Review of Operations

At a Glance

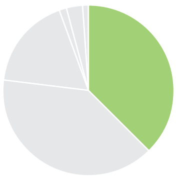
Convenience Store Operations

More information on
pp. 26–30, 51, 53–54

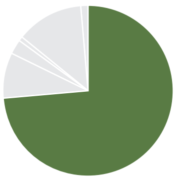
CONTRIBUTION TO RESULTS

For the fiscal year ended February 28, 2013

Revenues from operations
37.6%
¥1,899.5 billion

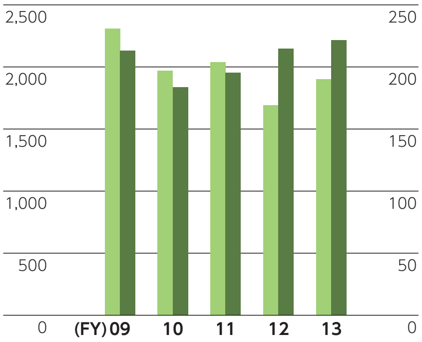


Operating income
74.6%
¥221.7 billion



REVENUES FROM OPERATIONS
OPERATING INCOME

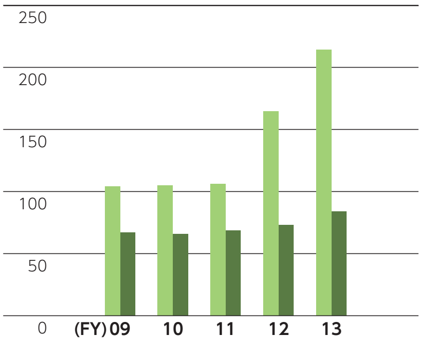
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES
DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures
Depreciation and amortization

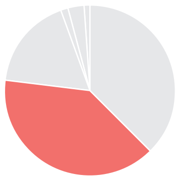
Superstore Operations

More information on
pp. 31–33, 51–52, 54

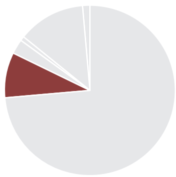
CONTRIBUTION TO RESULTS

For the fiscal year ended February 28, 2013

Revenues from operations
39.5%
¥1,994.5 billion

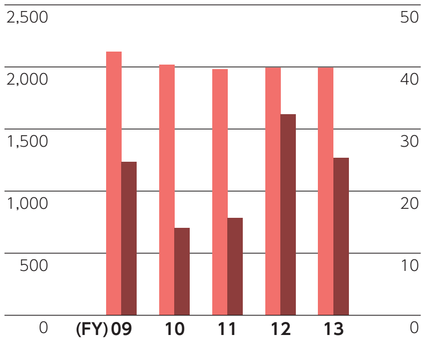


Operating income
8.6%
¥25.4 billion



REVENUES FROM OPERATIONS
OPERATING INCOME

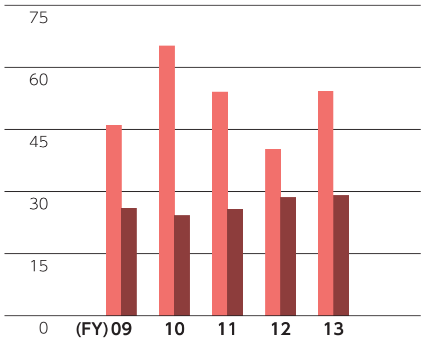
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES
DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures
Depreciation and amortization

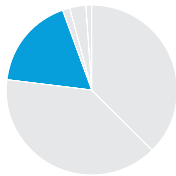
Department Store Operations

More information on
pp. 34–36, 52, 54

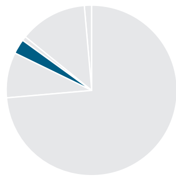
CONTRIBUTION TO RESULTS

For the fiscal year ended February 28, 2013

Revenues from operations
17.5%
¥884.0 billion

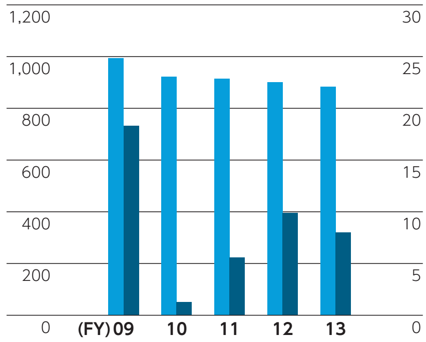


Operating income
2.7%
¥8.0 billion



REVENUES FROM OPERATIONS
OPERATING INCOME

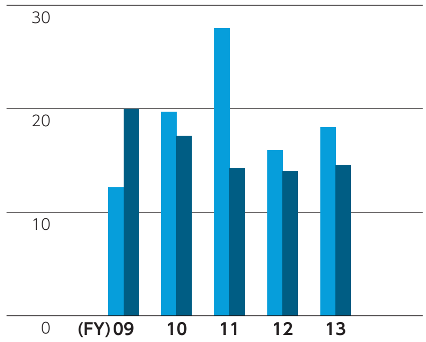
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES
DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures
Depreciation and amortization

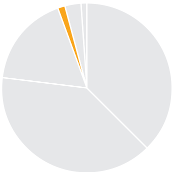
Food Services

More information on pp. 37, 52, 54

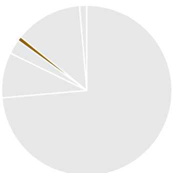
CONTRIBUTION TO RESULTS

For the fiscal year ended February 28, 2013

Revenues from operations
1.6%
¥78.3 billion

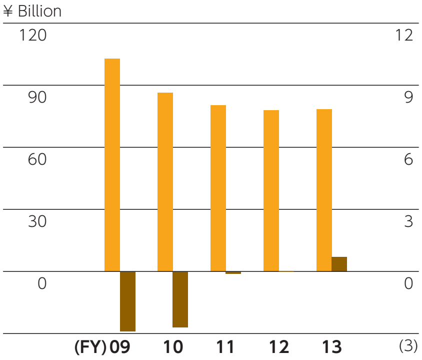


Operating income
0.2%
¥0.7 billion



REVENUES FROM OPERATIONS OPERATING INCOME

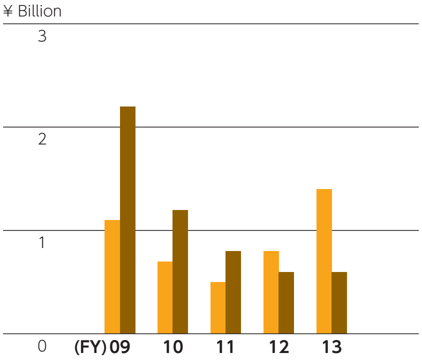
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures
Depreciation and amortization

