Breaking New Ground in Retail

An Interview with the President

In this challenging operating environment, what challenges does the Seven & i Holdings Group face? And what strategies will the Group implement?

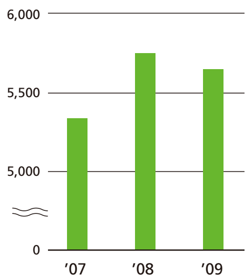
In this section, President and Chief Operating Officer Noritoshi Murata explains how the operating environment has presented the Group with new challenges, the initiatives that the Group will take to strengthen its operating foundation, and the future direction that Group management will take in the years ahead.

An Interview with the President

Breaking New Ground in Retail

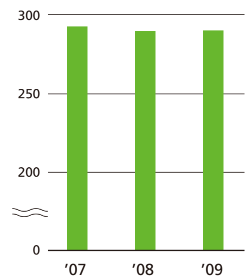
Revenues from Operations

¥ Billion



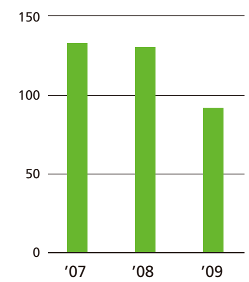
Operating Income

¥ Billion



Net Income

¥ Billion



Results in the Past Fiscal Year

Q1 How was the Company able to achieve growth in operating income in such a challenging market environment?

A1 Due to deteriorating global economic conditions, domestic superstores and department stores faced sluggish demand for apparel and high-priced items. However, convenience stores and financial services recorded favorable results, and consequently we achieved higher operating income.

The reasons for this favorable performance included a substantial increase in sales in domestic convenience store operations, where total store sales, which comprise corporate and franchised store sales, were up 7.3%, to ¥2,762.6 billion. The influence of *taspo**1 also provided a certain degree of support for higher sales. However, sales at existing stores were up 5.2%, which means that we recorded a gain even after excluding the *taspo* effect, which was 4.9%. In addition, aggressive store openings and scrap-and-build initiatives also played a key role in our results. We had success with a number of specific measures. These included the introduction of in-store fryers*2 and a focus on sales of the Group's *Seven Premium* private-brand products. In addition, the newly launched *Seven-Eleven Net* complements in-store product lineups and enables orders to be picked up at stores.

We also achieved higher profits in convenience store operations in North America, where retail businesses were slow across the board. This success was attributable to steps to activate existing stores, such as a continued focus on the development and sales of fast foods and other differentiated products.

Another factor was the contribution made by substantial growth in operating income in financial services. Seven Bank, which develops ATM operations, moved ahead with installations of ATMs inside and outside the Group. Consequently, the ATM network expanded steadily and, accompanying enhanced services and increased recognition, the number of ATM transactions increased. This made a major contribution to the substantial growth in profits.

*1. A system to verify that the users of cigarette vending machines are adults. The system was introduced with the objective of preventing underage smoking. Purchasing cigarettes from vending machines that utilize this system requires the use of the *taspo* IC card for age verification.

*2. Custom-made fryers used in the preparation of Seven-Eleven original fried foods.

Future Management Strategies

Q2 What direction will the Group's management take in the challenging retail environment?

A2 The global financial crisis is expected to worsen, and there is cause for concern about further declines in business conditions. The operating environment in the retail industry is likely to remain challenging. To record steady growth no matter how difficult the environment, we need to invest aggressively in businesses with growth potential and to implement fundamental structural reforms in the businesses that are struggling. In other words, moving forward, we will follow growth strategies in convenience stores, food supermarkets, and financial services and implement structural reforms in domestic superstores, department stores, and food services. In the fiscal year ending February 2010, we will rigorously advance these initiatives. In particular, in implementing growth strategies, we will aggressively open convenience stores in the domestic market. Centered on new regions and urban areas, we intend to open 1,000 stores in the current fiscal year, a record high for store openings. In food supermarkets, meanwhile, we will reorganize and consolidate the Group's food supermarket operations, and at the same time, through aggressive store openings, we will rapidly work toward a domestic network of 300 stores, aiming to expand our market share in the regions that we serve.

