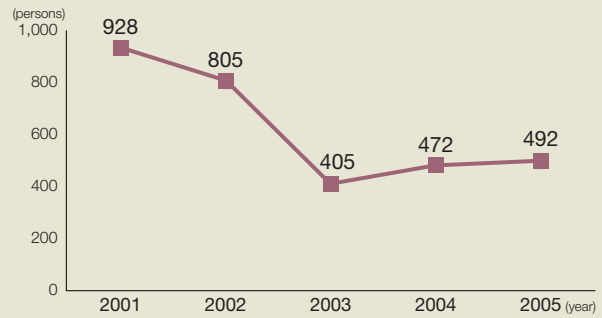


# Thoroughly Fair Trading



Three important measures prohibiting unfair trading practices by large-scale retailers are the Anti-Monopoly Act, the Subcontracting Act for preventing injury to subcontractor profits, and the Large-Scale Retailers Proclamation for the prevention of the abuse of the dominant bargaining position. Seven & i Holdings has created a system for ascertaining that no illegal actions or anti-social activities are taking place, and in addition has introduced organizations dedicated to maintaining thoroughly fair trading and conducts regular employee education on this topic.

Number of companies in violation of the Anti-Monopoly Act

► Fair Trade Committee "Summary of companies in violation of the Anti-Monopoly Act"



Stakeholder interests and concerns	Group efforts * Items accompanied by a logo are efforts specially noted for that company
Promoting CSR throughout the supply chain	We are creating a "Business Partner Action Guidelines" that cover items such as compliance with local laws, respect for human rights, proper employment practices, maintenance of a proper workplace environment, and environmental conservation.
Prohibiting unfair return of goods and unfair discounting	We ensure that business negotiations are recorded and that signed agreements are obtained from business partners, based upon prior agreement on purchasing terms. We prevent unfair practices by regular confirmation of business negotiation records.  2004: Inauguration of FT (Fair Trade) Sub-committee for promoting fair trading. -----  1999: Inauguration of FT (Fair Trade) Committee for promoting fair trading.
Prohibiting unfair requests for employee seconding	Terms must be sufficiently discussed with the business partner beforehand even in cases in which seconding is requested, and when it is necessary for the seconded employee to set out for display or sell products other than those of the business partner payment of a commission is to be provided for.

 Seven-Eleven  Ito-Yokado

## Promoting CSR Throughout the Supply Chain

**We are creating a business partner guidelines that covers legal compliance, respect for human rights, environmental conservation, etc.**

As economic globalization proceeds apace, companies are being requested not only to fulfill their own corporate social responsibilities, but also to ensure that their business partners throughout the supply chain practice environmental conservation, legal compliance, and maintain proper labor conditions. Seven & i Holdings is therefore drawing up a Seven & i Holdings Business Partner Action Guidelines, as a supplement to our Seven & i Holdings Corporate Action Guidelines.

The guidelines are based on a policy that Ito-Yokado has been pursuing for several years, and is being adjusted to make it appropriate for application by the entire group by revising the standards, range of

application and other items. It is planned to cover items such as respect for human rights, proper employment practices and maintenance of a proper workplace environment, environmental conservation, and information management, including compliance with local laws and international rules and prohibitions on the use of child labor and forced labor. Seven & i Holdings seeks to maintain the trust of our customers by gaining our business partners' understanding of and compliance with the guidelines.



Business negotiations with an overseas supplier

## Prohibiting Unfair Return of Goods and Unfair Discounting

**We ensure the recording of business negotiations and in-house audits, with prior agreement on purchasing terms as a basic rule.**

The law prohibits the return of products purchased from a supplier without prior agreement when the supplier is not at fault, as well as post-delivery requests for discounts without reasonable cause. Seven & i Holdings has created a system of rules and checking functions corresponding to the respective businesses of each of our operating companies so as to ensure compliance with the law.

Seven-Eleven concludes purchase agreements for nearly all products (with the exception of consignment items such as magazines), so other than in cases of product defect Seven-Eleven does not return products to suppliers. Purchase prices are worked out conclusively during business negotiations, and illegal behavior by purchasing managers is prevented through the creation of a system by which products and purchase prices cannot be recorded absent an invoice from the supplier.

Ito-Yokado and York-Benimaru both handle large amounts of seasonal products and products used in exhibitions, so there are cases in which products are to be returned after the sales period has concluded. In such cases prior agreement is reached with the supplier, and we have created a system whereby product returns cannot be made without a signed "Return Memorandum" from the supplier, thus preventing unfair product returns. Purchase terms are without exception noted in the "Business Negotiation Memo" that lists all items agreed upon, and the supplier's signature must be obtained for this document. In addition to these everyday actions, the Headquarters FT Committee Secretariat regularly examines the return memoranda and the business negotiation memos, responding immediately if problems are found.

