SPECIAL FEATURE

A New Approach To Meet Changing Customer Needs

With the needs of customers continually changing, the Group is striving to establish "a new, comprehensive lifestyle industry" that creates new value. In this section, we introduce the challenges that the Group will take on as it targets the provision of products that incorporate timely new concepts and enhanced quality.

CONVENIENCE STORE OPERATIONS

APPROACHES TO CONVENIENCE STORE OPERATIONS: 1

Seven-Eleven Japan (SEJ) will implement policies targeting the realization of the best in "close by convenient stores."

Domestic convenience store operations are being influenced by a number of changes in the operating environment. Accompanying these changes, there is a growing need for "close by convenient stores" offering product lineups and services to meet these needs. Later in this section, we introduce SEJ's efforts to transform these changes into opportunities for growth.

Changes in the Operating Environment in Domestic Retail Industry

In a reflection of changes in the population structure and in consumer lifestyles, the operating environment in the domestic retail industry is undergoing dramatic change. With a population aging more rapidly than any other in the world, there has been an increase in the number of seniors for whom transportation is an inconvenience. At the same time, there is a rapid decline in the number of people per household, and consequently there is a growing need for single-portion meals. In addition, more women are working outside the home. With the number of women in their forties who are working at more than 70%, there is a trend toward limited time for housework. On the other hand, since 1982, the number of retail stores, centered on small and medium-sized stores, has continued to decline, falling by about 30% by 2007.

Due to these types of changes in the operating environment, we are approaching these changes as opportunities, and are working to ensure that our "close by convenient stores" can eliminate the inconvenience of shopping for these consumers.

Increase in the Number of Customers who Consider Shopping to be Inconvenient

Decline in number of people per household Number of households expected to surpass 50 million by 2015	**Increase in number of working women** Employment rate of women in their forties exceeds 70%
Fewer children per family, aging population Seniors (65+) to account for 26.9% of population in 2015	**Decline in number of stores** 1.72 million in 1982 ➡ 1.13 million in 2007

Aiming to Offer the Best in "Close by Convenient Stores"

In response to the changes in the social structure in recent years, SEJ has worked to bolster its provision of products and services through "close by convenient stores." To that end, SEJ has worked to increase customer store visits and the number of items purchased by reevaluating its product lineups, prices, and services. The core concepts in those endeavors are "offering meal solutions" and "enhancing the provision of services that meet customer needs."

In meal solutions, we are not only working to meet needs for immediate consumption, such as fast foods, but also developing products and expanding product lineups to meet changing customer needs, such as the ability to do all of one's shopping at close by stores and to reduce the time required for cooking. In fact, by enhancing our offerings of products that enable customers to enjoy the taste of freshly prepared foods—such as croquettes and deep-fried chicken prepared with in-store equipment—SEJ has seen an increase in store visits by housewives, who had not been a core customer base in the past. In addition, we have enhanced the lineup of *Seven*

Approach to Product Lineups

Premium products, the Group's private brand that offers both high quality and low prices. These initiatives have been centered on frozen foods and *sozai* prepared dishes in retort pouches. Consequently, these products can be stored for extended periods of time and customers can stock up on them. In this way, we have been able to combine attractive pricing and convenience and to achieve increases in the number of items purchased.

In regard to "enhancing the provision of services that meet customer needs," we are taking such steps as enhancing a variety of ticket services, including our alliance with PIA Corporation. In these ways, we will encourage customers to visit our stores.

Enhancing Services

Major services currently available

- Payment acceptance services for public utility and other bills
- ATMs
- Seven Meal Service (meal delivery service)
- *nanaco* electronic money service
- *Seven-Eleven Net* services centered on 7-Eleven stores and provided through the Internet

Major services available from 2010

March	Sales of reserved seat tickets (professional baseball games, express buses)
April	Exclusive advance sales of "a-nation" tickets (largest outdoor music event in Japan)
May	Government services (certificates of residence, certificates of seal registration)
June	Tie-up with PIA Corporation in ticket services

