

## INTERVIEW WITH THE PRESIDENT

In the fiscal year ended February 28, 2014, Seven & i Holdings delivered record-high net sales, operating income, and net income. Operating income reached an all-time high for the third consecutive year, making the Group the first in Japan's retailing sector to achieve operating income of more than ¥300.0 billion.

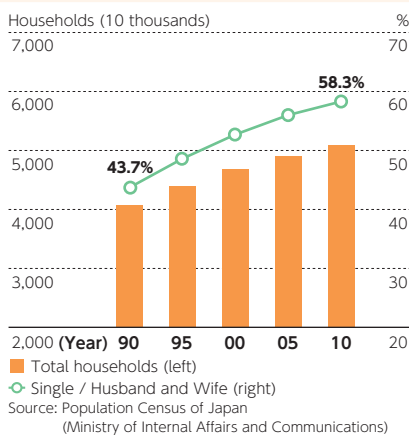
Looking ahead, the Group aims to achieve further growth by working as one to address the changing social climate, as it continues in its mission to create new value.

### Analysis and Response to Changing Operating Environment

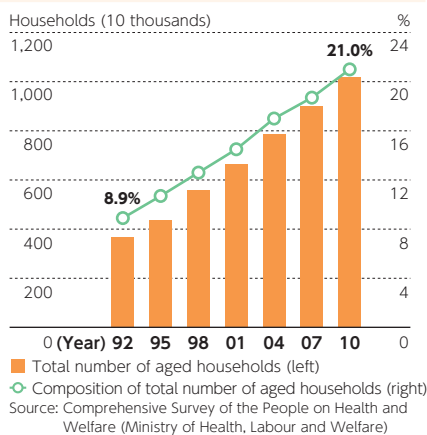
In Japan, there were signs of an economic recovery, owing mainly to the government's economic stimulus measures. However, we cannot be entirely upbeat about the operating environment for the retail industry, considering the increase in the consumption tax rate implemented in April 2014 and other developments. Compared with the previous consumption tax hike in 1997, we did not see any major differences in sales trends, but there was a

pronounced increase in last-minute purchases of luxury goods, such as fine arts and jewelry, as well as home electronics, household goods and other items. Nonetheless, after the consumption tax hike, consumer spending in April bounced back quickly from the drop in spending that followed the last-minute purchases. In fact, new products and high-value-added products are now selling strongly. All in all, we believe that consumer sentiment is much better than it was in 1997.

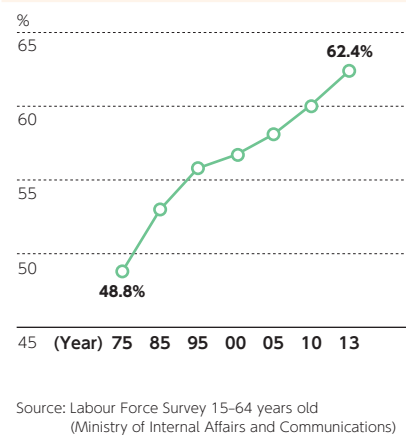
#### INCREASE IN NUMBER OF PEOPLE PER HOUSEHOLD



#### INCREASE IN NUMBER OF AGED HOUSEHOLDS



#### INCREASE IN NUMBER OF FEMALE EMPLOYEES IN JAPAN





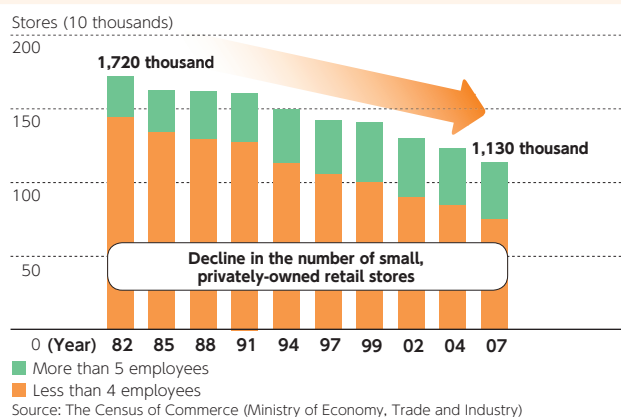
NORITOSHI MURATA  
President and Chief Operating Officer

Seven & i Holdings has adopted “Management Focused on Quality” as its Group policy. This is to ensure that we propose more quality-oriented products and services that make shopping more enjoyable. Our policy is also our strategy to avoid becoming embroiled in price-based competition and our response to changes in customer needs. 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 product quality and customer service. 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 the Group’s private-brand products and the original products of each operating company.

