

## INTERVIEW WITH THE PRESIDENT

In the fiscal year ended February 28, 2015, Seven & i Holdings delivered record-high revenues from operations and operating income. The Group's total sales topped ¥10 trillion for the first time in domestic retail history while operating income marked a new record high for a fourth consecutive year.

We will continue to address the changing social climate by providing high-value-added products and services and practicing “Management Focused on Quality.”

### Providing Products and Services That Meet the Changing Needs of the Living Environment

The fiscal year ended February 28, 2015 presented a challenging business environment. The government increased the consumption tax rate from 5% to 8%, and we had a summer of poor weather. The situation in the fiscal year ending February 29, 2016 remains challenging with consumers set to tighten their belts even more in response to further consumption tax rate increases. In the retail business, however, we found a new opportunity for growth. We are beginning to see some signs of hope in the consumption environment, such as gradual increases in real income based on wage hikes. However, the trends are not uniform throughout Japan, and the differences in consumption expenditure between regions and generations are widening. Consumers are demanding a more finely tuned response to the challenges of their living environments. The Seven & i Group will dedicate itself to developing new products that add high value by responding in detail to these changes in consumer needs and to enhancing face-to-face sales. In doing so, we will increase our opportunities for business growth.

Seven & i Holdings has adopted a Group management principle of “Responding to Change while Strengthening Fundamentals,” and emphasizes the importance of

responding swiftly to changes in consumer needs. Since the fiscal year ended February 28, 2014, we have been promoting a Group policy of “Management Focused on Quality” as a strategy to avoid becoming embroiled in price-based competition. Recent consumption trends show that people increasingly prefer to pay a little more for quality to the extent that they need, and this trend has become more pronounced in this era of consumption tax rate increases. At the time of the previous consumption tax rate increase in April 1997, a financial crisis started from the autumn and with the market itself in contraction, personal consumption trends revealed that consumers were inclined to prioritize low prices above other factors. By comparison, today we are in a mature consumption environment, and consumers' approach to saving money has shifted from one of simply focusing on price to one of avoiding unnecessary purchases. As a result, personal consumption is becoming clearly polarized, with companies that focused exclusively on low prices now engaged in a bitter struggle, while companies that have been able to propose added value are seeing earnings growth, and so forth. The age of mass consumption has passed. As we move forward into an age where profits will be generated by adding higher value to individual products, we will differentiate ourselves by developing more quality-driven offerings, particularly in the Group's private-brand products and the original products of



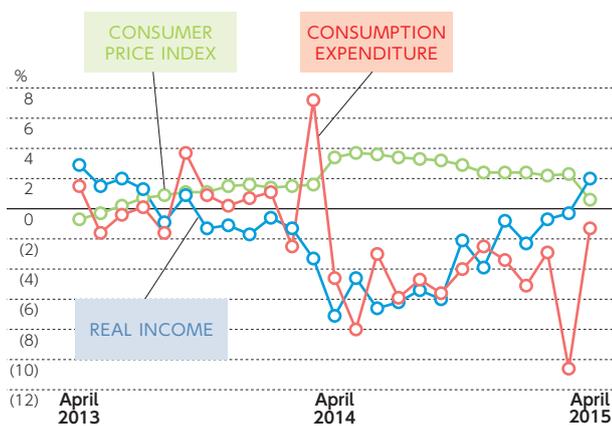
NORITOSHI MURATA  
President and Chief Operating Officer

each operating company, and by enhancing our customer service capabilities. Moreover, Japan's social structure is changing, with a falling birthrate, an aging population, and an increasing percentage of working women. We will take these structural changes as business opportunities and create new unique value to offer consumers by leveraging organic links between our Group companies.

## Group Policies

The Group will respond flexibly to changes in consumers' needs. Regarding specific policies for the fiscal year ending February 29, 2016, we aim to "Break Away from Conventional Chain Store Management," "Strengthen Operations at the Regional and Individual Store Levels," and "To Begin Full-Scale Operation of the Omni-Channel Strategy." To

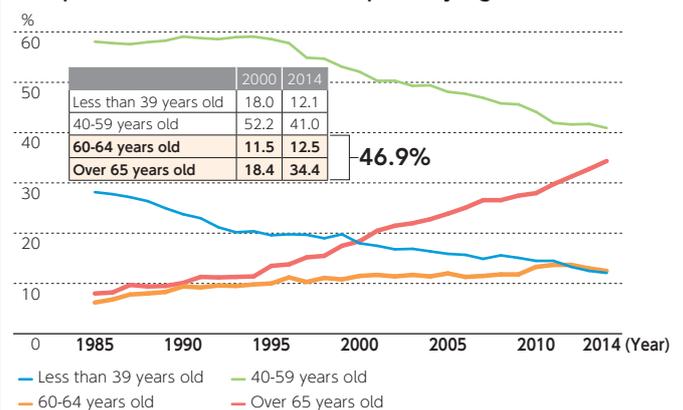
### TREND IN THE CONSUMPTION ENVIRONMENT