APPROACHES TO CONVENIENCE STORE OPERATIONS: 2

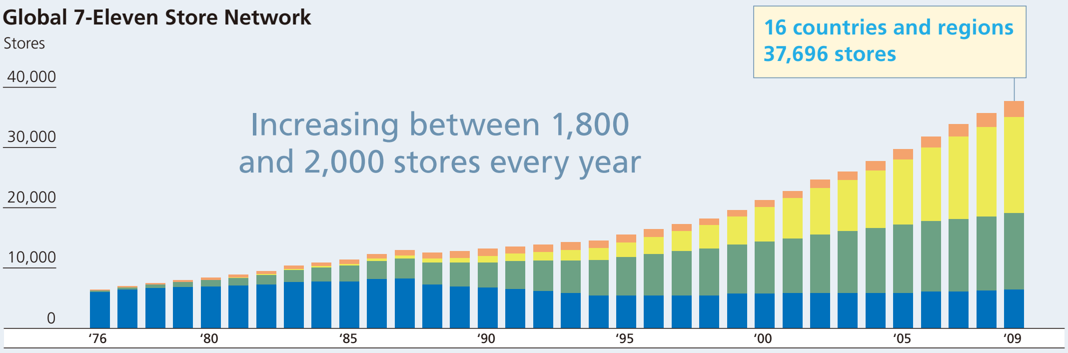
We will take on the challenge of advancing the joint use of operational infrastructure and establishing global 7-Eleven brand strength.

The number of 7-Eleven stores has been increasing at a pace of about 1,800 to 2,000 stores a year, and there are now more than 38,000 7-Eleven stores around the world, making 7-Eleven the largest retail store chain in the world. In this section, we will introduce the initiatives on a global scale that utilize the global 7-Eleven network.

The Goals of the International Licensee Summit

Until now, the licensee operations of 7-Eleven, Inc. (SEI), had primarily entailed the provision of trademark rights to licensees. Moving forward, however, SEI and SEJ will work together to establish a support system for area licensees in each country. From March to April 2010, for the second consecutive year, we held the International Licensee Summit in Japan. This summit was a global meeting for the leaders of area licensees from countries around the world. The objectives of the licensee summit included the sharing of information with area licensees, primarily in regard to SEJ's operational infrastructure related to merchandising, store facilities, store operations, and information/distribution systems. With consideration for the specific situation in each country, such as employment conditions, we will bolster the competitiveness of stores in each country and aim to bolster the brand strength for 7-Eleven overall by allowing area licensees to use SEJ's strong operational infrastructure.

Global 7-Eleven Store Network



Note: As of the end of December, excluding figures for Japan which are as of the end of February of the following year.

GROUP MERCHANDISING

OUR APPROACH TO GROUP MERCHANDISING

We will actively leverage a wide range of tangible and intangible resources, both inside and outside the Group, in order to provide original products that offer both high quality and reasonable prices.

Targeting the provision of products that incorporate timely new concepts and enhanced quality, the Group will continue to take on the challenge of developing private-brand products through Group Merchandising and Global Merchandising initiatives. In development, by transcending organizational boundaries and focusing the capabilities of companies throughout the Group, we have created products that meet the preferences of customers. The Group has positioned its private-brand strategy as an important element in the expansion of Group synergies, and accordingly the entire Group is working together to aggressively implement private-brand initiatives.

Seven Premium Private-Brand Products

Since we launched the first *Seven Premium* private-brand product in 2007, we have steadily expanded the number of SKUs, reaching a total of 1,035 SKUs as of the end of February 2010. *Seven Premium* products offer quality equivalent to or better than that of national-brand products at reasonable prices, and as a result, sales have recorded favorable growth. In the fiscal year ended February 28, 2010, we reached the sales target that we announced when the brand was launched in 2007—¥320.0 billion. In further developing *Seven Premium*, we will continue to focus on the development of new products, and will also step up the improvement of existing products. Moreover, due to the effective use of the Group's sales capabilities and precision ordering know-how, with *Seven Premium* we have had only a very small amount of markdown losses. As a result, *Seven Premium* has contributed to higher profitability. Moving forward, we will leverage this approach. With consideration for the possible integration of product procurement on a Groupwide basis, we will also bolster initiatives with national-brand manufacturers.

Global Merchandising

YOSEMITE ROAD, a California wine

In November 2009, we launched YOSEMITE ROAD, a California wine that marked the first product developed through Global Merchandising activities. With Global Merchandising, we utilize the know-how and infrastructure of Group companies in Japan and overseas. The YOSEMITE ROAD development project grew out of the International Licensee Summit, which was held in March and April 2009. At the summit, we shared information about the major success of *Seven Premium* products in Japan. With operating companies in Japan and the United States making joint use of the infrastructure in each country, such as materials, raw materials, and distribution, we were able to take full advantage of global economies of scale in the development of YOSEMITE ROAD. We are now forecasting annual sales of 3.5 million units, a substantial increase from the 3.0 million units that we initially planned.

