Consolidated Financial Statements of the Company 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 Law 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and 84 subsidiaries which, with an exception due to materiality, include Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd., Millennium Retailing, Inc., Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, Ltd., Seven & i Food Systems Co., Ltd., York-Benimaru Co., Ltd., Seven Bank, Ltd. and 7-Eleven, Inc.

Consolidated subsidiaries increased by 10. THE LOFT CO., LTD., previously an affiliate applying the equity method, became a consolidated subsidiary by additional stock acquisition. In addition, consolidated subsidiaries increased due to the establishment of Seven Cash Works Co., Ltd. and SEVEN & i FINANCIAL GROUP CO., LTD. Consolidated subsidiaries also increased by the acquisition of shares of Akachan Honpo Co., Ltd. and FUJIKOSHI CO., LTD. which have their own subsidiaries.

On the other hand, Seven & i Food Systems Co., Ltd. merged with Denny's Japan Co., Ltd., Famil Co., Ltd. and York Bussan K. K. Meanwhile, York-Benimaru Co., Ltd. merged with Super Kadoya Co., LTD. As a result, consolidated subsidiaries decreased by six in addition to the liquidation of two overseas consolidated subsidiaries.

The fiscal year-end of some subsidiaries is December 31. The financial statements of such subsidiaries as of and for the year ended December 31 are used in preparing the Consolidated Financial Statements of the Company. All material transactions during the period from January 1 to February 29 are adjusted for in the consolidation process.

Akachan Honpo Co., Ltd., which became a consolidated subsidiary from July 2007, has changed its year-end closing date from December 31 to the end of February. Accordingly, income and loss for the period from January 1, 2008 to February 29, 2008 was consolidated, as well as income and loss for the period from July 1, 2007 to December 31, 2007.

The closing date of a certain subsidiary 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 were prepared in order to facilitate its consolidation.

13 affiliates, which include PRIME DELICA CO., LTD., are accounted for using the equity method. Affiliates to which the equity method is applied increased by four in connection with the additional acquisition of shares of Akachan Honpo Co., Ltd., however three companies were decreased due to the sales of their common stock during this fiscal year. In addition, NitteleSeven Co., Ltd., a newly formed company, is accounted for using the equity method.

THE LOFT CO., LTD., previously an affiliate applying the equity method, became a consolidated subsidiary by an additional stock acquisition. The affiliates which have a different fiscal year-end are included in the Consolidated Financial Statements based on their respective fiscal year-end. The advance to an affiliate that has negative net assets was reduced.

All material intercompany transactions and account balances have been eliminated.

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

(2) Inventories

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

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

(3) Securities

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

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

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

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

(4) Derivatives

Derivative financial instruments are valued at fair value.

(5) Property and equipment

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

(Change in depreciation method for property and equipment)

In accordance with the amendment of the Corporation Tax Law (Partial Amendment of the Income Tax Law etc., March 30, 2007, Law No. 6) and (Partial Amendment of the Corporation Tax Enforcement Ordinance, March 30, 2007, Ordinance No. 83)), effective from the fiscal year ended February 29, 2008, the Company and its domestic consolidated subsidiaries have changed the depreciation method for those property and equipment acquired on or after April 1, 2007 to the method based on the amended Corporation Tax Law. The impact of this change on the Consolidated Statement of Income is immaterial.

(6) Intangible assets

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

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

Goodwill and negative goodwill arising from domestic consolidated subsidiaries are mainly amortized over a period of 20 years on a straight-line basis, or charged to income if immaterial. 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.

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

(7) Income taxes

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

Deferred tax accounting is applied.

(8) 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. In the department store business, estimated costs of sales for goods to be purchased by coupon tickets issued through the point system are provided for.

(c) Allowance for 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 collection of gift certificates recognized as income after certain periods from their issuance. The amount is calculated using the historical results of collection.

(Change in accounting standard – allowance for loss on future collection of gift certificates)

Effective from the fiscal year ended February 29, 2008, certain domestic consolidated subsidiaries provide an allowance for loss on future collection of gift certificates in accordance with the "Auditing Treatment concerning Reserve under Special Taxation Measures Law, Reserve under Special Laws, and Reserve for Retirement Benefits to Directors and Corporate Auditors" (The Japanese Institute of Certified Public Accountants, Auditing and Assurance Practice Committee Report No. 42, revised on April 13, 2007). Previously, certain domestic consolidated subsidiaries recognized gift certificates as income after certain periods from their issuance. By the adoption of the above Auditing Treatment, certain domestic consolidated subsidiaries changed their accounting policies to provide an allowance for loss on future collection of gift certificates after they are recognized as income.

As a result, ¥7,085 million ($67,476 thousand) was recorded in other expenses and income before income taxes decreased by the same amount.

(d) 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.

(e) Allowance for accrued pension and severance costs
(Prepaid pension cost)

Allowance for accrued pension and severance costs is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. The excess amount of the estimated fair value of the plan assets over the estimated present value of projected benefit obligation adjusted by unrecognized actuarial differences at February 29, 2008 is recorded as prepaid pension cost. Also, certain domestic consolidated subsidiaries and consolidated subsidiaries in the United States provide allowance for accrued pension and severance costs. Unrecognized actuarial differences are amortized on a straight-line basis over the period of mainly 10 years from the next year in which they arise which is shorter than the average remaining years of service of the eligible employees. Unrecognized prior service costs are amortized on a straight-line basis over the period of mainly 5 years.

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

Allowance for retirement benefits to directors and corporate auditors is provided in accordance with the Company's internal policy. The Company and certain consolidated subsidiaries abolished the program of retirement benefits to directors and corporate auditors, and certain consolidated subsidiaries decided to pay it at the time of their resignation.

(9) Leases

The Company and its domestic consolidated subsidiaries account for finance leases, except those for which ownership of the leased asset is considered to be transferred to the lessee, as operating leases.

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

(10) Hedge accounting

Interest rate swap contracts are utilized as hedging instruments and the related hedged items are loans payable. The Company and its subsidiaries have policies to utilize derivative instruments for the purposes of hedging their exposure to fluctuations in foreign currency rates and interest rates and reducing finance costs.

The Company and its subsidiaries do not hold or issue derivative instruments for trading or speculative purposes. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the recognition of gains and losses resulting from the changes in fair value of interest rate swap contracts is deferred until the related gains and losses on the hedged items are recognized. However, certain interest rate swap contracts which meet specific hedging criteria are not measured at market value but the differences between the paid and received amount under the swap contracts are recognized and included in interest income or expenses as incurred. The hedge effectiveness for interest rate swap contracts is assessed quarterly except for those that meet specific hedging criteria.