We will also need to seize on changes in Japan’s social structure from a medium-term perspective. These changes include the continued fall in the birthrate combined with an aging population and the increasing percentage of working women, which will continue unabated into the future. We believe that one of our key priorities will be to make a Groupwide effort to capture Group synergies in order to build our next growth platform.

### DECLINE IN NUMBER OF RETAIL STORES



## Maximizing Group Synergies

To achieve sustainable growth, we must continue to adapt to the changing operating environment, as we harness Group synergies by leveraging infrastructure such as the Group's store networks and the comprehensive strengths of our multiple business formats. We will pursue synergies with capital and business alliance partners, along with strengthening the development of our *Seven Premium* private-brand products and promoting the Omni-Channel Strategy, with the aim of attaining further growth.

### Seven Premium:

#### Our Greatest Focus of Group Synergies

We launched *Seven Premium* private-brand products in May 2007. We created this category by drawing on original product development techniques within Seven-Eleven Japan (SEJ) and leveraging the product development expertise and sales capabilities of Group companies. We have harnessed team merchandising with outstanding suppliers in developing a line of products that combines quality and reasonable pricing. In doing so, we aimed to dispel the image of private-brand offerings of being focused on low-prices, and build a new private-brand concept that accommodates customer tastes. This private brand embodies the Group's corporate policy of providing quality-oriented products. It is suitable for all formats from convenience stores to department stores, and the private-brand products are designed to differentiate the Group

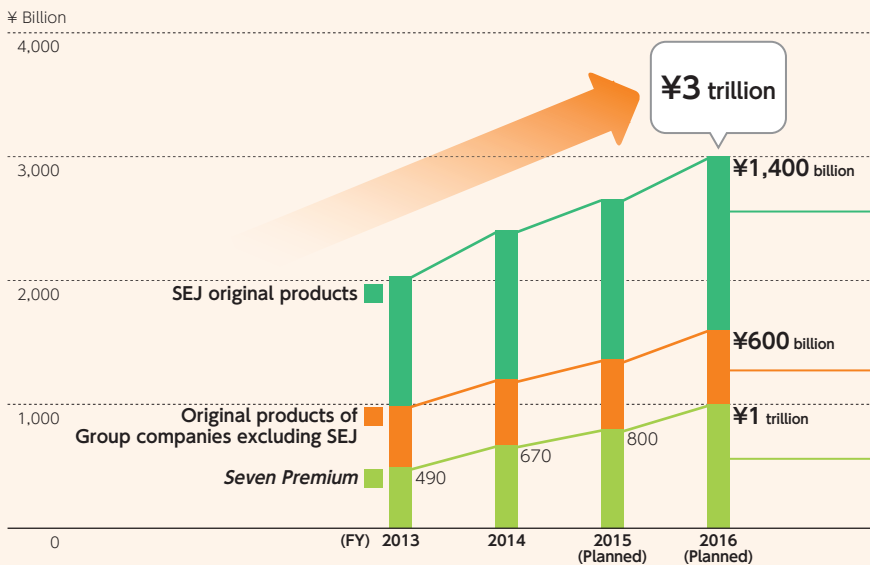
from the competition by offering high added value. With the steady rise in customers looking for quality and value, the Seven & i Group will place further emphasis on its strategy of developing the Group's *Seven Premium* private-brand products and Group companies' original products, offering taste, functionality, quality, and value. In doing so, the Group aims to boost sales of original products to ¥3 trillion in the fiscal year ending February 2016.