In the future, we will continue to focus resources on the development of private-brand products that utilize the Group's global infrastructure, and will expand the number of products developed through these initiatives, with consideration for the possibility of sales at 7-Eleven stores around the world.

Premium Life Enhancement Committee Website

Premium Life Enhancement Committee

With the objective of directly reflecting customer feedback in product development and improvement, we launched the Premium Life Enhancement Committee website in July 2009. Through this site, customers can contribute their opinions and requests regarding *Seven Premium* products. In product development activities, the *Seven Premium* development team has drawn on the information obtained through this site and through communications with registered site members. In January 2010, we started to sell *Seven Premium* croquettes, the first product developed through these initiatives.

Moving forward, to further enhance customer satisfaction, the Group will also use this site for the improvement of existing products.

NEW MARKETS

OUR APPROACH TO OPENING UP NEW MARKETS

We will strive to transition to the next growth stage by opening up new markets to meet emerging customer needs.

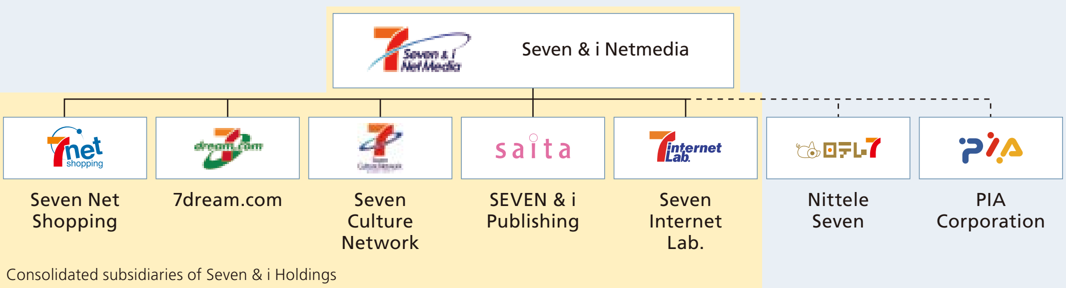
The Group is implementing ongoing initiatives targeting long-term growth. These include increasing the profitability of existing operations as well as opening up new sectors of Japan's e-commerce market, which we have positioned as a growth opportunity. Approaching 2010 as a year for the full-scale leveraging of its IT/services operations, the Group will focus its resources on discovering new business opportunities and fostering demand.

The scale of the mail order market is expanding rapidly, even in an environment marked by consumption saturation. In particular, the market for consumer-oriented e-commerce, such as sales through the Internet and mobile phones, is growing at a double-digit pace. In entering the e-commerce market, the Group's store network will be a key strength. Our network includes about 14,200 stores in Japan, including convenience stores, superstores, food supermarkets, department stores, and restaurants, which receive about 15 million customer store visits per day. Another key strength will be the solid credibility that actual stores have with customers. The Group will leverage these strengths as it advances its e-commerce operations, centered on the fields of Internet sales and store-based Internet services. These initiatives will be implemented under the leadership of Seven & i Netmedia, an intermediate holding company that was established in July 2008.

In the field of Internet sales, we will integrate existing Internet sales operations that have been independently operated by the Group companies. Through *Seven Net Shopping*, a new Internet shopping site, we will build a new business model combining the Group's actual stores and Internet services.

In the field of store-based Internet services, the stores of the Group companies will be used as bases for the expansion of a service that enables customers to order products over the Internet and have them delivered to their home, or nearby Seven-Eleven stores. In addition to Ito-Yokado's *Net Supermarket* and SEJ's *Seven-Eleven Net*, in November 2009 Sogo & Seibu launched *ikeseikirei*, an Internet shop for cosmetics and related products. In these ways, we will determine the needs of each format's customers and offer services that optimally combine the strengths of the Internet and actual stores.