In terms of new growth drivers, I believe it is important for us to draw on our unique characteristics as a corporate Group encompassing a wide range of business formats in order to strengthen synergy initiatives and take on the challenge of new growth opportunities.

In the fiscal year ending February 2010, we forecast revenues from operations of ¥5,313.0 billion, down 6.0% year on year, due in part to the appreciation of the yen, which will have an expected negative effect of about ¥130.0 billion on the consolidation of operations in North America. In operating income, there will also be some negative factors, including the appreciation of the yen, which will have a negative effect of about ¥3.5 billion; an increase in the amortization of goodwill due to a change in accounting standards, which will be about ¥7.5 billion; and an increase in pension expenses of about ¥8.0 billion due to weak investment performance. Nonetheless, we forecast operating income to increase 1.1% year on year, to ¥285.0 billion. Net income for the year is forecast at ¥123.0 billion, an increase of 33.2%.

Operating Strategies in Existing Businesses

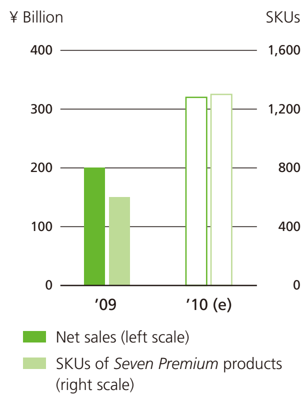
Growth Strategies	Restructuring Initiatives
Convenience Store Operations	Domestic Superstore Operations
Food Supermarket Operations	Department Store Operations
Financial Services	Food Services
Aggressive expansion strategy	**Bolster constitution through structural reform**

Q3 Would you discuss examples of Group synergy initiatives and the process of taking on the challenge of new growth opportunities?

A3 Merchandising will play a key role in our efforts to leverage Group synergy effects. We are in a period when retailers have to provide products with value for customers, that is, products with high value at reasonable prices. If we don't, we won't earn the support of consumers. In this environment, I believe that it is important to leverage the know-how and infrastructure of each Group company and adjust the price to a level that customers consider to be reasonable, and to do that without lowering quality. Accordingly, in expanding Group synergies, *Seven Premium* will be one of our core strategic initiatives. We will continue to focus on expanding our lineup through the development of new *Seven Premium* products and on maintaining and increasing quality through the renewal of existing *Seven Premium* products. At the same time, we will take steps to expand sales channels, such as selling *Seven Premium* products at department stores and AIN PHARMACIEZ stores. We will also take on the challenge of implementing a product strategy that makes full use of our economies of scale, such as joint procurement of products and raw materials among Group companies and joint sales promotions with major manufacturers.

Furthermore, in taking on the challenge of new business opportunities, we have positioned the fiscal year ending February 2010, as the "First Internet Year for the Group," and the entire

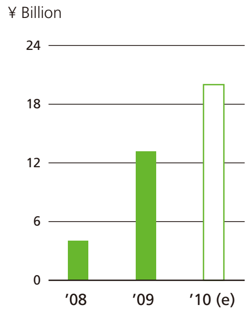
Results of
Seven Premium Products



Positioning of Private-Brand Products

Group will work to drive growth in Internet businesses. With trends toward fewer children per family and an aging population, increasing numbers of women in the workforce, and a growing focus on saving time, the Internet business market is expected to record steady growth, even in a period of sluggish consumer spending. The Group will expand its two points of entry to IT-related business. The first comprises *Seven-Eleven Net* and *Net Supermarket*, which integrate real stores and the Internet. The second is pure e-commerce, which offers a wide range of products over the Internet. In particular, the Group's infrastructures, such as its store network and distribution capabilities and customer loyalty, are an overwhelming asset. We expect this business model, which leverages the integration of real and virtual stores, to record substantial growth in the years ahead.

Net Sales of
Net Supermarket



Overview of *Seven-Eleven Net*

Nationwide Network of about 12,000 7-Eleven Stores

- Products ordered over the Internet can be picked up at the nearest 7-Eleven store four days later.
- There are no delivery charges or other fees for in-store pickup.
- The product lineup, which is gradually being expanded, currently has about 3,000 items, centered on alcoholic beverages.