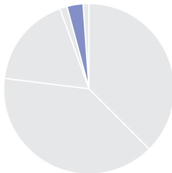
Financial Services

More information on pp. 38, 52, 54

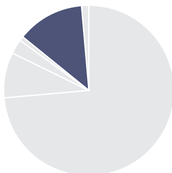
CONTRIBUTION TO RESULTS

For the fiscal year ended February 28, 2013

Revenues from operations
2.9%
¥144.3 billion

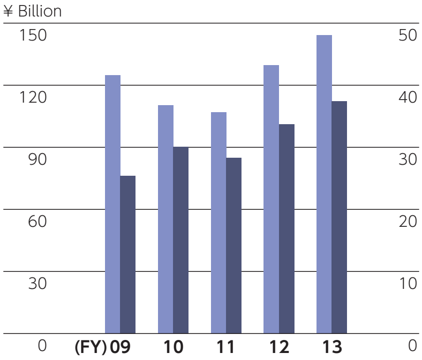


Operating income
12.6%
¥37.4 billion



REVENUES FROM OPERATIONS OPERATING INCOME

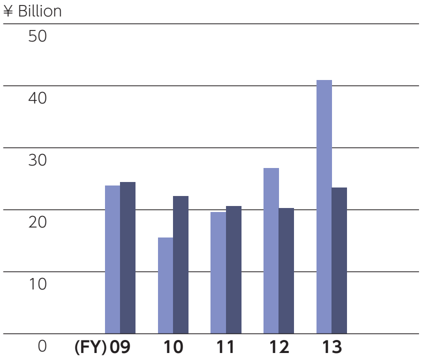
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures
Depreciation and amortization

Others

More information on pp. 39, 54

CONTRIBUTION TO RESULTS

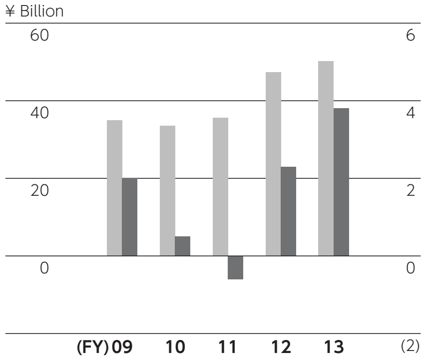
For the fiscal year ended February 28, 2013

Revenues from operations
1.0%
¥50.2 billion

Operating income
1.3%
¥3.8 billion

REVENUES FROM OPERATIONS OPERATING INCOME

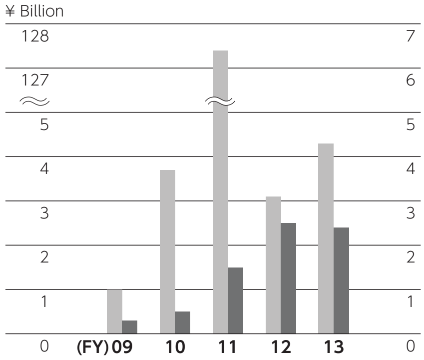
¥ Billion



Revenues from operations (left scale)
Operating income (right scale)

CAPITAL EXPENDITURES DEPRECIATION AND AMORTIZATION

¥ Billion



Capital expenditures (left scale)
Depreciation and amortization (right scale)

Convenience Store Operations

Convenience store operations comprise 7-Eleven convenience stores in Japan, North America, and China (Beijing, Tianjin, and Chengdu). 7-Eleven, Inc., based in the United States, provides 7-Eleven area franchise rights to area licensees around the world.

Overview of the Fiscal Year Ended February 28, 2013

In the fiscal year ended February 28, 2013, the convenience store segment's revenues from operations were ¥1,889.5 billion, up 12.3%, and operating income was ¥221.7 billion, an increase of 3.3%. Capital expenditures totaled ¥214.2 billion, up 29.9%, and depreciation and amortization was up 14.6%, to ¥83.9 billion.

This segment's revenues from operations rose on the strength of sales gains at Seven-Eleven Japan (SEJ), as well as from higher franchise fees and royalties from franchised stores and growth in gasoline sales at 7-Eleven, Inc. (SEI).

Due to the success of SEJ's measures targeting the realization of "close-by, convenient stores," there was a record increase in the number of stores—1,354 new stores on an overall basis and 1,067 in net terms. Existing stores sales rose 1.3%, and operating income reached a new record high. SEI endeavored to aggressively expand its store network, opening 1,078 stores, including through M&A transactions. SEI also generated record earnings as merchandise sales of existing stores in the U.S. rose by 2.9% due to steady demand for fresh food, private-brand products, beverages, and other core offerings.

Capital expenditures rose year on year, owing to aggressive store openings in Japan and North America.

REVENUES FROM OPERATIONS

¥1,899.5 billion
+12.3%

OPERATING INCOME

¥221.7 billion
+3.3%

CAPITAL EXPENDITURES

¥214.2 billion
+29.9%

Original daily products at SEJ

Island-type chilled case

The effect of exchange rates was minimal on both revenues from operations and operating income.

In the convenience store segment, management continued its efforts to expand overseas businesses. In North American operations, SEJ established wholly owned subsidiary SEJ Asset Management & Investment Company to oversee tangible and intangible fixed assets transferred from SEI and undertake leasing operations for SEI.

In Chinese operations, SEVEN-ELEVEN CHINA Co., Ltd., the master licensor for China, changed its corporate name, business objectives, capitalization, and other aspects of its business to become an investment company that can oversee operations and directly invest in its subsidiaries in China.

Business Strategies for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥2,495.0 billion, up 31.3%, and operating income of ¥249.0 billion, an increase of 12.3%. Capital expenditures are forecast at ¥204.0 billion, down 4.8%, and depreciation and amortization at ¥96.0 billion, an increase of 14.3%. Capital expenditures are planned for aggressive store openings in Japan and overseas, as well as investments in existing stores to enhance their sales capabilities.

Moreover, with respect to the exchange rate for income calculation, the yen is projected to fall ¥12.19 against the U.S. dollar to ¥92.00. The resulting foreign currency effects are projected to increase reported segment revenues from operations by about ¥237.0 billion and segment operating income by about ¥6.5 billion.