#### Expanding *Seven Premium* Product Sales Further

##### ● Renewing existing products

In the past, we have regularly renewed our existing products in order to provide delicious products that customers do not tire of and further improve product quality. In response to the consumption tax rate increase, we have been working to dramatically renew our products. In fact, we plan to renew 80% of all of our products in the span of one year. In an effort to improve gross profit, we will work to develop products with a universal appeal in terms of taste and quality by constantly harnessing team merchandising with the best manufacturers and insisting on high-quality ingredients, manufacturing methods and other elements. As a result of our efforts to date, *Seven Premium* has become a brand that can compete head to head with national-brand products. This is highlighted by the fact that the number of products generating more than ¥1 billion in Group sales annually per item has reached 120, an increase of 28 from the previous fiscal year.

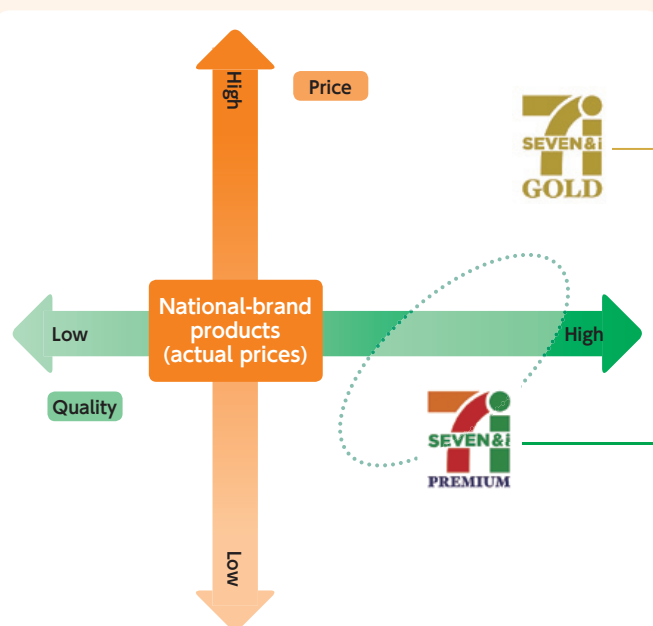
#### SEVEN & i GROUP ORIGINAL PRODUCTS SALES PLAN



Note: SEJ: Seven-Eleven Japan



## POSITIONING AND CONCEPT FOR PRIVATE-BRAND PRODUCTS

*Seven Gold*

- The *Seven Gold* products in the *Seven Premium* brand are developed to meet the needs of those who wish to try something a little more tasty as a luxury
- Equal to or better than the quality of products from specialty stores and popular stores
- A reasonable price

*Seven Premium*

- Quality same as or better than national-brand products
- Priced 20%-30% lower than national brand actual prices
- Secure sufficient profit

Seven Key Points of *Seven Premium*

- 1) Safe and reliable
- 2) Delicious
- 3) Regional flavors
- 4) Cutting-edge technologies
- 5) Universally designed
- 6) Health conscious
- 7) Reasonably priced

### ● Expand *Seven Gold*

*Seven Gold* was launched in 2010, with the aim of developing high-quality products using only select ingredients and production techniques, to offer quality that is the same as or better than top-selling national-brand products. The key concept is “a small indulgence” that allows consumers to enjoy the finest quality products at home. In the course of product development, we jointly develop products with leading manufacturers in each product field. By making the most of each manufacturer’s insistence on using select manufacturing technologies, ingredients, and so forth, we work to create the “finest products” to satisfy customers’ expectations. Some of our products can only be developed because we have comprehensive strengths in areas like marketing, logistics networks, and sales. We will continue to adhere to our policy of setting the Seven & i Group apart from the competition in terms of quality by leveraging our strengths.