Sogo and Seibu Department Stores have established Fair Trading Promotion Committees. Voluntary standards for fair trading have been created, and unfair returns and discounting are also prevented through internal auditing and employee education.

## Prohibiting Unfair Requests for Employee Seconding

**Terms must be sufficiently discussed with the supplier beforehand when seconding for the setting out of products for display, etc., is requested, and the seconding expenses must be provided.**

Seven-Eleven, Ito-Yokado, and York-Benimaru do have occasion to request assistance in opening new stores and remodeled stores, and in product sales. The terms in such cases, such as the work content and hours, are sufficiently discussed with the supplier beforehand, and illegal unilateral demands for employee seconding are prohibited.

Seven-Eleven notifies listed suppliers beforehand when a new store is to be built or an existing one refurbished. Supplier assistance and cooperation with franchisees is accepted only when agreement has been reached beforehand. Seven-Eleven follows these rules scrupulously, and in the 32 years since the company was founded there has not been a single legal infraction or directive handed down by the Fair Trading Committee.

Ito-Yokado and York-Benimaru also have occasion to request seconded employees from suppliers for assistance when opening new stores or doing major remodeling at existing stores. The usual purpose is for the setting out for display and sale of the supplier's products, but assistance may be sought with other products when necessary. In such cases a commission is paid to the supplier for each seconded employee, and meals and lodging are also supplied when necessary.

Sogo and Seibu Department Stores request assistance of inventory check from suppliers providing contract sales at store, as permitted by the Large-Scale Retailers Proclamation enacted in November 2005. In request for the assistance of inventory check we make a memorandum with suppliers in advance, and assure that participation is only by temp-staff working in our stores.

Denny's has no occasion for requests for secondees from suppliers covered by this law.

### Major Laws on fair trading

#### The Anti-Monopoly Act

The full name of this law is the Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade. The law seeks to prevent companies from engaging in improper trade restrictions and unfair trading practices.

#### The Subcontracting Act

The full name of this law is the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors. The law seeks to prevent parent companies from abusing dominant positions and injuring the profits of subcontractors.

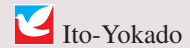
#### Large-Scale Retailers Proclamation

These regulations were established in November 2005 by the Fair Trading Committee. It prohibits large-scale retailers from engaging in actions that take unfair advantage of a superior bargaining position, such as "unfair return of goods" and "unfair discounting."



# Close Up

**We inaugurated organizations dedicated to fair trading in 1999 for through internal auditing of trading, as well as employee education.**

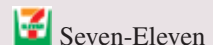


Ito-Yokado purchases from 6,077 business partners (as of February 28, 2006). We inaugurated the FT (Fair Trade) Committee in 1999 with the goal of maintaining fair trading relationships with this great number of business partners. The FT (Fair Trade) Committee is charged with regularly checking documents such as Business Negotiation Memos, which record the prearranged transaction terms and other items, Order Forms, and Return Memoranda, and in the event that a problem is found the proper response is made to the business partner and guidance is given to the person in charge. It also conducts in-house training of buyers and distributors twice annually.

The FT (Fair Trade) Committee provided guidance to buyers and distributors concerning the new laws and rules introduced by the Large-Scale Retailers Proclamation. As a result, there were no legal infractions or directives handed down by the Fair Trading Committee in FY2005.



**We are achieving thorough employee education and internal auditing through the FT (Fair Trade) Sub-Committee.**



The Seven-Eleven Product Department, which comprehensively manages all products handled by Seven-Eleven's 11,466 stores nationwide (as of the end of August 2006), purchases approximately 4,400 items annually from roughly 320 business partners. The Distribution Division, which manages products shipped to all stores from the Distribution Center, conducts transactions on an enormous scale every year. The FT (Fair Trade) Committee was inaugurated in April 2004 to check that this work is being conducted properly. The persons in charge at the Product Department and the Distribution Division also receive training and daily efforts are made to check on the details of business negotiations.

We held four study sessions in FY2005 for the persons in charge at each department (Product

Department buyers and Distribution Department distributors) who often make contact with business partners. Explanations were made of the details of the legal regulations, in particular the Large-Scale Retailers Proclamation enacted November 2005, and of examples of infractions that can easily occur in the course of trading, and guidance for thorough compliance with laws and regulations was provided. As a result, there were no legal infractions or directives handed down by the Fair Trading Committee in FY2005\*.

We will continue to comply with all laws and regulations and execute fair trading, and maintain equitable business relationships with business partners, from which personal profiteering has been eliminated.

