Interview with the President

In the fiscal year ended February 28, 2013, Seven & i Holdings posted new highs in everything from net sales to operating income and net income. Amid indications of an upturn for the Japanese economy, the Group is striving in concert to achieve further growth by creating new value in keeping with a changing social climate. Seven & i Holdings' President and Chief Operating Officer, Noritoshi Murata, discusses the Group's operating environment and its policies for the future.

Noritoshi Murata
President and Chief Operating Officer

Analysis and Response to Changing Operating Environment

In Japan, the yen has depreciated and share prices have climbed since the change of government near the end of last year. This has been an improvement from earlier economic stagnation stemming from a rising yen and deflation. There is now rising hope for a turnaround in the Japanese economy. At the same time, the operating environment for the retail industry is facing dramatic changes, including consumption tax hikes that the government plans to phase in from April 2014.

Individuals hold ¥1,500 trillion in financial assets in Japan; and we are now beginning to see promising consumer trends, particularly among high income earners. That said, consumers overall continue to keep a tight hold on their wallets for now, because the outlook remains unclear. So, we need to pursue a medium-to-long term growth strategy in Japan. I believe that one immediate priority should be

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
For the fiscal year:			
Revenues from operations	¥4,991,642	¥4,786,344	$53,673,569
Operating income	295,685	292,060	3,179,408
Net income	138,064	129,837	1,484,559

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥93=U.S.$1, the approximate rate of exchange prevailing on February 28, 2013.

to stimulate individual consumption, which accounts for 60% of the nation's nominal gross domestic product.

Looking ahead, depending on how the economy fares, the government plans to raise consumption tax in two phases.

I think that our policies for the year running up to the tax hikes will be pivotal. One prime challenge for this fiscal year will be Groupwide efforts to propose more quality-oriented products that make shopping more enjoyable. Consumer sentiment is becoming more rational—people increasingly prefer to pay a little more for quality to the extent that they need it, rather than simply focus on prices. Responding to this trend, we will differentiate ourselves from the competition by improving the quality of our products and services. We will also leverage the Group's sales capabilities to maximize scale benefits in purchasing. At the same time, we will develop more quality-driven offerings, particularly in our private-brand and original product ranges.

Management Focus on People to Create Rewarding Workplaces

Given a rapidly changing economic environment, I think it's important that we shift our management focus back to people in order to make workplaces more rewarding and to drive our growth. For the fiscal year ending February 2014, we plan to boost base salaries Groupwide. On top of that, we have deployed a clear policy to maintain a remuneration system that properly reflects the skillsets of part-timers, who are vital for our stores. These actions show our determination to lift staff morale and to demonstrate the concerted strength of the Group.

Progress among Principal Group Companies in Deploying Management Policies

When the Group adopted a holding company structure in 2005, management pledged to share strategies while keeping brands independent. In other words, while sharing Group strategies to generate and deliver new value, each Group company continues to offer consumers the value it has cultivated under its own brand.

Convenience Store Operations

Looking first at our convenience store operations, Seven-Eleven Japan (SEJ) seized on changes in the social climate as opportunities for growth. These included an aging population, an increase in the number of working women, households with fewer members, and a decline in the number of small and medium-sized retail stores. SEJ expanded the 7-Eleven chain by prioritizing high-density, concentrated store openings under its market concentration strategy. At the same time, SEJ reinforced its sales capabilities by developing high-quality original products and extending its lineup of the daily essentials that consumers expect from convenience stores. Many convenience stores are small and have limited shelf space. They therefore tend to risk stock depletions and opportunity losses. SEJ enhances its order placement capabilities through the advice that Operations Field Consultants provide each franchised store and by extensively training store staff. We consider that SEJ has performed well in attending to changes in consumer sentiment and achieving high profitability. We have also positioned SEJ as a core driver of Group growth.

In North America, 7-Eleven, Inc. (SEI), is cultivating denser store networks through aggressive openings, including through M&A transactions. SEI's goal is to build a network of 10,000 stores by the end of 2015. In store openings, SEI employs the market concentration strategy, just like SEJ in Japan, to ensure effective merchandising and efficient infrastructure usage. SEI has been differentiating itself by reinforcing its range of private-brand products and fast food offerings. It has also been improving store operations by drawing on the contributions of sales executives from SEJ in Japan. These initiatives are starting to bear fruit, in terms of boosting SEI's profitability. I believe that current initiatives to strengthen the 7-Eleven chain will be key to boosting our procurement capabilities by leveraging our global networks. In the future, this will become one of the Group's strengths.