Overview of *Net Supermarket*

Nationwide Network of about 90 Ito-Yokado Stores

- Products ordered over the Internet are delivered on the same day or the next day (minimum of three hours).
- The preferred delivery time can be selected from among five time slots per day (two-hour slots).
- Including products advertised on flyers, the lineup includes about 30,000 items, centered on food and daily products.

Net Supermarket
Products that have been ordered are selected at the sales area.

Future Operating Strategy

Q4 In domestic convenience store operations, there is concern about a rebound from the favorable *taspo* effect. In this regard, would you discuss the Company's strategy for the fiscal year ending February 2010?

A4 I believe that there will not be any negative rebound from the *taspo* effect. The reason is that even now, a year after its introduction, the *taspo* IC card has not been adopted very widely. In other words, we are seeing a trend where customers who start to buy cigarettes at convenience stores subsequently continue to do so. In fact, accompanying the shift of cigarette purchases to convenience stores, the number of vending machines is expected to decrease. It seems that customers are steadily shifting to convenience stores.

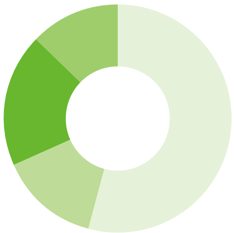
On the other hand, a key factor in achieving steady growth in convenience store operations, which are a pillar of the Group's profits, will be the additional purchases made by customers who come into the store for cigarettes. To that end, convenience stores will have to provide new products that exceed the limits of the common convenience store lineups. Actually, sales of freshly cooked fast food products prepared with in-store fryers, which were expanded in the fiscal year ended February 2009, are recording steady growth.

We will also strengthen sales of a variety of products in addition to fast foods. For example, we will strengthen products that are frequently used in daily life, but have not been widely purchased at convenience stores because the price has been much higher than at supermarkets. In particular, women in their 40s to 50s have not traditionally been core customers of convenience stores. Targeting these customers, we will strengthen lineups of and review the pricing for processed foods, such as seasonings and frozen foods, and for sundries, such as detergents. As for specific initiatives, we will strengthen the lineup of *Seven Premium* products, which offer high quality and reasonable prices in these fields, while at the same time working to reduce prices of national-brand products through price negotiations with manufacturers, thereby making them even more attractive to customers. These are examples of how we can utilize the advantages of being close and convenient.

Moreover, in addition to the development of limited regional products through collaboration with local governments and the development of products through collaboration with TV personalities, we will strengthen Internet sales using our infrastructure of about 12,000 stores. Moving forward, we will continue to focus on initiatives targeting the latent potential of convenience stores, thereby realizing steady growth for these operations as a key pillar of the Group's profits.

Ito-Yokado Stores by Sales Floor Space

Square meters



Q5 Some investors are concerned about domestic superstore operations, which are slated for restructuring measures. How will the Company handle the superstore business?

A5 In the case of Ito-Yokado, we will continue to expand the food division, which is a key source of profits and has earned strong support from customers. On the other hand, in apparel, the profitability of large stores in good locations has remained high, but challenges are faced by medium-sized stores, where lineups are not as extensive.

To reform the apparel division, we must reevaluate our prices in line with quality and design and rebuild the production system. Accordingly, we will work to strengthen the development of basic products that feature both high quality and reasonable prices, and to achieve that goal, we will implement a further shift to overseas production.

We will also work to reform our cost structure. In the fiscal year ending February 2010, we will strive to raise productivity per employee without resorting to workforce reductions to achieve short-term profit gains. At the same time, by thoroughly trimming unnecessary sales promotion expenses and store-related costs, we will reduce costs by ¥8.0 billion year on year.

Furthermore, reform measures for medium-sized stores will include conversions to THE PRICE, a discount store format. THE PRICE has generated favorable results, including recovery of investment and generation of profits from an early stage. In the fiscal year ending February 2010, we plan to convert 20 stores to this format.

Moreover, if there is no expectation of a recovery in a store's profits even if we implement these measures, we will close the store.

Overview of the Conversion of Ito-Yokado Stores to New Formats

Discount Store	
THE PRICE	**THE PRICE** • THE PRICE provides low-priced products, centered on food. • As of the end of April 2009, 7 stores had been opened.
Urban-Style Home Center	
7 Home Center	**Seven Home Center** • These urban-style home centers offer lineups focused on household-related goods that are needed in daily life. • The first store was opened in November 2008 within an existing store.