Inside a 7-Eleven store

Domestic Operations

For SEJ, changes in Japan's social landscape mean that convenience stores are growing in importance. Changes include the aging of the 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 is approaching these changes as opportunities for growth, and will work to increase the number of store openings to a record-high 1,500 in the fiscal year ending February 28, 2014. Meanwhile, we will continue to focus on developing high-quality fast food products, while working to enhance our sales capabilities, mainly by enhancing our lineup of private-brand products centered on *Seven Premium* and its lineup of products essential to daily life. In other initiatives, SEJ will bolster its service offerings, starting with product home delivery services, as part of its ongoing focus on evolving the 7-Eleven chain into stores that are "close-by and convenient."

Diagram A

Diagram A

BUSINESS STRATEGIES OF SEVEN-ELEVEN JAPAN: FURTHER PROGRESS IN THE EVOLUTION OF "CLOSE-BY AND CONVENIENT"

Merchandising	**Develop differentiated products and aggressively roll out new products and services** • Bolster development of daily products and expand the lineup of core products • Increase sales of *Seven Premium* and *Seven Gold* • Proactively develop service-related operations
Store operations	**Focus on customer needs** • Improve customer service and ordering accuracy by stepping up franchise training programs • Innovate sales areas to allow stronger product lineups
Store-opening strategy	**Continue to open high-quality stores by leveraging the strong store-development framework, and strengthen the 7-Eleven chain** • Open a record-high1,500 stores • Step up store openings in Japan's three main urban centers (Tokyo metropolitan area, Chukyo area, Kansai area) • Open up new areas (Shikoku)

Diagram B

BUSINESS STRATEGIES OF 7-ELEVEN, INC.:
INCREASING CUSTOMER SATISFACTION BY BOLSTERING DIFFERENTIATION STRATEGIES

Merchandising	• Reinforce fresh food product development • Bolster development of *7-Select* private-brand products
Store operations	• Strengthen guidance from Operations Field Consultants for thorough implementation of item-by-item management • Improve profitability by converting the stores acquired through M&A transactions in line with SEI standards
Store-opening strategy	• Implement market concentration strategy (increase store density in areas with existing stores) • Strengthen store openings in urban areas

Overseas Convenience Stores

SEI will increase development of fresh foods and private-brand products to differentiate its lineup. It will also work aggressively to open new stores, including through M&A transactions, to further increase its market concentration in existing store areas, Meanwhile, in China, the Group will work to bolster operations in existing stores, while opening stores in new areas to broaden the store network.

Diagram B

Seven-Eleven Japan

Working to further the evolution of the concept “close-by and convenient”

SEVEN CAFÉ

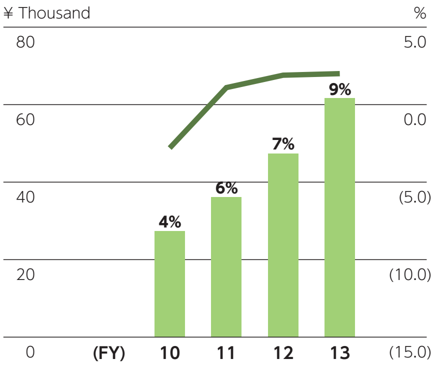
Merchandising

SEJ will continue to respond to new customer needs that arise from structural changes in society to progress further in our evolution of “close-by, convenient stores.”

In products, SEJ will continue to enhance its fast foods as a differentiated product. In private-brand products, we will strengthen the *Seven Gold* lineup of products that offer quality one step above the existing *Seven Premium* line, with the goal of creating a new market. In addition, we will take steps to respond to increasing numbers of female and elderly customers by enhancing our product lineups. Specifically, to enable these customers to use stores as a point for obtaining their daily necessities, we will expand the number of core products with high daily consumption rates from about 500 to about 900.

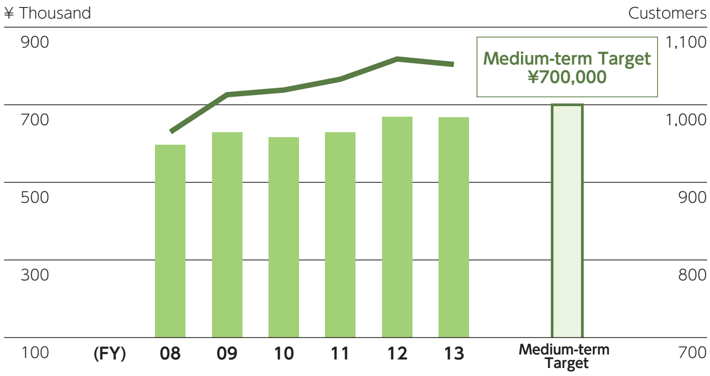
SEJ will also propose new ways to use 7-Eleven stores. In fast food, SEJ will introduce fresh coffee machines into every store while promoting related sales of snacks and desserts. We will also bolster our product delivery services, mainly *Seven-Meal*, to support shopping activity among the increasing number of elderly and people who cannot easily go shopping.

SALES OF *SEVEN PREMIUM* PRODUCTS AND EXISTING STORES SALES INCREASE, EXCLUDING CIGARETTES



Average daily sales (left scale) and composition of *Seven Premium* products per store
Existing stores sales increase, excluding cigarettes (right scale)

AVERAGE DAILY SALES AND NUMBER OF CUSTOMER STORE-VISITS PER STORE



Average daily sales per store (left scale)
Average number of customer store-visits per store (right scale)

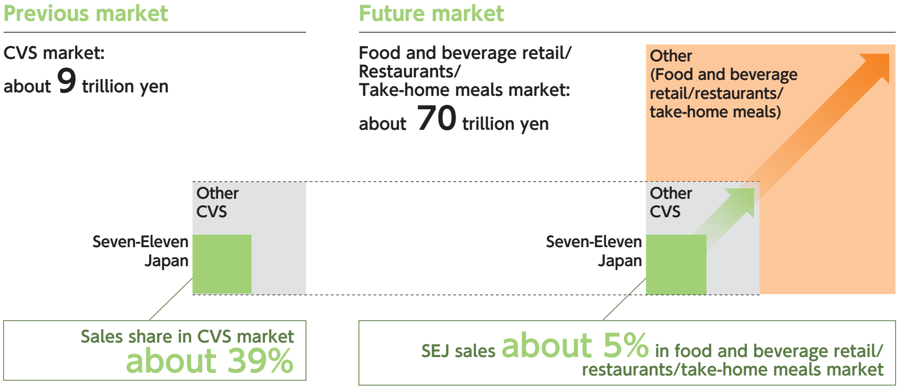
Store-Opening Policies

SEJ's basic policy for opening stores is to implement its market concentration strategy while maintaining a focus on individual store profitability. A record-high 1,500 store openings are planned for the fiscal year ending February 28, 2014.