#### PRODUCTS THAT SOLD OVER ¥1 BILLION PER ITEM IN TOTAL SEVEN & i GROUP SALES

	FY2013	FY2014
Daily food products	52 items	72 items
Beverages and alcohol	23 items	28 items
Confectionery	9 items	10 items
Processed food products	8 items	10 items
<b>Total</b>	<b>92 items</b>	<b>120 items</b>

### Product Development Example – *Golden Bread* –

*Golden Bread* achieves a soft, chewy texture of superior quality, and a classy, deep sweetness. In the year since April 2013, *Golden Bread* attained phenomenal sales of more than 33 million units Groupwide. The launch of this product was made possible by the Seven & i Group’s comprehensive strengths, such as the dedicated network of factories established by SEJ nationwide, a development system integrated with manufacturers, and a systematic sales framework based on item-by-item management. As with *Golden Bread*, we will continue to develop unique, high-quality products that only the Seven & i Group can realize, in order to achieve unrivaled differentiation.



## Driving Our Second Stage of Growth: The Omni-Channel Strategy

### What is the Omni-Channel Strategy?

The Seven & i Group defines the “Omni-Channel” as a platform that will integrate various sales channels, including “real stores” and “Internet channels,” and thereby enable the seamless ordering, purchasing, and collection of products using all manner of customer interfaces. The Seven & i Group has positioned the Omni-Channel Strategy as its second stage of growth, and will promote this strategy with the aim of maximizing Group value. The Group has a wide array of business formats, including convenience stores, superstores, food supermarkets, department stores, specialty stores, and restaurants, with a network of approximately 18,000 stores in Japan and receiving approximately 19.5 million visitors per day. By taking full advantage of these strengths, we aim to create an environment where customers can buy the products they desire anytime, anywhere.

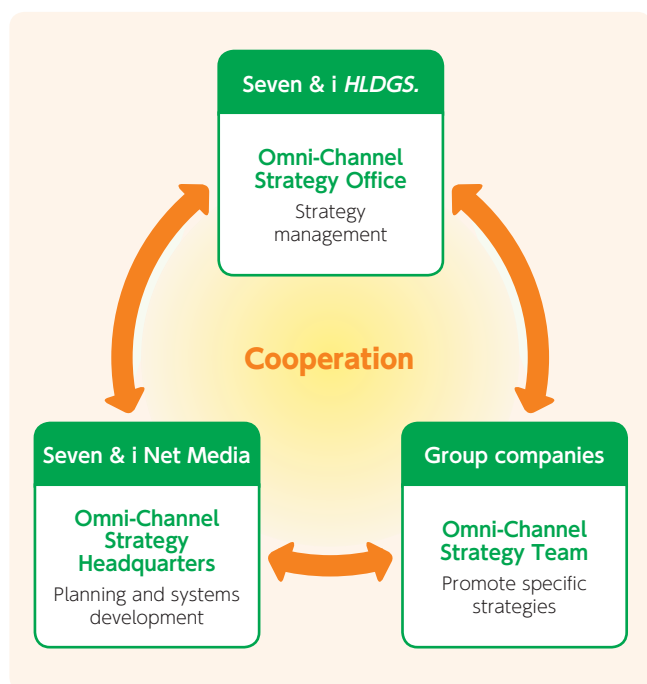
The crux of this strategy is the Group’s network of more than 16,000 convenience stores nationwide and its overall merchandising and customer service capabilities. We are putting particular emphasis on merchandising. It will be crucial to propose value that is not found in conventional products through competitive in-house product development.

We also see customer service capabilities as a crucial element of our strategy. By communicating with customers at stores, we will drive home the value of our products and stimulate customer demand. To do so, we believe that it is also important to enhance the level of customer service at real stores and increase customer loyalty to our stores. One example of these initiatives is the *Ikeseikirei Station* (Beauty Station). This service combines counseling by cosmetic advisors at stores, product purchases over the Internet, and the ability to collect products at local 7-Eleven stores, and has proven highly popular among customers. As this example shows, we believe that the more that purchasing becomes centered on the Internet, the more important that customized services and customer service for each customer will become at real stores.