Q6 Would you discuss the Company's future strategy regarding department store operations, which you began to reform from the fiscal year under review?

A6 Recently, department stores have been losing middle-income customers at an accelerating pace, and conditions remain difficult. To break through these challenges, it is important that we have lineups of products that are frequently used in daily life while maintaining the traditional levels of prestige. In particular, large numbers of customers visit major terminal department stores, and many stop at the store on their way home from work. Accordingly, we need to substantially change the food lineup. In household goods, we will shift from the current emphasis on products for use as gifts to a varied lineup of daily-use products, thereby making store visits more enjoyable for customers.

In this endeavor, we can effectively use the know-how of the Group, which has special strengths in daily items, centered on food. For example, we can leverage cooperation with Ito-Yokado and York-Benimaru in food and Ito-Yokado and THE LOFT in household goods. Also, we are considering tests of store openings by the Group's specialty stores; while using our strengths as a comprehensive retail group, we will strive to create new department stores.

We will also implement organizational improvement measures. In August 2009, Sogo, SEIBU, and Millennium Retailing will merge. We will strive to raise profit-generating capacity by realizing cost reductions through the consolidation of head office functions, and by focusing management resources on SEIBU Ikebukuro, the flagship store of SEIBU, which has especially high sales capabilities. In Japan, suppliers have a significant degree of control over department store product lineups. In general, large stores tend to have strong product lineups, while medium-sized stores have comparatively weaker lineups. As one measure to resolve this issue, Sogo and SEIBU will leverage their store networks, centered on their five largest stores by sales, to increase the strength of their position in negotiating with suppliers.

We will also advance cost reductions and, at the same time, consider store closures and format conversions for unprofitable stores. As one facet of those activities, in August 2009, we will close Sogo Shinsaibashi, which has recorded substantial losses since it was opened. Furthermore, we will also conduct rigorous checks of other stores and implement prompt responses.

SEIBU Ikebukuro

Sogo Yokohama

Sogo Chiba

Oshman's Japan in Sogo Chiba

Initiatives Targeting Group Synergies in Department Store Operations

October 2008
• Group Synergy Project launched in Millennium Retailing
January 2009
• SEIBU Fresh Food Project launch
• Fresh food initiatives at SEIBU Ikebukuro (dispatch of personnel from Ito-Yokado and York-Benimaru)
February 2009
• Start of sales of *Seven Premium* products at SEIBU Ikebukuro
Initiatives in Fiscal 2010
• **Apparel project launch:** Work with Ito-Yokado in joint material procurement
• **Household goods project launch:** Strengthen lineup in categories other than gifts through cooperation with Ito-Yokado and THE LOFT
• **Seven Culture Network start:** Strengthen community school business and travel business
• **Group specialty store utilization:** Akachan Honpo, Oshman's Japan, etc.

Q7 Please outline the direction of the global strategy.

A7 In overseas convenience store operations, 7-Eleven is the number one chain in the world, with about 36,000 stores. Targeting the establishment of a network with 40,000 stores, we will bolster our efforts to enhance the value of the 7-Eleven brand. We place a high priority on the distinctive characteristics and culture of each region. On the other hand, in regard to store management and the product development framework, Seven-Eleven Japan's (SEJ's) advanced know-how is shared with licensees in each region, thereby raising the overall level. As one facet of these initiatives, in March 2009, we held the Licensee Leader Summit in Japan for the first time, bringing together the area licensees from 15 countries and regions.

Licensee Leader Summit

In North America, we will further advance the conversion of existing corporate stores to franchises, and we will improve the profit structure. Also, centered on A-type stores, which have a high investment efficiency, we will aggressively open stores and further expand the store network.

In China, in comparison with other chains, we have vastly higher daily sales in Beijing. This is an example of how our store management know-how has been effectively applied. Now, we will prepare for future store openings through franchises. Also, while using the know-how cultivated in Beijing, we will advance store openings through area licensees. As one part of these efforts, in April 2009, we commenced store openings in Shanghai through area licensees.