Rather than accept the conventional definition of the convenience store market with a scale of ¥9 trillion, we have redefined our market to include food and beverage retail, restaurant, and take-home meal businesses. By this definition the market has total sales of ¥70 trillion. In terms of store openings, we will expand into new areas such as Shikoku and Akita Prefecture. Moreover, there is still room for further store openings in existing store areas also; fewer small and medium-sized retailers in a given area has meant less convenience for consumers, and consumers also want to get all their errands done within an area close to their homes and offices. In urban areas especially, where populations are large, there is a growing sense that convenience stores play a vital function. SEJ will respond by continuing to open stores in densely populated urban areas such as Tokyo, Nagoya, and Osaka.

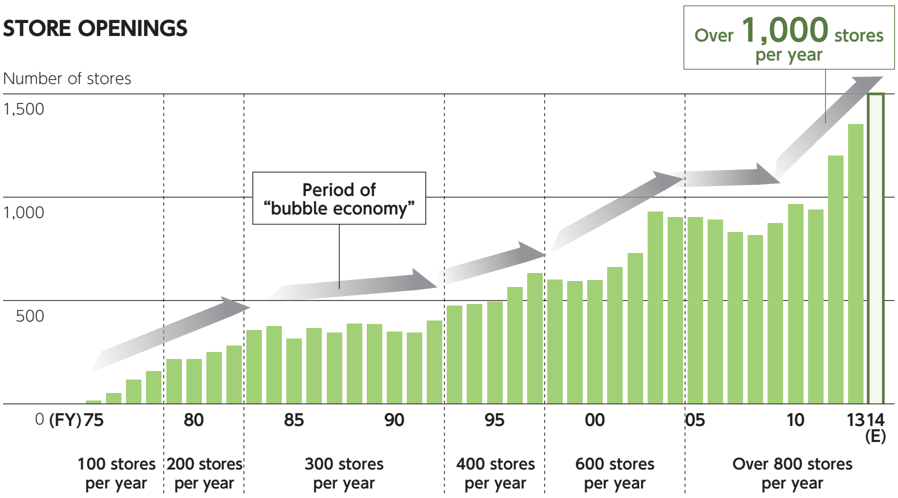
VIEW OF SEJ'S MARKET

Expand share in market for food and beverage retail, restaurants, and take-home meal operations



Sources: Japan Franchise Association monthly convenience store survey, Current Survey of Commerce (Ministry of Economy, Trade and Industry), Foodservice Industry Research Institute

STORE OPENINGS



MESSAGE FROM RYUICHI ISAKA, PRESIDENT OF SEVEN-ELEVEN JAPAN CO., LTD.

Creating Convenience Stores for a New Era

Today demand for "close-by, convenient stores" is growing faster than ever. This change is being driven by Japan's aging population, growth in the number of working women, a trend towards smaller households, and a decline in the number of small and medium-sized retail stores. At SEJ, we will meet these new needs by aggressively striving to expand the number of core products with high daily consumption rates and strengthening our lineup of private-brand products, mainly our *Seven Premium* range. As part of this, we have made steady progress in reforming our sales areas by introducing island-type chilled cases and wall-type chilled cases, and making other changes to further develop the concept of "close-by and convenient." We have begun to sense a real groundswell in support from customers for these initiatives, which shows that SEJ has found a place as a partner in their daily lives.

In the fiscal year ending February 28, 2014, we will propose new ways for customers to use 7-Eleven stores. We plan to introduce special fresh coffee machines into every store, and to strengthen our hand in services for delivering goods to customers' homes, mainly *Seven-Meal*.

By further evolving the concept of "close-by and convenient" in this way, our operation will open the door to new business opportunities. Our organizational capabilities, which enable us to respond to environmental changes at all times, and the powerful partnerships we have built with our outstanding franchisees will continue to drive our growth going forward.

7-Eleven, Inc.

We will increase store density in areas with existing stores through aggressive store openings and pursue a differentiation strategy by proposing product value.

Store Initiatives

SEI will increase store density in areas with existing stores by expanding store numbers through M&A transactions and by opening its own new stores. In line with key measures to strengthen its fresh food lines, SEI will focus more on opening stores in urban areas where fresh food demand is high in comparison with the suburbs. At the same time, SEI will pursue profitability through more efficient distribution and sales promotion efforts that leverage the company's market concentration strategy.

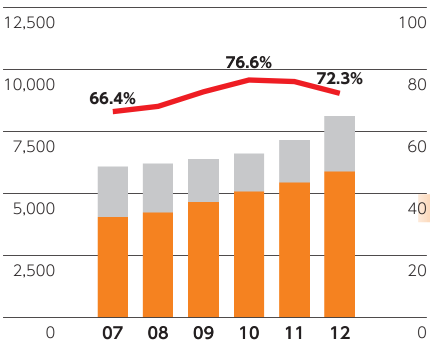
SEI will endeavor to improve sales not just by remodeling the exteriors of acquired stores, but also by deploying a product policy and IT system, and enhancing store operator training. SEI will convert acquired stores to franchised stores to maximize profitability. In the fiscal year ending December 31, 2013, SEI plans to open 600 stores, including opening 370 of its own new stores.

Merchandising

With many retailers engaged in price competition, SEI aims to differentiate itself through value proposals centered on new products and services for its customers. Our key *7-Select* private-brand products enjoy solid customer support for being more reasonably priced than national-brand products for the same or better quality, and sales of these offerings are increasing steadily. We have responded to studies that found that people in the U.S. eat five or six times a day by stepping up our development of fresh foods to develop balanced product lineups with products offering additional value, health foods, and snacks.

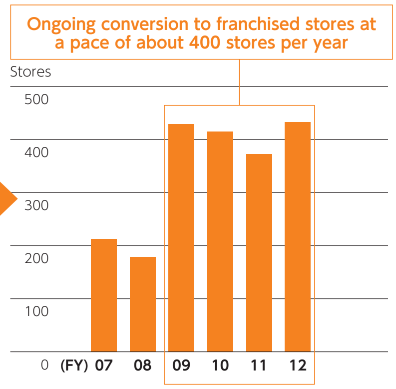
7-Select private-brand products

TREND IN STORE TYPE



Franchised stores (left scale)
Directly operated stores (left scale)
Franchise ratio (right scale)

NET INCREASE IN NUMBER OF FRANCHISED STORES



MESSAGE FROM JOSEPH DEPINTO, PRESIDENT OF 7-ELEVEN, INC.