(11) Per share information

Net assets (excluding minority interests in consolidated subsidiaries) and net income per share as of and for the year ended February 29, 2008 are ¥2,081.85 ($19.83) and ¥137.03 ($1.31), respectively. Net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is not presented because the Company does not have any dilutive shares.

Basis for the calculation of net income per share for the years ended February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net income	**¥130,658**	¥133,419	**$1,244,362**
Less components not pertaining to common shareholders:	**—**	—	**—**
Net income pertaining to common shareholders	**¥130,658**	¥133,419	**$1,244,362**
Weighted average number of shares of common stock outstanding (shares)	**953,496,897**	933,675,491	

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

(12) 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 the Japanese GAAP on the presentation of treasury stock.

(13) 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 U.S. and Canada is included in the accompanying Consolidated Statements of Income.

(14) 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 "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries".

(15) Cash and cash equivalents

In preparing the accompanying Consolidated Statements of Cash Flows, cash and cash equivalents 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.

(16) Accounting for franchised stores in convenience store operations

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

(17) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the fiscal year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the "Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005) (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and shareholders' equity sections.

Due to the adoption of the New Accounting Standards, the following items are presented differently compared to the previous presentation rules. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests between the liabilities and shareholders' equity sections.

If the New Accounting Standards had not been adopted and the previous presentation method for shareholders' equity had been applied, shareholders' equity at February 28, 2007, which comprised common stock, capital surplus, retained earnings, unrealized gains (losses) on available-for-sale securities, foreign currency translation adjustments and treasury stock, would have been ¥1,907,169 million.

The adoption of the New Accounting Standards had no impact on the Consolidated Statements of Income for the fiscal year ended February 28, 2007.

(18) Accounting Standard for Statement of Changes in Net Assets

Effective from the fiscal year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the "Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005) (collectively, the "New Accounting Standards").

Accordingly, the Company prepared the Consolidated Statement of Changes in Net Assets for the fiscal year ended February 28, 2007 in accordance with the New Accounting Standards.

(19) Change in Significant Accounting Policies for the Preparation of Consolidated Financial Statements

(Accounting standard for business combination)

Effective from the fiscal year ended February 29, 2008, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" issued by the Business Accounting Council on October 31, 2003, "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (the Financial Accounting Standard Implementation No. 10 finally revised by the Accounting Standards Board of Japan on December 22, 2006).

(20) Reclassification

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

3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Consolidated Financial Statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥105=US$1, the approximate rate of exchange prevailing at February 29, 2008. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or at any other rate.

4. SECURITIES INFORMATION

(1) The following tables summarize the book value and fair value of held-to-maturity debt securities whose fair value is available as of February 29, 2008 and February 28, 2007:

	Millions of yen		
	2008		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	**¥605**	**¥606**	**¥1**
Debt securities with fair value not exceeding book value	**10**	**10**	**0**
Total	**¥615**	**¥616**	**¥1**

	Millions of yen		
	2007		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	¥ —	¥ —	¥ —
Debt securities with fair value not exceeding book value	615	613	(2)
Total	¥615	¥613	¥ (2)

	Thousands of U.S. dollars (Note 3)		
	2008		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	**$5,762**	**$5,771**	**$9**
Debt securities with fair value not exceeding book value	**95**	**95**	**0**
Total	**$5,857**	**$5,866**	**$9**

(2) The following tables summarize the acquisition cost and book value of available-for-sale securities whose fair value is available as of February 29, 2008 and February 28, 2007:

	Millions of yen		
	2008		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	**¥ 9,340**	**¥ 17,783**	**¥ 8,443**
Debt securities	**5,522**	**5,522**	**0**
Sub-total	**14,862**	**23,305**	**8,443**
Securities with book value not exceeding acquisition cost:			
Equity securities	**19,127**	**17,306**	**(1,821)**
Debt securities	**92,019**	**91,996**	**(23)**
Sub-total	**111,146**	**109,302**	**(1,844)**
Total	**¥126,008**	**¥132,607**	**¥ 6,599**

	Millions of yen		
	2007		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 12,522	¥ 27,011	¥ 14,489
Debt securities	5,536	5,536	0
Sub-total	18,058	32,547	14,489
Securities with book value not exceeding acquisition cost:			
Equity securities	65,102	46,204	(18,898)
Debt securities	64,516	64,490	(26)
Sub-total	129,618	110,694	(18,924)
Total	¥147,676	¥143,241	¥ (4,435)

	Thousands of U.S. dollars (Note 3)		
	2008		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	**$ 88,952**	**$ 169,362**	**$80,410**
Debt securities	**52,591**	**52,591**	**0**
Sub-total	**141,543**	**221,953**	**80,410**
Securities with book value not exceeding acquisition cost:			
Equity securities	**182,162**	**164,819**	**(17,343)**
Debt securities	**876,371**	**876,152**	**(219)**
Sub-total	**1,058,533**	**1,040,971**	**(17,562)**
Total	**$1,200,076**	**$1,262,924**	**$62,848**

(3) Sales amounts and gain (loss) on sales of availabe-for-sale securities during the fiscal years ended February 29, 2008 and February 28, 2007 are as follows:

TYPE	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 3) 2008
Sales amounts	**¥ 23,786**	¥ 205	**$ 226,533**
Gain on sales of available-for-sale securities	**100**	173	**952**
Loss on sales of available-for-sale securities	**¥(17,891)**	¥ —	**$(170,390)**

(4) The following table summarizes the book value of major securities with no available fair value as of February 29, 2008 and February 28, 2007:

TYPE	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 3) 2008
Held-to-maturity debt securities:			
Bonds	**¥ 204**	¥ 204	**$ 1,943**
Available-for-sale securities:			
Non-listed securities	**16,926**	16,749	**161,200**
Non-listed foreign securities	**3,041**	5,042	**28,962**
Debt securities	**25**	—	**238**
Negotiable certificates of deposits	**42,000**	—	**400,000**
Total	**¥62,196**	¥21,995	**$592,343**

(5) Redemption schedules of available-for-sale securities with fixed maturities and held-to-maturity debt securities as of February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen				
	2008				
TYPE	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	**¥ 97,518**	**¥615**	**¥ —**	**¥ —**	**¥ 98,133**
Corporate bonds	**4**	**200**	**—**	**—**	**204**
Debt securities	**25**	**—**	**—**	**—**	**25**
Negotiable certificates of deposits	**42,000**	**—**	**—**	**—**	**42,000**
Total	**¥139,547**	**¥815**	**¥ —**	**¥ —**	**¥140,362**