### Driving the Omni-Channel Strategy Forward

The Seven & i Group conducted an absorption-type merger, effective March 1, 2014, with Seven & i Net Media Co., Ltd. as the surviving company and Seven Net Shopping Co., Ltd. as the dissolving company. This merger is aimed at clearly identifying the company that will play a pivotal role in promoting the Seven & i Group’s Omni-Channel Strategy, and vigorously pressing ahead with this strategy. At the same time, we have clearly identified the departments that will promote the Omni-Channel Strategy at each operating company. In doing so, we now have a framework in place to promote the Omni-Channel Strategy across the entire Group.





From autumn of 2013, we have launched the Omni-Channel Strategy Project. Discussions are held all day from Tuesday to Friday every week by members chosen from Group companies and IT companies from outside the Group. Currently, the participants are divided into seven working groups and are holding discussions based on different themes.

#### WORKING GROUPS WILL BE ESTABLISHED IN SEVEN AREAS UNDER THE IMPLEMENTATION PLAN

Working Group	Theme
1. Customers	Call centers, security, common ID, customer database
2. Site	Site design, cross-sectional search of products from each company's products
3. Stores	Customer service, develop tablet terminals, real-store handovers
4. Products	Common product management code, Internet-based product strategies for each category
5. Logistics	Delivery, utilization of each company's logistics
6. Media	Examine sales promotions methods, summarize issues with each company's website
7. Big data	Use big data to introduce recommended functions and improve store operations, etc.

#### Looking Ahead

As part of promoting the Omni-Channel Strategy, we aim to enable all of the Group's online products to be collected at any of the Group's stores by the second half of 2015. When this is realized, the number of products handled by 7-Eleven stores could increase from around 2,800 items today to 3 million items. Furthermore, we expect to open up many different possibilities by making stores a collection point for brand merchandise that we have not handled previously. For example, we expect to see an increase in the number of customers and win over new customers. Although we must still overcome many challenges at this point, we are identifying each issue and steadily making preparations. In the fiscal year ending February 2015, we will conduct a wide range of field trials aimed at realizing the Omni-Channel Strategy.

#### Omni-Channel Initiatives Get a Head Start in the Hiroshima Area (SEJ and Sogo & Seibu)

During the year-end and New Year's holidays and the Valentine's Day period, we conducted a trial in the Hiroshima area ahead of Groupwide Omni-Channel initiatives. The trial enabled customers to collect Japanese and Western confectionery sold by famous manufacturers via the *e.depart* online shopping site of Sogo & Seibu at 470 7-Eleven stores in the Hiroshima area. One of the main features of this trial was that customers could collect high-quality department store merchandise at 7-Eleven stores while receiving the same level of service as at department stores. In this trial, customers picking up products at 7-Eleven stores accounted for just over 60% of all customers placing orders via *e.depart*. The trial thus confirmed that there is a strong need for temporarily holding products for collection by customers at convenience stores. In the future, we will further boost customer convenience by expanding this initiative nationwide.



## Capturing Synergies with Capital and Business Alliance Partners

We are also capturing synergies with companies with whom we formed capital and business alliances in the fiscal year ended February 2014.

These capital and business alliances are expected to play a part in strengthening and complementing the Group's business in areas such as the purchasing activities of Sogo & Seibu and bolstering household goods, which has been an issue at Ito-Yokado (IY). Naturally, the alliances are also aimed at enhancing the Group's Internet shopping expertise and product lineups as it pushes ahead with the Omni-Channel Strategy.

### Progress among Key Group Companies and Outlook for Fiscal Year Ending February 2015

Ever since its founding, the Seven & i Group has embraced the basic policy of sharing 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 at our convenience store operations, 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 drove the evolution of its stores into "close-by, convenient stores" by developing high-quality original products and extending its lineup of the daily essentials to meet consumers' expectations. Moreover, SEJ is looking beyond the conventional definition of the convenience store market and is now targeting all food-related markets including food and beverage retail, restaurants, and take-home meals. This combined target market has total sales of approximately