Leveraging Group Scale to Become More Competitive

Despite some positive signs in the U.S. economy, personal consumption has yet to fully recover. This is because of such factors as increasing Social Security taxes, concerns about prospects for the unemployment rate, and low growth rates in individual incomes. We therefore recognize the need for innovative measures to keep customers coming back to our stores. Our parent company, SEJ has managed to maintain high daily sales and profitability despite an adverse economic climate in Japan. We will therefore actively seek SEJ's advice and differentiate based not on price but by offering new added value while improving the experience for our customers. Our store policies will not simply focus on expanding the number of stores, but on leveraging our market concentration strategy to increase operating efficiencies in terms of marketing, distribution, and product development, and to increase customer recognition of our stores.

The Group's greatest strength is its global network. SEI will leverage this network to make itself more competitive and to increase its enterprise value.

Superstore Operations

Superstore operations comprise superstores that provide apparel, household goods, and food in Japan and China, specifically Beijing and Chengdu. In addition, superstore operations include food supermarkets in Japan and Beijing and specialty stores.

REVENUES FROM OPERATIONS

¥1,994.5 billion
+0.1%

OPERATING INCOME

¥25.4 billion
(21.4)%

CAPITAL EXPENDITURES

¥54.2 billion
+34.7%

Overview of the Fiscal Year Ended February 28, 2013

In the year ended February 28, 2013, the superstore segment's revenues from operations were ¥1,994.5 billion, up 0.1%, while operating income was ¥25.4 billion, down 21.4%. Capital expenditures totaled ¥54.2 billion, up 34.7%, and depreciation and amortization rose 1.8%, to ¥29.1 billion.

At Ito-Yokado (IY), existing store sales declined 4.3%, mainly as the result of a backswing in the first half of the fiscal year, following higher demand related to the Great East Japan Earthquake in the previous fiscal year. However, profitability improved in the second half on the back of an improved gross profit margin, particularly in apparel, which was attributable to a reduction in markdown losses and sales growth of private-brand products. At York-Benimaru (YB), the rate of growth in existing store sales was on a par with the previous fiscal year, thanks to efforts to further improve the quality of fresh foods, which countered the backswing from a post-earthquake surge in the previous fiscal year. In Chinese operations, anti-Japan demonstrations and large renovation work on the Second Ring Road in Chengdu impacted performance.

For the above reasons, segment operating income declined year on year.

Business Strategies for the Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥2,030.0 billion, up 1.8%, and operating income of ¥39.6 billion, up 55.3%. Capital expenditures are forecast at ¥69.0 billion, up 27.2%, and depreciation and amortization at ¥19.0 billion, a decrease of 34.8%. The increase in capital expenditures includes investment related to *Ario* shopping centers, which IY plans to open in the fiscal year ending February 28, 2015.

GALLORIA L&B private-brand apparel at IY

Diagram A

BUSINESS STRATEGIES OF ITO-YOKADO: TRANSFORMING INTO A NEW TYPE OF GENERAL MERCHANDISE STORE

Merchandising	**Food: Further increase competitiveness by using the Group's comprehensive strengths** • Thoroughly increase differentiation by strengthening sales of fresh foods • Expand *Seven Premium* private-brand products **Apparel: Continue structural reforms** • Nurture core private brands and promote store specialization • Improve efficiency in apparel sales areas through the use of tenants **Strengthen *Net Supermarket*: Focus on interaction between Internet shopping and actual stores**
Store operations	**Push ahead with structural store reforms** • Enhance customer service levels and sales techniques by improving the ability of part-time staff • Increase customer-drawing power through the use of specialty stores from inside and outside the Group • Bolster sales capabilities at high-profit stores through strategic investment
Store initiatives	**Focus store openings on *Ario* mall-type shopping centers**

Diagram B

BUSINESS STRATEGIES OF YORK-BENIMARU: ESTABLISH NEW LIFESTYLE-PROPOSAL SUPERMARKETS

Merchandising	**Propose products matched to changes in customers' values** • Strengthen product development capabilities and nurture core categories • Achieve unrivaled differentiation in fresh foods and delicatessen foods
Store operations	**Increase productivity with a thorough focus on the basics** • Entrench organization for enforcing the basics and implementing item-by-item management • Enhance processing techniques and improve operational efficiency
Store-opening strategy	**Increase area share by deepening market concentration strategy** • Aggressively expand store network in areas where it already has a presence

Superstore Operations

IY will work to further improve its revenue and profit generating base. Measures will include enhancing store loyalty by strengthening development of private-brand products and face-to-face sales service for customers. IY will also focus on sales area reforms utilizing specialty stores from inside and outside the Group as one facet of structured store reforms.

Diagram A

Food Supermarket Operations

YB will continue to strengthen its lineup of products that meet regional needs, particularly fresh foods, while aggressively opening new stores in areas where it already has a presence, with the aim of achieving a high market concentration.

Diagram B

China Operations

In China, we will expand the revenue and profit generating base of existing stores, while preparing our organization for future business expansion. As part of this, in July 2012 we established Ito-Yokado (China) Investment Co., Ltd. to oversee business and allow direct investment in its subsidiaries. In the past, it has been necessary for individual operating companies to establish local subsidiaries to invest directly in China. However, the establishment of this investment company creates a structure for investing cash flows generated in Chinese businesses directly in Group companies within China. We will develop business in China by formulating overall strategies and expediting decision-making.

Ito-Yokado

We will strengthen our profit structure by continuing to transform into a new superstore format.

Merchandising

IY will maintain a sales system that doesn't rely on a low-price orientation pricing strategy and on large-scale sales promotions. At the same time, we will revamp our sales approach, shifting from the traditional self-service approach to one that places more emphasis on engaging with customers. This will allow us to communicate the added value of our products and services to customers, including providing product information. In these and other ways, IY aims to raise customer loyalty.

In apparel, where IY has been facing the challenge of improving profitability, the store plans to set itself apart chiefly through four core lines of private-brand products, including *GALLORIA L&B*. It will also develop proposal-based sales shops by creating areas where customers can find full apparel combinations and get advice on them. In conjunction with these steps, IY will strive to reduce markdown losses by raising the purchasing rate at normally marked prices. This will be achieved by initially stocking apparel in line with a hypothetical sales volume plan and producing additional inventory as needed on a timely basis.

In the food category, we will expand the *Seven Premium* line of private-brand products. In addition, in fresh foods we will differentiate our offerings through improved quality and thereby encourage customers to visit our stores. For national-brand products, we will utilize the Group's strengths to reduce procurement costs and improve the gross profit margin.