	Millions of yen				
	2007				
TYPE	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	¥70,017	¥625	¥ —	¥ —	¥70,642
Corporate bonds	—	204	—	—	204
Negotiable certificates of deposits	—	—	—	—	—
Total	¥70,017	¥829	¥ —	¥ —	¥70,846

	Thousands of U.S. dollars (Note 3)				
	2008				
TYPE	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	**$ 928,743**	**$5,857**	**$ —**	**$ —**	**$ 934,600**
Corporate bonds	**38**	**1,905**	**—**	**—**	**1,943**
Debt securities	**238**	**—**	**—**	**—**	**238**
Negotiable certificates of deposits	**400,000**	**—**	**—**	**—**	**400,000**
Total	**$1,329,019**	**$7,762**	**$ —**	**$ —**	**$1,336,781**

(6) Investments in affiliates included in “Investments in securities” in the accompanying Consolidated Balance Sheets as of February 29, 2008 and February 28, 2007 are ¥6,074 million ($57,848 thousand) and ¥7,032 million, respectively.

5. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries have policies to use interest rate swap contracts, forward currency exchange contracts, currency option contracts and currency swap contracts only for the purposes of mitigating the risk of fluctuations in interest rates and foreign currency exchange rates and reducing finance costs. The Company and its consolidated subsidiaries do not hold or issue derivative instruments for trading or speculative purposes. Currency-related transactions and interest rate swap contracts include the market risk of fluctuations in foreign currency exchange rates and interest rates, respectively. The risk of nonperformance is considered to be low as the contracts are entered into with prestigious financial institutions. The responsible departments in the Company and its consolidated subsidiaries enter into and control these contracts in accordance with the respective internal policies. The estimated unrealized gains and losses from these contracts as of February 29, 2008 and February 28, 2007 are summarized in the following tables. The estimated fair values of these contracts are based on values prepared by financial institutions.

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

(1) Currency-related transactions

	Millions of yen			
	As of February 29, 2008			
	Contract amount		Estimated fair value	Unrealized losses
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	¥ 4,775	¥ —	¥4,498	¥ (277)
Buy Euro	182	—	179	(3)
Currency swap contracts:				
U.S. dollar	¥24,502	¥12,684	¥2,414	¥(2,414)

	Millions of yen			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	¥ 3,978	¥ —	¥ 3,976	¥ (2)
Buy Euro	79	—	81	2
Currency swap contracts:				
U.S. dollar	¥35,454	¥23,636	¥ 601	¥601

	Thousands of U.S. dollars (Note 3)			
	As of February 29, 2008			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	$ 45,476	$ —	$42,838	$(2,638)
Buy Euro	1,733	—	1,705	(29)
Currency swap contracts:				
U.S. dollar	$233,352	$120,800	$22,990	$22,990

(2) Interest-rate-related transactions

	Millions of yen			
	As of February 29, 2008			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	¥36,000	¥ —	¥76	¥76
Receive fixed / Pay float	10,000	10,000	(35)	(35)

	Millions of yen			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	¥35,000	¥35,000	¥ 26	¥ 26
Receive fixed / Pay float	20,000	10,000	(77)	(77)

	Thousands of U.S. dollars (Note 3)			
	As of February 29, 2008			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	$342,857	$ —	$724	$724
Receive fixed / Pay float	95,238	95,238	(333)	(333)

6. PROPERTY AND EQUIPMENT

Property and equipment at February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Buildings and structures	¥1,395,649	¥ 1,348,332	$13,291,895
Furniture, fixtures and other	475,550	436,429	4,529,048
	1,871,199	1,784,761	17,820,943
Less: Accumulated depreciation	(1,148,497)	(1,052,751)	(10,938,066)
	722,702	732,010	6,882,877
Land	561,205	564,224	5,344,809
Construction in progress	53,235	36,923	507,000
Total	¥1,337,142	¥ 1,333,157	$12,734,686

7. IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT

For the fiscal years ended February 29, 2008 and February 28, 2007, the Company and its consolidated subsidiaries recognized ¥20,031 million ($190,771 thousand) and ¥14,199 million of impairment loss, respectively, on the following groups of assets.

Fiscal year ended February 29, 2008:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars (Note 3)
Stores (Convenience stores)	Land and buildings, etc.	Tokyo 70 stores Kanagawa Pref. 39 stores Others (including U.S.)	¥18,403	$175,266
Stores (Superstores)	Land and buildings, etc.	Fukusima Pref. 14 stores Saitama Pref. 5 stores Other 15 stores		
Stores (Department stores)	Buildings and structures, etc.	Osaka 1 store Kanagawa Pref. 1 store		
Stores (Food services)	Land and buildings, etc.	Tokyo & other 130 stores		
Other facilities, etc.	Buildings and software, etc.	Osaka U.S. & others	1,628	15,505
Total			¥20,031	$190,771

Fiscal year ended February 28, 2007:

Description	Classification	Location	Millions of yen
Stores (Convenience stores)	Land and buildings, etc.	Tokyo 46 stores Kanagawa Pref. 22 stores Others (including U.S.)	¥13,801
Stores (Superstores)	Land and buildings, etc.	Saitama Pref. 4 stores Tokyo 2 stores Other 12 stores	
Stores (Department stores)	Land and buildings, etc	Hokkaido 1 store Saitama Pref. 1 store	
Stores (Restaurants)	Buildings and structures, etc.	Tokyo & other 51 stores	
Other facilities, etc.	Land and buildings, etc.	Ibaraki Pref. 1 store	398
Total			¥14,199

The Company and its domestic consolidated subsidiaries 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, and such deducted amount was recorded as impairment loss.

A breakdown of impairment loss for the fiscal years ended February 29, 2008 and February 28, 2007 is as follows:

Fiscal year ended February 29, 2008:

Classification	Millions of yen			Thousands of U.S. dollars (Note 3)
	Stores	Other facilities, etc.	Total	
Buildings and structures	¥10,305	¥ 13	¥10,318	$ 98,267
Land	5,851	—	5,851	55,724
Software	0	1,574	1,574	14,990
Other	2,247	41	2,288	21,790
Total	¥18,403	¥1,628	¥20,031	$190,771

Fiscal year ended February 28, 2007:

Classification	Millions of yen		
	Stores	Other facilities, etc.	Total
Buildings and structures	¥ 7,512	¥ 5	¥ 7,517
Land	4,402	393	4,795
Other	1,887	—	1,887
Total	¥13,801	¥398	¥14,199

In the case where net selling prices were used as recoverable amounts, relevant assets were evaluated based on real estate appraisal standards, and in the case where values in use were used as recoverable amounts, relevant assets were evaluated by discounting estimated future cash flows to which the 3.1%–6.0% discount rates in 2008 and the 3.1%–6.2% in 2007 were applied.

8. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Summary of net assets (assets and liabilities) and net payment for (net receipt from) the acquisition of shares of companies newly included is as follows:

Fiscal year ended February 29, 2008:

THE LOFT Co., Ltd. ("THE LOFT")	Millions of yen	Thousands of U.S. dollars (Note 3)
	2008	2008
Current assets	¥10,097	$ 96,162
Non-current assets	5,519	52,562
Goodwill	8,263	78,695
Current liabilities	(9,972)	(94,971)
Non-current liabilities	(753)	(7,171)
Minority interests	(1,431)	(13,629)
Sub-total	11,723	111,648
Carrying value of investment in THE LOFT under equity method at the time that the Company acquired majority of voting rights	(1,748)	(16,648)
Acquisition cost	9,975	95,000
Cash and cash equivalents of THE LOFT	(3,260)	(31,048)
Payment for the acquisition of investments in THE LOFT	¥ 6,715	$ 63,952

Akachan Honpo Co., Ltd. ("Akachan Honpo")	Millions of yen	Thousands of U.S. dollars (Note 3)
	2008	2008
Current assets	¥14,723	$140,219
Non-current assets	23,783	226,504
Goodwill	(1,295)	(12,333)
Current liabilities	(25,406)	(241,962)
Non-current liabilities	(9,403)	(89,552)
Minority interests	(1,167)	(11,114)
Acquisition cost	1,235	11,762
Cash and cash equivalents of Akachan Honpo	(3,563)	(33,933)
Proceeds from acquisition of investments in Akachan Honpo	¥ (2,328)	$ (22,171)

Fiscal year ended February 28, 2007:

A. White Hen Pantry, Inc. ("White Hen Pantry")	Millions of yen 2007
Current assets	¥ 1,696
Non-current assets	4,879
Goodwill	2,926
Current liabilities	(2,668)
Non-current liabilities	(575)
Acquisition cost of shares	6,258
Cash and cash equivalents of White Hen Pantry	(63)
Net payment for the acquisition of shares	¥ 6,195

B. York-Benimaru Co., Ltd. ("York-Benimaru") (a)	Millions of yen 2007
Current assets	¥ 49,521
Non-current assets	105,380
Goodwill	62,037
Current liabilities	(32,416)
Minority interests	(2,014)
Sub-total	182,508
Carrying value of investment in York-Benimaru under the equity method at the time that the Company acquired the majority of voting rights	(39,667)
Acquisition cost of shares	142,841
Stock-for-stock exchange	(142,841)
Cash and cash equivalents of York-Benimaru	(20,687)
Net receipt from the acquisition of shares	¥ (20,687)

(a) The amounts of assets and liabilities include the amounts recorded in its subsidiaries.

(2) Major non-cash transaction

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Finance lease obligation for property and equipment recorded for the fiscal year	**¥634**	¥1,281	**$6,038**

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate statutory rates of approximately 40.7% for the fiscal years ended February 29, 2008 and February 28, 2007.

The significant components of deferred tax assets and liabilities as of February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Deferred tax assets:			
Inventory reserve	¥ 2,616	¥ 3,754	$ 24,914
Allowance for bonuses to employees	6,529	6,010	62,181
Allowance for sales promotion expenses	8,160	7,424	77,714
Accrued payroll	3,720	4,035	35,429
Allowance for retirement benefits to directors and corporate auditors	1,762	1,708	16,781
Allowance for accrued pension and severance costs	331	501	3,152
Allowance for loss on future collection of gift certificates	2,797	—	26,638
Depreciation and amortization	9,112	8,479	86,781
Tax loss carried forward	34,939	46,582	332,752
Valuation loss on available-for-sale securities	5,708	1,683	54,362
Allowance for doubtful accounts	3,167	1,834	30,162
Unrealized loss on property and equipment	12,174	9,193	115,943
Impairment loss on property and equipment and valuation loss on land	36,059	33,426	343,419
Accrued enterprise taxes and business office taxes	4,913	4,770	46,790
Accrued expenses	10,145	8,874	96,619
Other	10,252	11,631	97,638
Sub-total	152,384	149,904	1,451,275
Less: Valuation allowance	(83,002)	(76,839)	(790,495)
Total	69,382	73,065	660,780
Deferred tax liabilities:			
Unrealized gains on property and equipment	(37,285)	(51,022)	(355,095)
Royalties, etc.	(16,391)	(17,321)	(156,105)
Deferred gains on sales of property and equipment	(1,179)	(1,308)	(11,229)
Unrealized gains on available-for-sale securities	(5,515)	(16,019)	(52,524)
Prepaid pension cost	(4,983)	—	(47,457)
Other	(2,627)	(3,433)	(25,019)
Total	(67,980)	(89,103)	(647,429)
Net deferred tax liabilities (a)	¥ 1,402	¥(16,038)	$ 13,351

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

	2008	2007	2008
Current assets–Deferred income taxes	¥ 35,730	¥ 36,701	$ 340,286
Other assets–Deferred income taxes	28,114	21,655	267,752
Current liabilities–Other	(425)	(227)	(4,049)
Non-current liabilities–Deferred income taxes	(62,017)	(74,167)	(590,638)

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended February 29, 2008 and February 28, 2007 is as follows:

	2008	2007
Statutory tax rate	40.7%	40.7%
Adjustments:		
Equity in earnings of affiliates	(0.2)	(0.2)
Amortization of goodwill	1.9	1.5
Non-deductible items, such as entertainment expenses	0.3	0.3
Decrease in valuation allowance	(2.6)	(1.3)
Inhabitant taxes per capita	0.6	0.7
Other	(1.9)	(0.3)
Effective tax rate	38.8%	41.4%

10. RETIREMENT BENEFITS

(1) Summary of the retirement benefit plans

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

The premium on employees' retirement benefit may be added upon the retirement of the employees. Consolidated subsidiaries in the United States have a defined contribution pension plan and a defined benefit plan.