Superstore Operations

In superstore operations, we faced a very adverse operating climate in the year under review, particularly in the first half. The main reason was that the spike in demand that followed the Great East Japan Earthquake in 2011 had run its course. Still, there were signs of profitability improvements in the second half.

Apparel reforms at Ito-Yokado (IY) have begun to show results. We have extended four core private-brand product lines in women's and men's apparel and in functional underwear, while boosting customer service to increase the value appeal of our stores. IY has enhanced its store cost structure by optimizing directly-managed sales areas and attracting more tenants. While the results of our business structure reforms at IY are gradually becoming apparent, we recognize a need to continue our reform program and improve profitability going forward.

York-Benimaru (YB) is making its groceries more price-competitive while differentiating itself by enhancing the quality of its fresh foods, including delicatessen items. In fresh foods, it is vital to maintain high standards in everything from sourcing at production sites to in-store processing and merchandise management that helps to minimize opportunity losses and wastage. Food supermarkets with close community ties attract consumers, and YB is generating strong support from its customers in this respect.

Department Store Operations

In department store operations, we undertake reforms using specific strategies for key and regional stores. At the key stores, which account for around 70% of Sogo & Seibu net sales, we are focusing in particular on disseminating the successful business model of SEIBU Ikebukuro, whose sales have continued to grow since it reopened in 2010 after remodeling. In 2012, we started to remodel Sogo Yokohama, whose sales rank second to those of SEIBU Ikebukuro. Neither of these remodeling initiatives increased floor space, but the stores succeeded in building customer support by improving customer service and providing more enjoyment in non-sales aspects, notably services and information, and by offering enhanced product lineups. To differentiate our offerings and make our department stores more attractive, we are expanding our retailer-managed merchandising and store-managed sales areas. Sharing the raw materials and business partners of IY has generated synergies. As we continue to build on our framework for store development, we are targeting ¥100 billion in sales of apparel developed by our retailer-managed merchandising system for the fiscal year ending February 2015, up from ¥40 billion in the fiscal year ended February 2013.

Internet Business Leveraging Group Store Networks and Sales Capabilities

We plan to build a new Internet business that encompasses real stores. We will leverage the competitive edge we have honed from around 17,000 stores in Japan and business infrastructure elements such as Group companies' advanced information and distribution systems. IY's *Net Supermarket* is particularly popular among customers, and now generates more than ¥40 billion in annual sales. We consider this operation a positive synergy between the customer loyalty that IY has cultivated at its stores over the years and the diversification of shopping channels through information technology.

In July 2012, we consolidated online shopping sites that Group companies developed into *Seven Net Shopping*. We will reinforce the infrastructure of that business by opening a distribution center this year. This advanced facility will have a floor space of around 50,000 m^2. We will move quickly to enhance customer convenience and services by consolidating customer information and shopping points.

Targeting a 10% ROE by Fiscal Year Ending February 29, 2016

Management's mission is to enhance corporate value. We deem ROE a crucial performance benchmark, and aim to achieve a 10% ROE by the fiscal year ending February 2016. We will therefore endeavor to boost Group growth by enhancing operating income, while focusing on financial stability and efficiency in keeping with the economic environment.

Our basic policy is to determine new investments by the prospective return on invested capital. Seven & i Holdings formulates Groupwide financial policies, but it is the role of each Group company to generate investment returns. The Company determines capital investment allocations by positioning each operation as either a growth business or one requiring structural reforms. Growth operations include domestic convenience stores, overseas businesses, food supermarkets, and financial services. Operations needing reform are superstores, department stores, and food services.

Basic Policy on Shareholder Returns

Our basic policy is to reflect earnings growth in our return of profits to shareholders. We aim to maintain a consolidated payout ratio of at least 35%, and aim to improve it further in the future. For this, we plan to increase cash dividends per share this fiscal year by ¥2, to ¥66. This follows a rise of ¥2 per share in the previous term, to ¥64. We seek to maximize returns to shareholders through further earnings improvements going forward.

Conclusion

We consider our business to be highly social in its nature, as it ties in closely to consumer sentiment. So we realize that we can only grow when society does and that we have to address changes in the social climate. We will maximize synergies by promoting further collaboration between Group companies. At the same time, we will achieve growth by executing strategies to make each company the leader in its respective format as we continue in our mission to create new value.

We would like to ask for the continued support of our shareholders and investors in the years ahead.

June 2013

Noritoshi Murata
President and Chief Operating Officer