Superstore in Beijing

In regard to overseas superstore operations, we have superstores in Beijing and Chengdu, China. In both locations, we are recording favorable results by meeting the needs of local customers. Unlike other foreign retailers, we are offering high-quality lineups and services. China, which is heading toward further modernization, represents a major growth opportunity for the Company. We will continue to aggressively hire local staff and develop human resources. At the same time, we will take steps to offer products and services that meet customer needs, such as boosting sales of safe and secure fresh foods.

Overview of Licensee Leader Summit in Japan

- Designed to foster shared awareness of the current initiatives in SEJ's logistics, information systems, and product development
- Area licensees from 15 countries and regions participated
- Schedule: March 30, 2009 to April 3, 2009

Purpose

- Introduce SEJ's know-how
- Global improvement of quality and standardization of quality for 7-Eleven worldwide
- Mutual understanding of the Company's expectations

Financial Strategy and Returns to Shareholders

Q8 Would you describe the Company's approach to financial strategy and shareholder return?

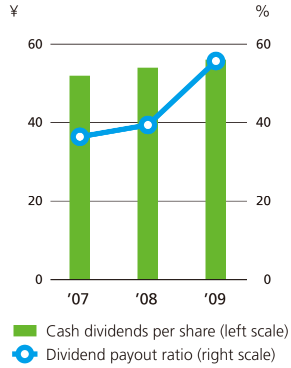
A8 In regard to shareholder return, we will work to maintain a consolidated dividend payout ratio of 35%. We emphasize accrual-basis profit in making decisions about dividends, but we also give consideration to cash-basis profit. In the fiscal year ended February 2009, for example, net income was down about 30%, but we decided to pay dividends that were about ¥2 per share higher than initial forecasts. This was because we took into consideration our results after the exclusion of non-cash losses. We emphasize the provision of a return to shareholders through dividends, and since the Company's establishment, we have increased dividends for three consecutive years.

We have also taken other steps to provide a return to shareholders. In the fiscal year ended February 2009, for instance, we acquired and cancelled 50 million shares of treasury stock at a cost of ¥157.9 billion. In the future, we will continue to respond flexibly while maintaining a balance with our financial position.

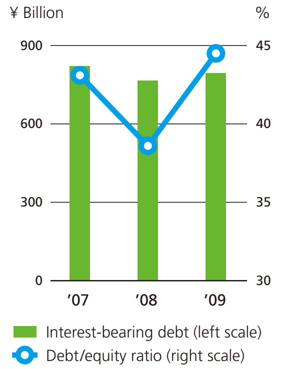
In the past, it has been our fundamental policy to maintain a sound balance sheet, and as a result, we now have a strong financial position that enables us to focus on our operating activities, even in the midst of the current financial crisis. Moving forward, we will continue to strengthen our financial foundation, following a basic principle of funding needed investment with profits generated from operating activities. If we have the opportunity, we will engage in M&A activities that will foster future growth.

The Company uses ROE as one of its key management indicators. We will aim for ROE of more than 8% in the fiscal year ending February 2011, and to achieve that growth, we will fundamentally work to bolster our earnings power.

Cash Dividends per Share
Dividend Payout Ratio



Interest-bearing Debt
Debt/Equity Ratio



Future of Domestic Retail Market

Q9 Finally, as a leading retail company, what is the Company's position on the future of the domestic retail market?

A9 The future course of the retail market in Japan will be characterized by contraction in market scale. In particular, the trends toward fewer children per family and an aging population will be influential. On the other hand, the future of Japan's economy will be marked by growth accompanying the rise of knowledge industries, which play a key role in intellectual productivity. In the midst of these changes, price has become a major factor driving consumption, but value will become more important in the years ahead. In other words, the pursuit of value is an important strategy for the survival of the Company. Companies that survive will have substantial opportunities for further growth.

Accordingly, Seven & i Holdings will leverage its stable financial position and take steps to further strengthen its profit foundation. At the same time, we will make full use of Group infrastructure, specifically our 13,800 stores in Japan, which are visited by 15 million customers a day, and our 37,300 stores around the world, which are visited by 36 million customers a day. In this way, we will provide high-quality products and services. In addition, we will leverage synergies by drawing on our distinctive strengths as a unique retail group encompassing a wide variety of business formats. In this way, we will reinforce our position as the leading retailer in Japan, the world's second largest consumer market.