(2) Projected retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Projected benefit obligations (a)	¥(177,922)	¥(171,278)	$(1,694,495)
Fair value of plan assets (including employee retirement benefit trust)	178,556	190,336	1,700,533
Unrecognized actuarial differences	9,212	(14,155)	87,733
Unrecognized prior service cost	(1,466)	(2,294)	(13,962)
Prepaid pension cost, net of allowance for accrued pension and severance costs	8,380	2,609	79,809
Prepaid pension cost	12,728	5,966	121,219
Allowance for accrued pension and severance costs	¥ (4,348)	¥ (3,357)	$ (41,410)

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

(3) Net periodic benefit cost

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Service cost (a)	¥10,870	¥10,631	$103,524
Interest cost	4,407	4,294	41,971
Expected return on plan assets	(6,682)	(6,273)	(63,638)
Amortization of actuarial differences	(1,010)	(647)	(9,619)
Amortization of prior year service cost	(752)	(705)	(7,162)
Premium on employees' retirement benefit	672	1,738	6,400
Net periodic benefit cost (b)	¥ 7,505	¥ 9,038	$ 71,476

(a) Net periodic benefit cost of subsidiaries using the simplified method is included.
(b) Besides the above net periodic benefit cost, ¥1,414 million ($13,467 thousand) and ¥1,385 million of benefit cost related to the defined contribution pension plan employed by subsidiaries in the United States were recorded for the fiscal years ended February 29, 2008 and February 28, 2007, respectively.

(4) **Assumptions used in accounting for retirement benefit obligations**

	2008	2007
Allocation method of estimated total retirement benefits: Mainly	**Point basis**	Point basis
Discount rate: Mainly	**2.5%**	2.5%
Consolidated subsidiaries in the United States	**6.25%**	6.0%
Expected rate of return on plan assets: Mainly	**3.5%**	3.5%
Periods over which the prior service cost is amortized	**5 years or**	5 years or
	10 years	10 years
Periods over which the actuarial differences are amortized (a): Mainly	**10 years**	10 years

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

11. SHORT-TERM LOANS AND LONG-TERM DEBT

The following summarizes information concerning short-term loans:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Outstanding balance at fiscal year-end:			
Short-term bank loans (a)	**¥149,861**	¥176,913	**$1,427,248**
Weighted-average interest rate at year-end:			
Short-term bank loans	**1.1%**	0.8%	**1.1%**

(a) The total amounts of short-term loans with collateral as of February 29, 2008 and February 28, 2007 are ¥2,569 million ($24,467 thousand) and ¥613 million, respectively (Note 14).

Long-term debt at February 29, 2008 and February 28, 2007 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	**2008**
Outstanding balance at fiscal year-end:			
Loans, principally from banks and insurance companies, due fiscal 2008 to 2023 with interest rates ranging from 0.6% to 7.2% (b)	**¥ 441,756**	¥ 431,856	**$ 4,207,200**
Ito-Yokado Co., Ltd.:			
1.72% unsecured straight bonds, due March 29, 2007	**—**	30,000	**—**
1.96% unsecured straight bonds, due March 29, 2010	**20,000**	20,000	**190,476**
0.65% unsecured straight bonds, due September 18, 2009	**50,000**	50,000	**476,190**
Akachan Honpo Co., Ltd.:			
0.42% unsecured straight bonds, due March 31, 2008	**62**	—	**590**
0.53% unsecured straight bonds, due March 31, 2010	**220**	—	**2,095**
0.96% unsecured straight bonds, due February 20, 2009	**500**	—	**4,762**
0.7% unsecured straight bonds, due March 31, 2009	**188**	—	**1,790**
0.73% unsecured straight bonds, due March 25, 2010	**625**	—	**5,952**
1.32% unsecured straight bonds, due March 25, 2011	**700**	—	**6,667**
Seven Bank, Ltd.:			
0.88% unsecured straight bonds, due December 10, 2008	**15,000**	15,000	**142,858**
1.45% unsecured straight bonds, due December 20, 2011	**36,000**	36,000	**342,858**
1.67% unsecured straight bonds, due December 20, 2013	**24,000**	24,000	**228,572**
7-Eleven, Inc.:			
Commercial paper	**27,446**	38,338	**261,390**
Capital lease obligations, due fiscal 2008 to 2029	**19,430**	21,596	**185,048**
	635,927	666,790	**6,056,448**
Current portion of long-term debt	**(153,750)**	(101,118)	**(1,464,286)**
	¥ 482,177	¥ 565,672	**$ 4,592,162**

(b) The total amounts of long-term debt with collateral as of February 29, 2008 and February 28, 2007 are ¥214,565 million ($2,043,476 thousand) and ¥240,258 million, respectively (Note 14).

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

Fiscal years ending February 28 or 29:	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥153,750	$1,464,286
2010	144,645	1,377,571
2011	110,372	1,051,162
2012	138,996	1,323,771
2013	11,948	113,791
Thereafter	76,216	725,867
	¥635,927	$6,056,448

12. LEASES

(1) Finance leases

Finance lease charges to the Company and its consolidated subsidiaries for the fiscal years ended February 29, 2008 and February 28, 2007 are ¥17,849 million ($169,990 thousand) and ¥12,763 million, respectively. The Company and its domestic consolidated subsidiaries' finance lease contracts that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases with appropriate footnote disclosures. "As if Capitalized" information for significant leased assets under the finance lease contracts of the Company and its domestic consolidated subsidiaries as of and for the fiscal years ended February 29, 2008 and February 28, 2007 is as follows:

As lessee:

A summary of assumed amounts of acquisition cost, accumulated depreciation, impairment loss and net book value, including the interest portion, as of February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Furniture, fixtures and equipment:			
Acquisition cost	¥ 95,023	¥ 82,083	$ 904,981
Accumulated depreciation	(32,224)	(25,230)	(306,895)
Accumulated impairment loss	(103)	(25)	(981)
Net book value	¥ 62,696	¥ 56,828	$ 597,105
Software:			
Acquisition cost	¥ 1,775	¥ 1,094	$ 16,905
Accumulated depreciation	(629)	(393)	(5,991)
Net book value	¥ 1,146	¥ 701	$ 10,914
Lease payments	¥ 17,849	¥ 12,763	$ 169,990
Reversal of allowance for impairment loss on leased assets	¥ 91	¥ —	$ 867
Depreciation expense (a) and (b)	¥ 17,940	¥ 12,763	$ 170,857
Impairment loss	¥ 4	¥ 25	$ 38

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

The future lease payments of the Company and its consolidated subsidiaries' finance leases, including the interest portion, as of February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Due within one year	¥17,802	¥15,172	$169,543
Due over one year	46,142	42,381	439,447
Total	¥63,944	¥57,553	$608,990
Balance of impairment loss account on leased assets included in the outstanding future lease payments	¥ 103	¥ 25	$ 981

As lessor:

A summary of acquisition cost, accumulated depreciation and net book value as of February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Furniture, fixtures and equipment:			
Acquisition cost	¥ 25,801	¥ 24,076	$ 245,724
Accumulated depreciation	(12,306)	(10,438)	(117,200)
Net book value	¥ 13,495	¥ 13,638	$ 128,524
Lease income	¥ 4,606	¥ 4,390	$ 43,867
Depreciation expense	¥ 4,243	¥ 4,048	$ 40,410
Interest income (c)	¥ 431	¥ 423	$ 4,105

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

The future lease income of the Company and its consolidated subsidiaries' finance leases as of February 29, 2008 and February 28, 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Due within one year	¥ 4,422	¥ 4,054	$ 42,114
Due over one year	9,456	9,923	90,057
Total	¥13,878	¥13,977	$132,171

(2) **Operating leases**
The amounts of outstanding future lease payments under lease agreements other than finance leases, including the interest portion, as of February 29, 2008 and February 28, 2007 are as follows:

As lessee:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Due within one year	¥ 66,484	¥ 66,989	$ 633,181
Due over one year	422,874	405,825	4,027,371
Total	¥489,358	¥472,814	$4,660,552

13. NET ASSETS

As described in Note 2 (17), net assets comprise three subsections, which are shareholders' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for the fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the 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 Law, 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by a resolution of the shareholders' meeting. Under the Law, 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 Law.

At the annual shareholders' meeting held on May 22, 2008, the shareholders approved cash dividends amounting to ¥26,778 million ($255,029 thousand). Such appropriations have not been accrued in the Consolidated Financial Statements as of February 29, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. COMMITMENTS AND CONTINGENT LIABILITIES

(1) **Guarantees**
As of February 29, 2008, the Company and its consolidated subsidiaries are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥909 million ($8,657 thousand). The amount of guarantee in relation to the loans of a certain store lessor was ¥336 million ($3,200 thousand).

As of February 28, 2007, the Company and its consolidated subsidiaries are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥1,001 million. The amount of guarantee in relation to the loans of a certain store lessor was ¥651 million.

(2) Pledged assets

A. The amounts of assets pledged as collateral by the Company and its consolidated subsidiaries for their loans from certain financial institutions as of February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Other current assets	¥ 2,275	¥ 2,275	$ 21,666
Buildings and structures	61,595	66,047	586,619
Furniture, fixtures and equipment	790	926	7,524
Land	102,903	99,461	980,029
Other intangible assets	10,355	10,355	98,619
Investments in securities	64,474	59,475	614,038
Long-term leasehold deposits	4,606	4,758	43,867
Total	¥246,998	¥243,297	$2,352,362

Debts for the pledged assets above as of February 29, 2008 are as follows: short-term loans, ¥2,569 million ($24,467 thousand); long-term loans (including current portion), ¥214,565 million ($2,043,476 thousand); long-term accounts payable, ¥1,216 million ($11,581 thousand); and long-term deposits received from tenants and franchised stores, ¥188 million ($1,790 thousand).

Debts for the pledged assets above as of February 28, 2007 are as follows: short-term loans, ¥613 million; long-term loans (including current portion), ¥240,258 million; and long-term accounts payable, ¥1,776 million.

B. The amounts of assets pledged as collateral for the debts of affiliates and vendors as of February 29, 2008 and February 28, 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Buildings	¥1,021	¥1,096	$ 9,724
Land	2,032	2,363	19,352
Total	¥3,053	¥3,459	$29,076

Debts of affiliates and vendors for the pledged assets above as of February 29, 2008 and February 28, 2007 are ¥3,985 million ($37,952 thousand) and ¥4,025 million, respectively.

C. Other

As of February 29, 2008

The amounts of assets pledged as collateral for fund transfer and for real estate business are ¥27,525 million ($262,143 thousand) and ¥60 million ($571 thousand), respectively. The amounts of assets pledged as collateral for installment sales and sales of beneficiary right of trust are ¥1,877 million ($17,876 thousand) and ¥10 million ($95 thousand), respectively. In addition, ¥840 million ($8,000 thousand) of assets was pledged as collateral to secure the amount of prepaid tickets issued.

As of February 28, 2007

The amounts of assets pledged as collateral for fund transfer and for real estate business are ¥5,499 million and ¥60 million, respectively. The amounts of assets pledged as collateral for installment sales and sales of beneficiary right of trust are ¥2,210 million and ¥10 million, respectively. In addition, ¥794 million of assets was pledged as collateral to secure the amount of prepaid tickets issued.

(3) Litigation and securitization

As of February 29, 2008

A. Securitization of store properties

THE SEIBU DEPARTMENT STORES, LTD. ("SEIBU"), a consolidated subsidiary of the Company, established a real estate trust comprising of the land, land leasehold right and part of the buildings of a store and sold the beneficiary right of the trust to a Special Purpose Corporation ("SPC"). Concurrently, SEIBU has entered into a silent partnership arrangement with the SPC with a certain investment. Also, SEIBU leased back such store properties from the SPC who has the beneficiary right of the trust.

Under these arrangements, the above noted investment is subordinated to all liabilities to other members of the silent partnership and third parties other than members of the silent partnership.

A summary of the store name, amount of investment and the SPC name is as follows:

Store name	Amount of investment	SPC name
Ikebukuro	¥5,850 million ($55,714 thousand)	Asset Ikesei Corp.

Information about the SPC is as follows:

SPC name	Year-end	Total assets at the latest closing date
Asset Ikesei Corp.	July	¥124,867 million ($1,189,210 thousand)

As of February 28, 2007

A. Litigation

Sogo Co., Ltd. ("Sogo"), a consolidated subsidiary of the Company, reached an amicable settlement with Organization for Promoting Urban Development on November 22, 2006 and acquired the property of Kobe North Parking for ¥11,300 million on December 15, 2006.

B. Securitization of store properties

SEIBU, a consolidated subsidiary of the Company, established a real estate trust comprising of the land, land leasehold right and part of the buildings of a store and sold the beneficiary right of the trust to the SPC. Concurrently, SEIBU has entered into a silent partnership arrangement with the SPC with a certain investment. Also, SEIBU leased back such store properties from the SPC who has the beneficiary right of the trust.

Under these arrangements, the above noted investment is subordinated to all liabilities to other members of the silent partnership and third parties other than members of the silent partnership.

A summary of the store name, amount of investment and the SPC name is as follows:

Store name	Amount of investment	SPC name
Ikebukuro	¥5,850 million	Asset Ikesei Corp.