Store Initiatives

In store openings, we will focus on *Ario* mall-type shopping centers. We started opening *Ario* shopping centers in 2005

Ario shopping center

and have steadily grown them into an earnings driver with our accumulated management knowhow and other expertise. We view *Ario* as a format with huge potential because it has high customer-drawing power thanks to the ability to attract large tenants, and because it offers cultural, educational, medical and financial services. The combination of these information services and product sales means the format can make comprehensive proposals. There were 14 *Ario* shopping centers at the end of February 2013, and we plan to open another six over the next three years to increase the number to 20. Three of these will be opened in the fiscal year ending February 28, 2014, including *Ario* Sendai Izumi, which has been converted from an Ito-Yokado brand format.

In our existing stores, we will continue to push through store structure reforms. By rightsizing directly–managed sales floor space for apparel and household goods, we have started to see efficiency improvements. However, we will continue working to raise the profitability of stores as a whole, in combination with the use of specialty stores from inside and outside the Group. Moreover, we intend to actively make investments in sales to increase the competitiveness of profitable stores in the Tokyo metropolitan area.

MESSAGE FROM ATSUSHI KAMEI, PRESIDENT OF ITO-YOKADO CO., LTD.

Transforming Ito-Yokado to Offer Customers a Pleasurable and Fresh Shopping Experience

Our business isn't just simply about each store offering a wide product lineup of apparel, household goods, food, and other items according to regional needs. We also create added value by offering various information and services. The key requirements of IY in this day and age are to strengthen our customer service ability, promote store reforms, and provide high-quality products. In our drive to achieve these goals, we are emphasizing communication between locally based part-time staff and customers, as we move from a self-service to a customer service-centric sales approach. In store reforms, we continue to develop stores that will play a role in local communities. These stores are barrier free, offer clean toilets and rest areas, have wider aisles, provide sign language services, and boast other amenities. Our flagships here are *Ario* shopping centers, which offer a full complement of goods, information, and services. In terms of products, we will aggressively promote sales of the *Seven Premium* line of private-brand products to help achieve the Group sales target of ¥1 trillion in the fiscal year ending February 2016.

To continue to please and earn the support of everyone in our local communities, we feel strongly that we must take IY to an even higher stage of evolution—one that responds to changes in the social environment. Drawing on synergies with Group companies, we are determined to rise to the challenge of creating new value going forward.

MESSAGE FROM ZENKO OHTAKA, PRESIDENT OF YORK-BENIMARU CO., LTD.

Aiming Always To Be the No. 1 Supermarket in Local Communities

The essential challenge in our business is to keep customers coming back to our stores every day by earning their unequivocal loyalty, in the sense that they know they can trust us when they go shopping. We have garnered customer support by eschewing a sales approach that hinges on limited-time large-scale sales promotions, and instead focusing on an everyday fair price system where customers can make purchases at reasonable prices whenever they come to our stores.

In terms of products, I feel it is important to provide high-value-added products through rigorous quality assurance in order to be comprehensively judged on service, product lineups, and freshness by customers. To improve our product line in delicatessen products, which are offered by our wholly owned subsidiary, Life Foods Co., Ltd., we brought a new plant online in March 2013 that was built specifically for these items. We are thus establishing an integrated production and sales business model, as we seek to develop and sell products catering to increasingly diverse needs.

In terms of stores, we are pursuing a market concentration strategy. By building on this strategy, we aim to achieve low-cost operations and capture the No. 1 share in each region in terms of sales.

As we work to establish a new lifestyle proposal-based supermarket concept to respond to change in the social environment, our greatest imperative is to develop an organization where people can function autonomously and act responsibly. If each and every employee can act with an understanding of the company's philosophy and principles, I believe we will be able to grow even more.

Department Store Operations

Department store operations comprise department stores, high-end food supermarkets, and miscellaneous goods specialty stores. Department stores are developed under two brands, Sogo and SEIBU.

Overview of the Fiscal Year Ended February 28, 2013

In the fiscal year ended February 28, 2013, the department store segment's revenues from operations were ¥884.0 billion, down 1.8%, and operating income was ¥8.0 billion, down 19.3%. Capital expenditures totaled ¥18.2 billion, up 13.7%, and depreciation and amortization increased 4.7%, to ¥14.6 billion.

The decline in revenues from operations was mainly due to the closure of Sogo Hachioji in the previous fiscal year. However, sales at existing stores rose 0.9% year on year, driven by the benefits of remodeling the SEIBU Ikebukuro flagship store and Sogo Yokohama. On the other hand, operating income declined as the gross profit margin declined 0.2 of a percentage point, dragging down earnings. This decline in the gross profit margin mainly reflected lower apparel sales and higher sales of high-priced, low-margin products, namely art and jewelry.

With the objective of focusing management resources and increasing asset efficiency, SEIBU Numazu and Sogo Kure were closed on January 31, 2013.

Business Strategies for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥887.0 billion, up 0.3%, and operating income of ¥8.9 billion, up 10.8%. Capital expenditures

REVENUES FROM OPERATIONS

¥884.0 billion
(1.8)%

OPERATING INCOME

¥8.0 billion
(19.3)%

CAPITAL EXPENDITURES

¥18.2 billion
+13.7%

Limited Edition
Private-brand apparel at Sogo & Seibu

are forecast at ¥16.0 billion, down 12.4%, and depreciation and amortization at ¥12.0 billion, down 18.2%. The projected capital expenditures include investments for remodeling Sogo Yokohama and Sogo Omiya, aiming to build on the success of the SEIBU Ikebukuro remodeling.

At Sogo & Seibu, we will bolster sales of high-quality, distinctive products produced by our retailer-managed merchandising system, as part of our mission to achieve "new department store creation." This will also involve communicating the value of products better and improving consulting. A key aspect of this ambition is to develop people with specialist knowledge to improve customer service. Furthermore, at key stores, we intend to extend the successful examples of the remodeling of SEIBU Ikebukuro.