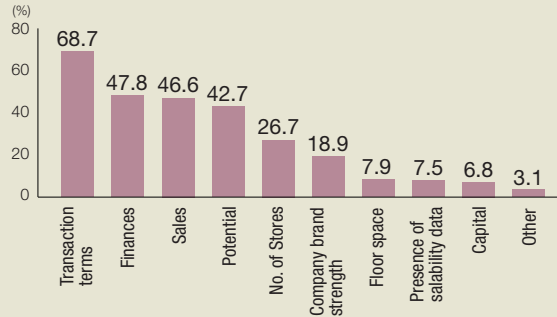
\* There were also no legal infractions or directives handed down by the Fair Trading Committee in FY2005 concerning fair trading by Sogo, Seibu Department Stores, York-Benimaru, or Denny's.

# Coexistence and Co-Prosperity with Our Business Partners

Coexistence and Co-Prosperity with business partners is indispensable to maintaining and developing sustainable business. A relationship of trust with business partners and tenants is particularly vital to retail businesses. It is with this philosophy in mind that Seven & i Holdings works with business partners to develop new products, and holds conferences with business partners with the goal of improving product quality. We share store management policies and information with the tenants we attract to our stores, and work together so as to make improvements.

## Factors considered by suppliers prior to trading with retailers

► Fair Trade Committee "Report Examining Current Relationships Between Large-Scale Retailers and Suppliers"



Stakeholder interests and concerns	Group efforts * Items accompanied by a logo are efforts specially noted for that company
Joint development and procurement of products	<p>We form teams, centering on the buyers from operating companies but also including outside staff such as suppliers, producers, distributors, and promoters, for "Team Merchandising" efforts to develop and procure original products.</p> <ul style="list-style-type: none"> <li> Joint development of "High Grade Chocolate" with a Belgian chocolate maker.</li> <li> Developing original products using the skills and techniques still found in every region in Japan.</li> <li> Joint development with suppliers of products that as department store products have high added value.</li> </ul>
Tie-ups with tenants	<p>We are sharing know-how about sales area creation and customer service techniques so as to strengthen ties with tenants (specialty shops) we attract to our stores.</p> <ul style="list-style-type: none"> <li> We hold educational seminars for the employees of tenants.</li> <li> We have started "Tenant Meetings" for sharing customer and selling know-how.</li> </ul>

Seven-Eleven Ito-Yokado Millennium Retailing, Inc.

## Joint Product Development and Procurement

The joint development with suppliers of "salable products" serves to expand the business of everyone involved.

Seven & i Holdings creates tie-ups with suppliers for "Team Merchandising" efforts to develop and procure original products, so as to bring our customers opinions and the latest trends to actual product development and create products that will please our customers. We form teams, centering on the buyers from operating companies but also including outside staff, each of whom exchanges and shares the latest information in their possession to develop and procure new products. This allows the rapid creation of

products that match up with customer needs and market trends, making it possible to line up with market and bringing about benefits such as preventing unsold goods and lack of stock. It is also tied in with improvements in the product development and production capacity of suppliers.

Ito-Yokado goes further to hold Product Quality Improvement Conferences geared toward improving the quality of existing products and preventing product defects, as well as providing support for the product development abilities and production capacity of suppliers. Henceforth we will create measures to strengthen information sharing between our operating companies and their suppliers, revise the quality standards for existing products, and hold quality improvement meetings, so as to extend the kind of efforts made by Ito-Yokado throughout the entire group.

Customers



Business Partners



Local Communities



Employees



Environment

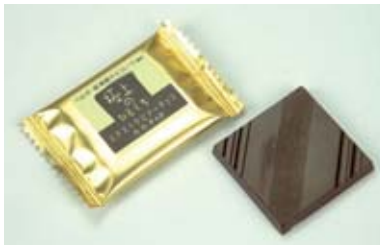




## Seven-Eleven

### We joined with a Belgian chocolate maker “premium sweets that adults can easily enjoy.”

Seven-Eleven launched “High Grade Chocolate” at a price of roughly ¥40~60 in September 2005. “High Grade Chocolate” is a “premium sweet that adults can easily enjoy,” developed in response to customers desiring “to enjoy sweets a little bit at a time.” This team merchandising was executed in conjunction with Barry Callebaut, a Belgian chocolatier, making it possible to for our customers to enjoy a richness and flavor previously available only at fine chocolatiers. “High Grade Chocolate” won a gold medal in the candy division at the “45th Monde Selection” international competition sponsored by the Federation of Japan Confectionary Associations in May 2006. This was the first time an original brand chocolate sold by a retailer has taken a prize in the Monde Selection.