Information about the SPC is as follows:

SPC name	Year-end	Total assets at the latest closing date
Asset Ikesei Corp.	July	¥124,200 million

SEIBU repurchased the beneficiary rights of trusts of Shibuya-Movita store from Asset Movita for ¥9,491 million and the land and buildings were delivered to SEIBU on September 29, 2006. Also, SEIBU repurchased Sapporo, Funabashi and Shibuya-LOFT stores from Global Asset Ikesei Corp. for ¥39,440 million and the land and buildings were delivered to SEIBU on November 27, 2006.

15. NOTES AND ACCOUNTS PAYABLE: TRADE FOR FRANCHISED STORES

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

16. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

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

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Franchise commission from franchised stores	¥ 369,467	¥ 359,770	$ 3,518,733
Net sales of franchised stores	2,421,352	2,379,890	23,060,495

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Inventory valuation losses	¥3,477	¥6,911	$33,114

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Buildings and structures	¥4,091	¥1,117	$38,962
Land	2,169	1,367	20,657
Others	868	309	8,267
Total	¥7,128	¥2,793	$67,886

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Buildings and structures	¥3,580	¥ 7,457	$34,095
Furniture, fixtures and equipment	1,958	7,526	18,648
Others	2,943	3,799	28,028
Total	¥8,481	¥18,782	$80,771

(5) "Gain on donations received"

Gain on donations received recorded for the fiscal year ended February 29, 2008 was received in cash.

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Advertising and decoration expenses	¥115,789	¥111,231	$1,102,752
Salaries and wages	439,714	399,393	4,187,752
Provision for allowance for bonuses to employees	16,066	14,755	153,010
Legal welfare expenses	50,835	46,148	484,143
Land and building rent	244,575	227,783	2,329,286
Depreciation and amortization	136,111	125,795	1,296,295
Utility expenses	100,124	93,138	953,562
Store maintenance and repair	79,781	77,518	759,819

17. RELATED PARTY TRANSACTIONS

There was no related party transaction during the fiscal years ended February 29, 2008 and February 28, 2007.

18. SEGMENT INFORMATION

(1) Business segments

Fiscal year ended February 29, 2008	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Millions of yen								
Revenues:									
Customers	¥2,393,220	¥2,098,014	¥1,025,350	¥113,113	¥ 93,903	¥28,793	¥5,752,393	¥ —	¥5,752,393
Intersegment	2,482	11,036	5	867	24,053	7,860	46,303	(46,303)	—
Total revenues	2,395,702	2,109,050	1,025,355	113,980	117,956	36,653	5,798,696	(46,303)	5,752,393
Operating expenses	2,194,670	2,074,991	999,590	118,211	96,884	34,164	5,518,510	(47,205)	5,471,305
Operating income (loss)	¥ 201,032	¥ 34,059	¥ 25,765	¥ (4,231)	¥ 21,072	¥ 2,489	¥ 280,186	¥ 902	¥ 281,088
Assets	¥1,295,164	¥1,129,181	¥ 781,268	¥ 69,205	¥916,730	¥16,580	¥4,208,128	¥(321,448)	¥3,886,680
Depreciation and amortization	¥ 74,066	¥ 26,452	¥ 20,154	¥ 2,904	¥ 19,774	¥ 271	¥ 143,621	¥ 22	¥ 143,643
Impairment loss on property and equipment	¥ 9,621	¥ 3,943	¥ 4,192	¥ 2,275	¥ —	¥ —	¥ 20,031	¥ —	¥ 20,031
Capital expenditures	¥ 91,173	¥ 47,299	¥ 16,670	¥ 1,395	¥ 31,533	¥ 483	¥ 188,553	¥ 24	¥ 188,577

Fiscal year ended February 28, 2007	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Millions of yen								
Revenues:									
Customers	¥2,248,400	¥1,871,834	¥988,358	¥119,973	¥ 84,432	¥24,808	¥5,337,805	¥ 2	¥5,337,807
Intersegment	1,249	11,101	—	1,711	15,863	7,533	37,457	(37,457)	—
Total revenues	2,249,649	1,882,935	988,358	121,684	100,295	32,341	5,375,262	(37,455)	5,337,807
Operating expenses	2,043,559	1,853,765	961,585	120,752	75,747	30,719	5,086,127	(35,158)	5,050,969
Operating income	¥ 206,090	¥ 29,170	¥ 26,773	¥ 932	¥ 24,548	¥ 1,622	¥ 289,135	¥ (2,297)	¥ 286,838
Assets	¥1,221,548	¥1,118,594	¥811,465	¥ 78,639	¥896,116	¥11,831	¥4,138,193	¥(329,001)	¥3,809,192
Depreciation and amortization	¥ 71,800	¥ 24,070	¥ 19,042	¥ 3,454	¥ 14,174	¥ 134	¥ 132,674	¥ 19	¥ 132,693
Impairment loss on property and equipment	¥ 5,481	¥ 5,785	¥ 1,970	¥ 963	¥ —	¥ —	¥ 14,199	¥ —	¥ 14,199
Capital expenditures	¥ 81,557	¥ 43,516	¥ 92,531	¥ 4,117	¥ 31,823	¥ 242	¥ 253,786	¥ 77	¥ 253,863

Fiscal year ended February 29, 2008	Convenience store operations	Superstore operations	Department store operations	Food services	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Thousands of U.S. dollars (Note 3)								
Revenues:									
Customers	$22,792,571	$19,981,086	$9,765,238	$1,077,267	$ 894,314	$274,219	$54,784,695	$ —	$54,784,695
Intersegment	23,639	105,104	48	8,257	229,076	74,857	440,981	(440,981)	—
Total revenues	22,816,210	20,086,190	9,765,286	1,085,524	1,123,390	349,076	55,225,676	(440,981)	54,784,695
Operating expenses	20,901,620	19,761,819	9,519,905	1,125,819	922,704	325,371	52,557,238	(449,572)	52,107,666
Operating income (loss)	$ 1,914,590	$ 324,371	$ 245,381	$ (40,295)	$ 200,686	$ 23,705	$ 2,668,438	$ 8,591	$ 2,677,029
Assets	$12,334,895	$10,754,105	$7,440,648	$ 659,095	$8,730,762	$157,905	$40,077,410	$(3,061,410)	$37,016,000
Depreciation and amortization	$ 705,390	$ 251,924	$ 191,943	$ 27,657	$ 188,324	$ 2,581	$ 1,367,819	$ 210	$ 1,368,029
Impairment loss on property and equipment	$ 91,629	$ 37,552	$ 39,924	$ 21,666	$ —	$ —	$ 190,771	$ —	$ 190,771
Capital expenditures	$ 868,314	$ 450,467	$ 158,762	$ 13,286	$ 300,314	$ 4,600	$ 1,795,743	$ 228	$ 1,795,971