➔ Diagram A

➔ Diagram A

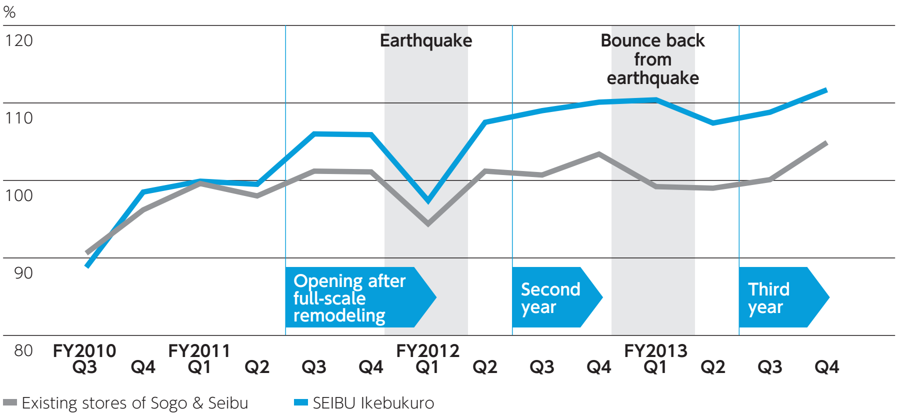
BUSINESS STRATEGIES OF SOGO & SEIBU: A MISSION TO CREATE A NEW TYPE OF DEPARTMENT STORE IN LINE WITH CHANGING LIFESTYLES

Merchandising	**Differentiate the product lineups through merchandising reforms** • Strengthen retailer-managed merchandising and store-managed sales areas • Bolster product procurement based on attribute analysis
Store operations	**Strengthen customer service capabilities** • Develop people with a high level of specialist knowledge to support autonomous operations in a retailer-managed merchandising system • Strengthen consulting from the standpoint of customers
Store initiatives	**Reinvigorate key stores, which generate 70% of sales** • Extend successful examples of the remodeling of SEIBU Ikebukuro

SALES OF SEIBU IKEBUKURO

- Sales are still growing even in the third year after remodeling
- Highlights the success of strengthening self-planned product lineups and customer service

SEIBU IKEBUKURO SALES (COMPARED WITH YEARS BEFORE REMODELING)



Sogo & Seibu

By strengthening the differentiation strategy, centered on apparel, we will move ahead with the creation of a new type of department store.

Merchandising

At Sogo & Seibu, as we work to create a new type of department store, we will concentrate on initiatives to step up our retailer-managed merchandising. Eyeing changing lifestyles, we plan to strengthen product development and sales, particularly of our *Limited Edition* private-brand lineup, through which we propose new, high-quality products. Complementing these efforts will be the development of store-managed sale areas. And, utilizing our original product information system for attribute analysis of sales data, we hope to be able to stock best-selling products faster than before. In combination with better customer service, we will raise our ability to make product proposals to customers.

Strengthening Retailer-managed Merchandising

We began sales of *Limited Edition* private-brand products in fall 2009. So far, we have developed brands for women in different roles such as home-makers and career women, among others. In the fiscal year ending February 28, 2014, we will launch a new brand for senior citizens, as we strive to broaden the lineups and upgrade sales

A store-managed sales area for interior goods

Expectant mothers Station
A consultation area for expectant and new mothers

Coordinate Station
A consultation area that proposes stylish, cross-brand ensembles for any occasion

area development. Our goal in product development is to differentiate our offerings from those of other companies, by focusing on developing products that offer high quality, but at a fraction of the price of other products. For this, we have been working with Group companies to cultivate relationships with new manufacturers and to buy materials in bulk.

Bolstering Product Procurement Based on Our Original Attribute Analysis of Sales Data

In March 2012, we began using a product information system at all of our stores. This system now facilitates analysis of attributes such as materials, design, and size on an item-by-item basis. Utilizing this unique attribute analysis system enables us to quickly identify trends of best-selling products and use that information for procuring products. At the same time, by sharing data with suppliers, we can mutually improve operating efficiency.

Store Operations

Bolstering Customer Service

To sell retailer-managed quality products and propose best-selling items based on sales data, we must ensure that our customer service personnel communicate the value of these products to customers. Aiming for highly expert sales services, Sogo & Seibu is redoubling efforts to develop trainers and sales personnel. We are also strengthening the services that we provide, such as increasing the number of consultants who do not sell products but instead provide advice about all brands on offer. We are continuing to expand these measures, which have been highly appraised by customers.

MESSAGE FROM RYU MATSUMOTO, PRESIDENT OF SOGO & SEIBU CO., LTD.

Sogo & Seibu is Fully Committed to Its Mission of "New Department Store Creation."

Upon my recent appointment as president, I set forth two key strategies for achieving the shared goal of all employees: to create a new type of department store. One is to step up retailer-managed merchandising. The other is to raise levels of customer service. In terms of the first strategy, we have succeeded in developing new, high-quality products that other department stores don't offer. We have accomplished this by improving our links with other Group members and focusing on materials and production sites. Armed with confidence from this success, our next step is to extend product development. In fact, we have set an ambitious sales target for retailer-managed merchandising of apparel of ¥100.0 billion in the fiscal year ending February 2015, 2.5 times the sales in the year ended February 2013. In regards to the second strategy of improving customer service, we no longer leave this up to our tenants as was the case in the past. Now, each and every employee is responsible for customer service on the shop floor. This is bringing about a change in employee awareness.

In developing retailer-managed merchandising, we are taking on risk, but are learning from the successes of other Group companies, most notably the development of the *Seven Premium* product line. We are also working to lower procurement costs by getting involved in the production side, and to provide quality goods suited to customers' changing lifestyles.

I believe that the Group's strengths lie in adopting a customer-centric approach and a fully committed approach. Maintaining these qualities, we remain dedicated to our mission of "new department store creation."

Food Services

Food services comprise the restaurant division, meal provision service division (company cafeterias, hospitals, and schools), and fast food division in Japan. We also operate restaurants in Beijing, China.

REVENUES FROM OPERATIONS

¥78.3 billion
+0.4%

OPERATING INCOME

¥0.7 million
Improved profitability by ¥0.8 billion

CAPITAL EXPENDITURES

¥1.4 billion
+69.3%

Overview of the Fiscal Year Ended February 28, 2013

In the fiscal year ended February 28, 2013, the food services segment's revenues from operations were ¥78.3 billion, up 0.4%, and operating income was ¥0.7 billion, an improvement of ¥0.8 billion from the previous fiscal year. Capital expenditures totaled ¥1.4 billion, up 69.3%, and depreciation and amortization declined 4.2%, to ¥0.6 billion.

In the core restaurant division, the merchandise gross profit margin improved by 0.7 of a percentage point. In addition, the rate of growth in sales at existing restaurants increased by 0.8%, the result of efforts to strengthen core items on the menu and enhance customer service.

In the meal provision service division, we were entrusted with the cafeteria operations for the Group's Sogo and SEIBU department stores, and we increased openings of facilities in companies outside the Group. As a result, the division recorded higher revenues.

Consequently, Seven & i Food Systems, which is responsible for domestic food services, saw growth in revenues and improvement in profits.

Business Strategies for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥79.0 billion, up 0.8%, and operating income of ¥1.4 billion, an increase of 94.0%. Capital expenditures are forecast at ¥1.2 billion, down 14.7%, and depreciation and amortization at ¥0.5 billion, a decrease of 21.8%.