“High Grade Chocolate” developed in conjunction with a Belgian chocolate maker



## Ito-Yokado

### Developing original products using the skills and techniques still found in every region of Japan.

Ito-Yokado launched its private “Made in Japan” brand, with the slogan “made with care, skill, and pride,” in May 2002. This brand employs the high degree of skill and artisanship that remains in every region of Japan, giving customers a chance to become reacquainted with the charms of true Japanese craftsmanship. We can in this way also contribute to the vitality of the manufacturers themselves and to the places throughout Japan where these products originate.

We changed the brand name for this line to MIJP47 (Most Important Japanese Products +47 regions) in FY2005. The places of origin were expanded to include 47 cities and prefectures. We select regions that are truly unique, and seek to create a wide lineup.

Currently about 80% of apparel sold in Japan is of Chinese origin, and we hope that through this brand our customers will rediscover the tradition of quality that remains in Japan. We can in this way also contribute to regional development in Japan.



Ito-Yokado's original “Fukushima Tailor-made Button Down Shirts.” These shirts have somewhat large 11.5mm-diameter buttons that make easier to button down. The shirt stripes, which use Japanese dye, are patterned perfectly on the body and sleeves.



## Millennium Retailing, Inc.

### Joint development with business partners of products that as department store products have high added value: “OASS (only at Sogo and Seibu)”

Sogo and Seibu Department Stores customers have requested goods that cannot be purchased anywhere else, so in 2004 we launched our brand “OASS (only at Sogo and Seibu)”. We carried out surveys based on age demographics in developing this product, for example with first baby-boomers classified as “middle” and second boomers as “career,” and shared the results with business partners in creating product concepts.

In women’s wear we have developed stretch pants that give a sleek silhouette while fitting comfortably, and walking shoes that are light and deliver an exercise benefit. We have developed soft and highly absorbent towels for our interior department, while our “In Search of the Origins” series of food products developed according to strict origin and production standards has been a big hit with customers.



Comfortable, sleek stretch pants



Light walking shoes that provide an exercise benefit

## Tie-Ups With Tenants

**Sharing know-how on store management and customer service for the increase in customers and business.**

In addition to maintaining our own sales areas in our larger Ito-Yokado, Sogo, and Seibu Department Stores, we also invite a wide variety of specialty stores (tenants) to set up shop. Tie-ups with these tenants and improvements in storewide customer service and response increases business for all, so each operating company strives for joint policies, information exchanges, and lively communications with tenants.

Ito-Yokado has made particular efforts in this area, launching the “Specialty Store Association” in the 1970’s, and currently holds monthly meetings of the “Store Managers Association” for discussion of management policies and other issues between store managers and the people running the specialty stores. Ito-Yokado also holds annual “Owners’ Meetings” so that the owners of the tenant stores have the opportunity to discuss their opinions and needs with us. There were 3,919 tenants representing 84 types of business in 181 Ito-Yokado stores as of February 28, 2006, and of these 3,814 are participating in the “Store Managers Association.”

Sogo and Seibu Department Stores also hold monthly “Tenant Managers Meetings,” where information about storewide management policies and plans is shared. The “Mystery Shopper” monitoring survey was also conducted in October 2005, focusing on shopping center stores (a total of 427 tenants). The results were used in discussions of improvements that could be made in sales and customer service, and tenant employee training and business support is being implemented where needed. 1,126 tenant shops were operating in 28 Seibu Department Stores as of August 2006.



Tenant employee training underway at Sogo

## Ito-Yokado

**We support training for all tenant employees by inviting outside trainers, etc.**

The “Specialty Store Association” provides regular seminars for tenant employees with the goal of improving store management and customer service throughout the shopping center. Lecturers were invited for study sessions at 10 large-scale shopping centers in FY2005. Approximately 800 employees working at tenant shops participated in customer service, product display, and practical training. Participants reported “improved customer service by employees,” “improved sales,” and “an increase in compliments about our customer service.” This training provides support to tenants that need to put more time and effort into employee education, and similar education seminars are planned for other shopping centers in FY2006.

## Millennium Retailing, Inc.

**Our shopping mall stores have set up a Tenant Association, and are working to improve CS (customer satisfaction) throughout the entire mall.**

Sogo and Seibu Department Stores have set up “Tenant Associations” in five shopping malls (Chiba Sogo Aurora Mall Junnu; the Takatsuki, Yao, Otsu, and Higashi Totsuka Seibu Department Stores) for the cooperation of all tenant companies in improving CS (customer satisfaction). The Tenant Associations share store management policies and sponsor joint training in customer service and sales management through the annual “General Tenants Meeting” and the monthly “Tenant Managers Meeting.” In the future we plan to use the results of purchasing trend analyses gained through the Club On Card and Millennium Card systems to strengthen our approach to customer service and provide support for improved tenant management.

Customers



Business Partners



Local Communities



Employees



Environment