Notes:
1. The classification of business segments is made by the type of products and services and the type of sales.
2. Restaurant operations changed its segment name to food services from this fiscal year, as a result of recognization of food business due to the establishment of Seven & i Food Systems Co., Ltd.
3. Major businesses in each segment are as follows:
   - Convenience store operations .... Convenience store business operated by corporate stores and franchised stores under the name of "7-Eleven"
   - Superstore operations .... Superstore, supermarket and specialty shop
   - Department store operations .... Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, Ltd. and other companies included in the department store business
   - Food services .... Restaurant operations, meal provision services business (company cafeteria, hospital, school) and fast food operations
   - Financial services .... Bank, credit card and lease business
   - Others.. Electronic commerce business and other services
4. Unallocable operating expenses included in "Eliminations / corporate" represent the Company's general and administrative expenses, and totaled ¥6,791 million ($64,676 thousand) for the fiscal year ended February 29, 2008 and ¥9,198 million for the fiscal year ended February 28, 2007.
5. Capital expenditures exclude long-term leasehold deposits.

(2) Geographic area segments

Fiscal year ended February 29, 2008	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Millions of yen					
Revenues:						
Customers	¥3,821,899	¥1,864,450	¥66,044	¥5,752,393	¥ —	¥5,752,393
Intersegment	311	2,617	—	2,928	(2,928)	—
Total revenues	3,822,210	1,867,067	66,044	5,755,321	(2,928)	5,752,393
Operating expenses	3,574,937	1,835,484	63,816	5,474,237	(2,932)	5,471,305
Operating income	¥ 247,273	¥ 31,583	¥ 2,228	¥ 281,084	¥ 4	¥ 281,088
Assets	¥3,265,019	¥ 616,626	¥27,243	¥3,908,888	¥(22,208)	¥3,886,680

Fiscal year ended February 28, 2007	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Millions of yen					
Revenues:						
Customers	¥3,562,125	¥1,725,923	¥49,759	¥5,337,807	¥ —	¥5,337,807
Intersegment	248	2,559	—	2,807	(2,807)	—
Total revenues	3,562,373	1,728,482	49,759	5,340,614	(2,807)	5,337,807
Operating expenses	3,308,404	1,696,497	48,879	5,053,780	(2,811)	5,050,969
Operating income	¥ 253,969	¥ 31,985	¥ 880	¥ 286,834	¥ 4	¥ 286,838
Assets	¥3,162,320	¥ 662,673	¥21,039	¥3,846,032	¥ (36,840)	¥3,809,192

Fiscal year ended February 29, 2008	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Thousands of U.S. dollars (Note 3)					
Revenues:						
Customers	$36,399,038	$17,756,667	$628,990	$54,784,695	$ —	$54,784,695
Intersegment	2,962	24,924	—	27,886	(27,886)	—
Total revenues	36,402,000	17,781,591	628,990	54,812,581	(27,886)	54,784,695
Operating expenses	34,047,019	17,480,800	607,771	52,135,590	(27,924)	52,107,666
Operating income	$ 2,354,981	$ 300,791	$ 21,219	$ 2,676,991	$ 38	$ 2,677,029
Assets	$31,095,419	$ 5,872,629	$259,457	$37,227,505	$(211,505)	$37,016,000

Notes:
1. The classification of geographic area segments is made according to geographical distances.
2. "Others" consists of the business results in the People's Republic of China ("P.R.C.") as of February 29, 2008 and mainly in the P.R.C. as of February 28, 2007.

(3) Overseas sales

Fiscal year ended February 29, 2008	North America	Others	Total
	Millions of yen		
Overseas sales	¥1,864,450	¥66,044	¥1,930,494
Consolidated sales	—	—	5,752,393
Percentage of overseas sales to consolidated sales (%)	32.4	1.1	33.6

Fiscal year ended February 28, 2007	North America	Others	Total
	Millions of yen		
Overseas sales	¥1,725,923	¥49,759	¥1,775,682
Consolidated sales	—	—	5,337,807
Percentage of overseas sales to consolidated sales (%)	32.4	0.9	33.3

Fiscal year ended February 29, 2008	North America	Others	Total
	Thousands of U.S. dollars (Note 3)		
Overseas sales	$17,756,667	$628,990	$18,385,657
Consolidated sales	—	—	54,784,695
Percentage of overseas sales to consolidated sales (%)	32.4	1.1	33.6

Notes:
1. The classification of overseas sales area segments is made according to geographical distances.
2. "Others" consists of sales in the P.R.C. as of February 29, 2008 and mainly in the P.R.C. as of February 28, 2007.
3. "Overseas sales" represents net sales and other operating revenue of consolidated subsidiaries in countries and areas outside of Japan.

19. SUBSEQUENT EVENTS

1. Cash dividend

Subsequent to February 29, 2008, the Company's Board of Directors declared a year-end cash dividend of ¥26,778 million ($255,029 thousand) to be payable on May 23, 2008 to shareholders on record on February 29, 2008.

The dividend declared was approved by the shareholders at the meeting held on May 22, 2008.

2. Acquisition and cancellation of treasury stock

On April 10, 2008, the Company's Board of Directors approved the acquisition of treasury stock pursuant to Article 165-3 and Article 156 of the Japanese Corporate Law, and the cancellation of treasury stock thereby acquired, pursuant to Article 178 of the Japanese Corporate Law.

(1) Reason for the acquisition of treasury stock
  To improve shareholder value and capital efficiency
(2) Details of the acquisition
  (a) Class of shares to be acquired
    Common stock
  (b) Number of shares to be acquired
    Up to 50,000,000 shares, representing 5.23% of issued shares (excluding treasury stock)
  (c) Total amount of acquisition
    Up to ¥170,000 million ($1,619,048 thousand)
  (d) Scheduled period of acquisition
    From April 18, 2008 to June 30, 2008
  (e) Method of acquisition
    Purchase from the market
(3) Details of the cancellation
  (a) Class of shares to be cancelled
    Common stock
  (b) Number of shares to be cancelled
    Up to 50,000,000 shares, representing 5.23% of issued shares prior to cancellation (excluding treasury stock). All of the shares acquired as described above in item (2), will be cancelled.
  (c) Number of issued shares after cancellation
    906,441,983 shares (scheduled)
  (d) Scheduled date of cancellation
    July 31, 2008