In the restaurant division, we will reinforce our focus on the fundamentals—greetings and customer service, cleanliness, and the provision of delicious food. At the same time, we will strive to offer products and services that satisfy customers by strengthening core menu items. In products, we will step up the development of high-quality menu items with a focus on ingredients and volume, particularly for the dinner-time hours. We will also work to improve the gross profit margin through Group-wide joint raw material procurement, recipe innovations, and work process improvements at restaurants. In restaurants, we will strive to revitalize existing restaurants by remodeling older stores and revamping kitchen facilities and cooking equipment. We will also propose a new café-style type of Denny's restaurant. Through such initiatives as these, we will strive to create an environment that meets the needs of customers.

In the meal provision service division, we will focus our efforts on increasing openings of facilities in companies outside the Group.

A sample of items from the Denny's menu

Financial Services

Financial services comprise ATM operations, credit card operations, electronic money services, leasing operations, and insurance operations in Japan.

REVENUES FROM OPERATIONS

¥144.3 billion
+11.4%

OPERATING INCOME

¥37.4 billion
+10.8%

CAPITAL EXPENDITURES

¥40.9 billion
+52.9%

Overview of the Fiscal Year Ended February 28, 2013

In the fiscal year ended February 28, 2013, the financial services segment's revenues from operations were ¥144.3 billion, up 11.4%, and operating income was ¥37.4 billion, an increase of 10.8%. Capital expenditures totaled ¥40.9 billion, up 52.9%, and depreciation and amortization was up 16.4%, to ¥23.6 billion.

Seven Bank recorded increases in revenues and profits atop growth in the total number of transactions. This growth was driven by increases in the number of installed ATMs (up 1,382 since the previous fiscal year-end), and the number of transactions made by customers of deposit-taking financial institutions. In October 2012, Seven Bank acquired all shares of Financial Consulting & Trading International, Inc., in the U.S., with the aim of expanding the overseas ATM business as a future growth field.

In credit card operations, transaction volume expanded due to growth in membership for both the Seven Card credit card issued by Seven Card Service and the CLUB ON/Millennium CARD SAISON credit cards issued by Seven CS Card Service.

In electronic money operations, the number of *nanaco* cards issued increased as a result of Group-wide efforts to proactively capture new members. Consequently, revenues and profits increased both in credit card and electronic money operations.

Business Strategies for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥160.0 billion, up 10.8%, and operating income of ¥41.4 billion, an increase of 10.6%.

Capital expenditures are forecast at ¥43.0 billion, up 5.0%, and depreciation and amortization at ¥25.0 billion, an increase of 5.6%.

Capital expenditures are earmarked mainly for increasing the number of installed ATMs, along with investments accompanying the installation of third-generation ATMs.

Seven Bank will work to strengthen existing operations through continued increases in installed ATMs and the cultivation of new customers.

In card operations, we will work to promote usage of credit cards and the *nanaco* electronic money service. At the same time, we will put card data to good use in marketing activities as a kind of shared Group infrastructure.

Furthermore, in April 2013, Seven Card Sevice began issuing the SEVEN CARD plus, a credit card featuring *nanaco* electronic money functionality, as a new card service.

BUSINESS STRATEGIES

ATM operations	• Expand ATM operations • Replace existing ATMs with third-generation ATMs with enhanced functions • Expand international money transfer service and increase personal loan customers
Card operations	• Capture new members and encourage greater card usage • Increase the number of active members by enhancing convenience • Encourage customers to make greater use of other Seven & i Group company stores through *nanaco*

NUMBER OF CARDS ISSUED (as of February 28, 2013)

	(million)
Seven Card (credit card and point function)	3.3
CLUB ON/Millennium CARD SAISON (credit card)	3.2
nanaco (electronic money)	21.4
Seven Bank (cash card)	1.0

Others

Others comprise Internet-related services, meal delivery services, publishing, property management businesses, and community school businesses in Japan.

Overview of the Fiscal Year Ended February 28, 2013

In the fiscal year ended February 28, 2013, the others segment's revenues from operations were ¥50.2 billion, up 5.8%, and operating income was ¥3.8 billion, an increase of 68.7%. Capital expenditures were ¥4.3 billion, an increase of 39.1% from the previous fiscal year. Depreciation and amortization decreased 4.0% to ¥2.4 billion.

In IT operations, we focused on upgrading and expanding highly convenient services. To this end, we integrated several sites into *Seven Net Shopping*, an Internet shopping website operated by Seven Net Shopping. These integrated sites included *Net Supermarket*, *Seven-Meal* and *e.depart*, which are operated by Ito-Yokado, Seven-Eleven Japan (SEJ) and Sogo & Seibu, respectively. Previously each company's site had required separate user IDs, but with this site integration, we made it possible for customers to access each Group company's services using a single user ID from any one of the integrated sites.

Business Strategies for the Fiscal Year Ending February 28, 2014

For the fiscal year ending February 28, 2014, the segment is forecasting revenues from operations of ¥52.0 billion, up 3.6%, and operating income of ¥4.0 billion, an increase of 2.9%. Capital expenditures are forecast at ¥6.8 billion, up 57.0%, and depreciation and amortization at ¥3.3 billion, an increase of 32.8%. Capital expenditures are earmarked primarily for investments related to construction of Seven Net Shopping's distribution center.

Net Supermarket

In IT/services, we will work to maximize synergies through interaction between Internet shopping operations and the Group's domestic network of about 16,800 stores, one of the Group's strengths. In particular, Seven Net Shopping will further upgrade and expand its product lineups and services as it starts operating a new distribution center, with a view to strengthening business infrastructure in order to realize smooth, prompt product shipping and delivery by sharing information with suppliers.

REVENUES FROM OPERATIONS

¥50.2 billion
+5.8%

OPERATING INCOME

¥3.8 billion
+68.7%

CAPITAL EXPENDITURES

¥4.3 billion
+39.1%

CORE OPERATING COMPANIES IN THE OTHERS SEGMENT

The others segment principally comprises companies that operate IT/services related businesses that are associated with retail operations, the core business of the Group.

Seven & i Netmedia
Seven & i Netmedia is an intermediate holding company with overall responsibility for IT/services.

Seven Net Shopping
Seven Net Shopping operates the Group's Internet shopping services.

Seven-Meal Service
Seven-Meal Service conducts planning and operation of SEJ's meal delivery services.

7dream.com
7dream.com operates information terminal operations and provides services utilizing the multi-function copy machines in 7-Eleven stores.

Seven & i Asset Management
Seven & i Asset Management holds and manages the land and buildings of SEIBU Ikebukuro, Sogo & Seibu's flagship store.