Framework of IT/Services Operations



Seven & i Netmedia	Overall responsibility for IT-related operations
Seven Net Shopping	Operation of Internet-based shopping services
7dream.com	Ticket services, store support to integrate stores and IT
Seven Culture Network	Operation of school business, planning and sales of experience-type travel, cultural and travel-related services
SEVEN & i Publishing	Publishing of "saita" comprehensive fashion and lifestyle magazine
Seven Internet Lab.	Development of IT systems, research into new businesses
Nittele Seven	Creation of new sales channel of stores and TV/media
PIA Corporation	Ticket services and publishing

SUPERSTORE OPERATIONS

OUR APPROACH TO SUPERSTORE OPERATIONS

We will work to rebuild our operations from the ground up and make a transition to a more aggressive orientation.

In superstore operations, the business environment is challenging and competition is intensifying, and consequently earnings are sluggish. Ito-Yokado will strive to improve profitability by rebuilding its operating structure from the ground up. To that end, Ito-Yokado will bolster its sales capabilities and work to achieve low-cost operations. Through these initiatives, we are targeting an operating income margin of 3% over the medium term.

Fundamental Policies and Specific Initiatives

At Ito-Yokado, we will rebuild our operations from the ground up and make a transition to a more aggressive orientation. Specific initiatives targeting that objective will include merchandising reforms, sales area reorganization, cost reductions, and advancement of Internet operations.

Merchandising Reforms

We will implement reforms in the area of merchandising in order to achieve product lineups that are attuned to customer needs and to the preferences of the customers in each store's local market. We have implemented a transition in our organizational system, moving the distributor functions from each division to the divisions that manage distribution function. In apparel, by enhancing the coordination between the product purchasing plans of the buyers, who handle overall product procurement, and the sales plans of each store, we have established a foundation for the realization of the optimal product lineup for each store.

In merchandising, we will step up initiatives targeting improved margins through a strengthened focus on the development and merchandising of private-brand products as well as through an increase in direct overseas procurement. In addition, we will build a product development system based on cooperative ventures with major apparel manufacturers and overseas trading companies. Another initiative will be a move from open-floor displays arranged by type of apparel such as shirts and pants to specialty stores that propose coordinated offerings. In this way, we will strive to create proposal-based sales areas.

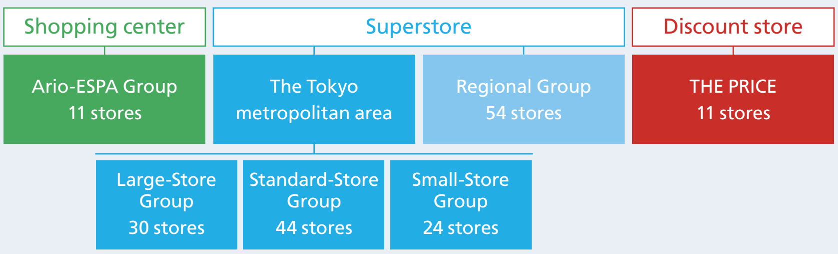
In food, meanwhile, we will step up our initiatives in the pricing of frequently purchased items, centered on national-brand products. In addition, we will focus on reasonable pricing for *Seven Premium* private-brand products and for safe, highly fresh foods in order to increase the number of customers and the number of items purchased.

Sales Area Reorganization

In September 2009, with the objective of implementing the principles of selection and concentration in the use of management resources, we reclassified our store management system into six groups. For example, we will invest aggressively in the Tokyo metropolitan area's Large-Store Group and in the Ario-ESPA Group, which are key profit drivers. On the other hand, we will limit investment and rigorously implement low-cost store operations in the Regional Group where profits are declining. We will also close unprofitable stores.

In store operations, we will implement individual store marketing initiatives to better align sales area composition with the preferences of customers in regional markets. We

Reorganization by store size and region



(Number of stores as of February 28, 2010) will actively expand sales areas in categories that meet customer needs, while we will reduce sales areas in categories that meet relatively limited customer needs. We will also strengthen our product lineups by aggressively introducing Group specialty stores in categories where Ito-Yokado's product lineups do not adequately meet market needs. Specifically, at the Haijima store, which we remodeled in November 2009, we reduced the apparel and household goods sales areas, where efficiency per square meter of floor space was low, and introduced outside tenants and Akachan Honpo, the Group's baby and children's product specialty store, and *Seven Bi no Gardens* stores, which sell drugs and cosmetics. In the fiscal year ended February 28, 2010, we completed this type of major remodeling and smaller-scale reorganization in 46 stores.