## CAPITAL AND BUSINESS ALLIANCE PARTNERS AND MAIN OBJECTIVES

<b>DAIICHI CO., LTD.</b>	Bolster merchandising capabilities in Hokkaido (Joint purchasing, implementing logistics reforms, etc.)
<b>Tenmaya Store Co., Ltd.</b>	Strengthen business in West Japan (Jointly remodel the IY Fukuyama Store, etc.)
<b>Nissen Holdings Co., Ltd.</b>	Utilize products developed in-house and Internet shopping expertise (Expertise in Internet sales, specialty store retailing of private-brand apparel (SPA), and catalog sales)
<b>Barneys Japan Co., Ltd.</b>	Enhance the lineup of high-quality products with brand appeal (Utilize Barneys' purchasing functions and overseas product procurement expertise, etc.)
<b>BALS CORPORATION</b>	Develop products and sell at department stores, shopping malls, and on the Internet (Collaboration with IY, department stores, SEJ and others in the sundries field)

¥74 trillion, and since SEJ's current share is only about 5%, there are still ample opportunities for growth. We have positioned SEJ as the core driver of Group growth, and will continue to actively invest in the company. In the fiscal year ending February 2015, SEJ plans to open a record-high 1,600 stores.

In North America, 7-Eleven, Inc. (SEI) has been differentiating itself by reinforcing its range of private-brand products such as *7-Select* and fresh food offerings, and improving its store operations. These initiatives are starting to bear fruit, in terms of boosting SEI's profitability. In store openings, SEI employs the market concentration strategy, just like SEJ in Japan, to ensure effective merchandising and efficient infrastructure usage. In the future, SEI will organize the stores it has acquired and convert them into franchised stores, with the aim of further increasing its profitability.

#### ● Superstore Operations

In superstore operations, there were signs of profitability improvements, such as an improved gross profit margin, supported mainly by progress on business structure reforms and enhanced private-brand products.

Apparel merchandising reforms at IY have begun to show results. We have boosted customer service to increase the value appeal of our stores, in addition to driving growth in sales of private-brand products. IY has enhanced its store cost structure by optimizing

directly-managed sales areas and attracting more tenants. Going forward, we will continue to actively implement reforms. Measures will include developing new business formats such as GRAND TREE MUSASHIKOSUGI, where the Group's Sogo & Seibu, THE LOFT, and Akachan Honpo stores will provide new store concepts, layouts, and services. Another initiative will be to reenergize the Kansai area by setting up the West Japan Business Dept.

### ● Department Store Operations

In department store operations, we are expanding our retailer-managed merchandising and store-managed sales areas in order to differentiate our offerings and make our department stores more attractive. Sharing raw materials and using the same business partners among Group companies 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. Furthermore, we will enhance high-quality customer service, total consulting functions and other amenities unique to department stores.

Based on the foregoing, we are forecasting consolidated revenues from operations of ¥6,130.0 billion and consolidated operating income of ¥356.0 billion in the fiscal year ending February 2015, both of which will be record-highs for a fourth consecutive year.

### Financial Policy and Shareholder Returns Targeting a 10% ROE Over the Medium Term

We see consolidated operating income and consolidated ROE as crucial performance benchmarks for achieving our management goal of maximizing the Group's corporate value. Accordingly, we aim to achieve a 10% ROE over the medium term.

Our basic investment policy is to actively invest in growing businesses and to execute investments targeting earnings growth over the medium and long terms. As part of the former, we will invest intensively in convenience store operations, the core driver of Group earnings. As for the latter, we will consider M&As as an option to acquire businesses that we do not have in the Group, in addition to investing in infrastructure needed to realize the Omni-Channel Strategy, such as the development of logistics and delivery systems.

### 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 base consolidated payout ratio of at least 35%, and to improve it further in the future in accordance with profit growth. For this, we plan to increase cash dividends per share for the fiscal year ending February 2015 by ¥2, to ¥70. This follows a rise of ¥4 per share in the previous term, to ¥68. 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. Therefore, we realize that we can only grow when society does and that we have to address changes in the social climate and help to solve social issues. We believe that social changes generate new demand, and that our ongoing efforts to address those changes and seize on demand will increase our corporate value over the medium and long terms. We will continue to see social changes as opportunities and work to 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 2014



Noritoshi Murata  
President and Chief Operating Officer