In the fiscal year ending February 28, 2011, we plan to reorganize sales areas in 59 Ito-Yokado stores. In line with customer needs, within these stores we will introduce new format stores, such as Seven Home Center and *Seven Bi no Gardens*, and Group specialty stores, such as Akachan Honpo and THE LOFT. In addition, we plan to open five stores, including three Ario stores, and close 11 stores, principally stores in suburban areas.

Plans of Sales Area Reorganization, Store Openings and Closures

		FY2010	FY2011 (planned)	FY2012 (planned)	FY2013 (planned)	TOTAL
Sales area reorganization	Major remodeling	15	19	-	-	-
	Smaller-scale reorganization	31	40	-	-	-
	Total	**46**	**59**	-	-	-
Store openings / closures	Openings	4	5	5	2	**16**
	Closures	(5)	(11)	(7)	(7)	**(30)**
	Net total	**(1)**	**(6)**	**(2)**	**(5)**	**(14)**
Number of stores at end of period		174	168	166	161	-
Total sales floor space at end of period (1,000 m^2)		2,661	2,671	2,734	2,694	-

Cost Reductions

In reducing costs, we will move ahead with the establishment of low-cost operations by bolstering store management and streamlining headquarters. In addition, we will reevaluate our sales promotion methods. To ensure that we get the most benefit from our sales promotion expenditures, we will reduce our heavy reliance on flyers and transition to effective sales promotion methods that utilize the Internet and TV. In the fiscal year ending February 28, 2011, the opening of new stores is expected to add about ¥15.0 billion to SG&A expenses, but we expect store closures to save about ¥4.0 billion, and sales promotion control measures to save about ¥7.0 billion. We also plan to lower rent and operating costs about ¥12.0 billion. Consequently, we plan to reduce SG&A expenses about ¥8.0 billion year on year.

Advancement of Internet Operations

In Internet operations, we will strive to use IT as a marketing tool to reform sales promotion methods and change the way Ito-Yokado employees work. In this way, we will work to integrate actual stores and Internet services in *Net Supermarket*.

We consider *Net Supermarket* to be a modern version of the traditional order-taking sales method. It has been designed principally for parents with young children, working couples, and senior citizens. Through this service, we will work to meet customer needs for Internet-based sales of everything from fresh foods to innerwear and daily items, by store-basis operation. Ito-Yokado will work to expand both the number of stores offering this service and the number of members. In the fiscal year ending February 28, 2011, we are targeting an operational scale of 150 stores, one million members, and sales of ¥30.0 billion.

DEPARTMENT STORE OPERATIONS

OUR APPROACH TO DEPARTMENT STORE OPERATIONS

We will create new department store value and work to differentiate our operations.

Domestic department stores are enmeshed in intense competition with other retail formats, including specialty stores, shopping centers, and shopping areas in stations. To record growth in the future, we need to substantially revise previous department store management practices. In our department store operations, as one facet of operational reforms we are striving to raise asset efficiency by implementing the principles of selection and concentration in the use of management resources. In addition, we are working to achieve differentiation from competitors by creating new department store value. In this way, we will target an operating income margin of 4% over the medium term.

Fundamental Policies and Specific Initiatives

With the objective of creating new department store value, Sogo & Seibu will take on the challenge of fostering innovation in department store management. Focus initiatives will include bolstering the sales capabilities of key stores, implementing format conversions and closing unprofitable stores, leveraging Group synergies, and bolstering cost reductions.

Medium-Term Initiatives

1. **Bolstering the sales capabilities of key stores: Creating new department store value**
   - Extend the success model at SEIBU Ikebukuro to other key stores and raise organizational strengths
2. **Converting suburban stores to other formats: Moving away from the traditional department store framework**
   - Introduce shopping center-style operation*
   - Stores at which format conversion is planned: Higashi-Totsuka, Kawaguchi, Takatsuki, others
3. **Decisions regarding the closure of unprofitable stores**
   - Sogo Shinsaibashi in August 2009
   - SEIBU Sapporo in September 2009
   - SEIBU Yurakucho in December 2010 (Planned)

* A method of operations, similar to that used in shopping centers, with specialty stores managed as tenants

Bolstering the Sales Capabilities of Key Stores

In department store operations, individual store sales capabilities are closely linked to product procurement capabilities, and consequently raising the sales capabilities of key stores plays an important role in increasing overall profitability. SEIBU Ikebukuro, the flagship store of Sogo & Seibu, accounts for about 15% of Sogo & Seibu's sales and about 40% of profits. In 2008, we commenced a three-year store-remodeling project targeting strengthened operating capabilities. In the fiscal year ending February 28, 2011, SEIBU Ikebukuro will celebrate its 70th anniversary and complete the remodeling project. In addition, it will also mark the advent of a new store that has moved beyond uniform department store management. Sogo & Seibu will extend the successful examples and know-how garnered through this remodeling to other key stores.

Remodeling of SEIBU Ikebukuro

In April 2008, Sogo & Seibu began a full-sale remodeling of SEIBU Ikebukuro. Except for a portion of the food floor, sports and hobby sundries, and restaurants, the remodeling work has already been completed. To leverage the advantage resulting from a location adjoining a terminal station that boasts daily traffic of 2.6 million people and to draw in customers, we strengthened sales areas for products that make a large contribution to sales and have high customer-drawing power, such as women's accessories and cosmetics. In addition, in response to changes in what customers need in department stores, we substantially reevaluated the food and household-goods sales areas. In fresh food sales areas, we drew on the know-how of Group companies Ito-Yokado and York-Benimaru to revise the scope and pricing of our product lineups. We are seeing steady results from these initiatives, including year-on-year gains in sales. In household-goods sales areas, we substantially expanded the interior sales floor and established self-directed sales areas that can propose coordinated offerings by lifestyle. As the completion of the remodeling project approaches in the fiscal year ending February 28, 2011, SEIBU Ikebukuro will continue to take on new challenges.

Format Conversion and Closure of Unprofitable Stores

For suburban stores, we will break away from the previous role of these stores—to complement the large-scale, key stores in urban areas. Without limiting ourselves to the traditional department store framework, we will move forward with format conversions, targeting the establishment of multi-purpose commercial facilities. We will reduce directly managed sales floor space with low productivity while taking steps to draw customers into the store by introducing leading specialty stores as tenants, including Group specialty stores. In this way, we will endeavor to increase store competitiveness as a whole and convert the profit structure.

As one facet of initiatives to increase asset efficiency, we have decided to close SEIBU Yurakucho in December 2010. We will also make decisions about closing stores that are unlikely to be able to generate improved profits.

Suburban Store Format Conversion Plans
SEIBU Higashi-Totsuka Example: Completion in October 2010 (planned)

1. Introduction of leading specialty stores with customer-drawing power
   • Already introduced: UNIQLO, Akachan Honpo, ABC-MART
   • Planned: Interior-related tenants, menswear-related tenants
2. Substantial reduction in low-productivity directly managed sales floor space

	Before	Conversion	After*
• Department stores: (Directly managed)	14,200 m^2	Down 80%	About 3,000 m^2
• Specialty stores: (Tenants)	19,500 m^2	Up 60%	About 31,200 m^2

* Expansion of sales floor space accompanying remodeling

Leveraging Group Synergies

Through merchandising, media, and specialty store strategies, we will leverage Group synergies and strive to achieve differentiation from other companies.

In merchandising strategies, with the focal point of drawing customers, we will leverage Group know-how and achieve differentiation in food initiatives. In product development, we will enhance price competitiveness through joint procurement of materials and unification of production bases and distribution in the development of private-brand products.

In specialty store strategies, we will aggressively introduce Group specialty stores, such as Akachan Honpo, Oshman's Japan, and ainz & tulpe, a drug and cosmetics store developed by AIN PHARMACIEZ, thereby enhancing customer-drawing power, principally in multiple-format stores.

In media strategies, we will bolster links with the Group's sales promotion/media strategy by cooperating in the Group's Internet operations.

Bolstering Cost Reductions

Targeting the reform of our profit structure, we will fundamentally reevaluate our costs. In department store operations, on a real basis, we will reduce SG&A expenses by about ¥9.5 billion (calculated as if Robinson Department Store, which was merged into Sogo & Seibu in the second half of 2009, had been included in Sogo & Seibu from the beginning of the fiscal year ended February 28, 2010). At Robinson department stores, we expect increases of about ¥6.0 billion in the first half of the fiscal year ending February 28, 2011, and about ¥1.0 billion in remodeling expenses, while on the other hand, we are planning reductions of about ¥4.5 billion from store closures, about ¥3.0 billion from reevaluating events and changing sales promotion methods, and about ¥3.0 billion from a decline in depreciation and amortization due to revising the useful life and headquarters-related expenses.