Source: Ministry of Internal Affairs and Communications

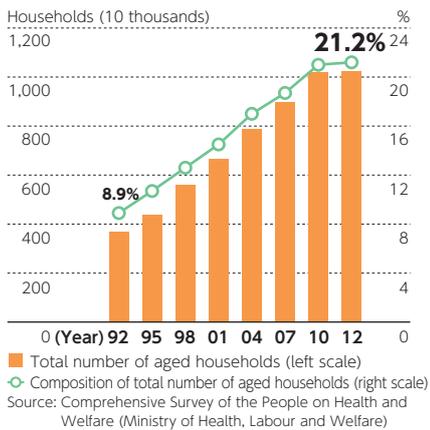
### INCREASE OF THE SENIOR SECTOR WITHIN DOMESTIC CONSUMPTION

#### Composition of Personal Consumption by Age

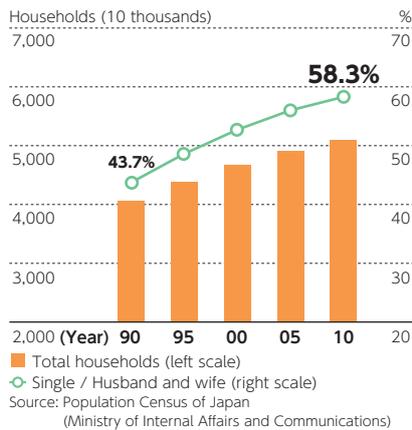


Source: Household Expenditure Survey  
(Ministry of Internal Affairs and Communications)

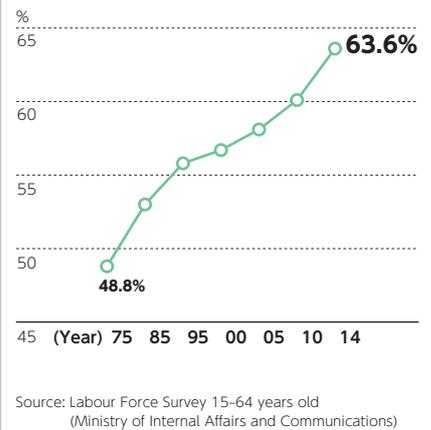
### INCREASE IN NUMBER OF AGED HOUSEHOLDS



### INCREASE IN NUMBER OF PEOPLE PER HOUSEHOLD



### INCREASE IN NUMBER OF FEMALE EMPLOYEES IN JAPAN



continue growing, we must persist in responding to the changing social environment. In a market of mature buyers, it is vital to create sales areas tailored to each region and the characteristics of each individual store, and to create an operating structure that will achieve this. We will strengthen our initiatives in this area across the Group. Furthermore, the fiscal year ending February 29, 2016 is the 10th anniversary of the establishment of Seven & i Holdings. In October this year, we will commence the full-scale rollout of the Omni-Channel Strategy—a service that will provide new value in retail by using the combined capabilities of our infrastructure, such as the Group’s store network, and our various types of businesses. To progress to “the second stage of its growth,” the Group will seek to strengthen its existing businesses while introducing innovations.

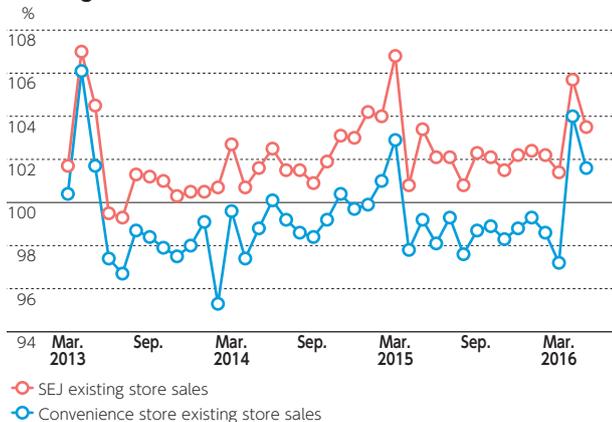
## Breaking Away from Conventional Chain Store Management

Chain Store management is based on a uniform nationwide merchandise lineup led by the Head Office. It is a business model that pursues management efficiency through mass store openings and large-scale operations. The mechanisms of efficient management from the U.S. were a good match for Japan’s period of high economic growth, and produced strong results. In today’s mature society, however, as consumption becomes saturated and consumer needs diversify, the conventional model of Chain Store management cannot meet the various demands of consumers. The reason for this is the widening difference in inter-regional preferences which causes opportunities to begin to slip away under a Head Office-led system. The Seven & i Group seeks to respond to consumer needs more quickly and in finer detail. To do so, we will construct a management framework that enables individual stores to take the lead in creating product lineups and sales areas that match the needs of local consumers.

At Seven-Eleven Japan (SEJ), existing store sales growth and the gross profit margin both increased during the fiscal year ended February 28, 2015, and the company achieved a new record for operating income. SEJ’s franchisees and the Head Office took on clearly delineated roles, with stores focusing on store management, especially sales, and the Head Office providing multifaceted support for store management, including promotion of products and sales, as well as systems. The Head Office and stores have built a strong trust relationship under this structure. Convenience stores are based on a franchise business, and each store is a sole owner-operated enterprise. Applying a push-style of Head Office-led management to such owner-operated enterprises is ineffective. SEJ’s answer has been to employ

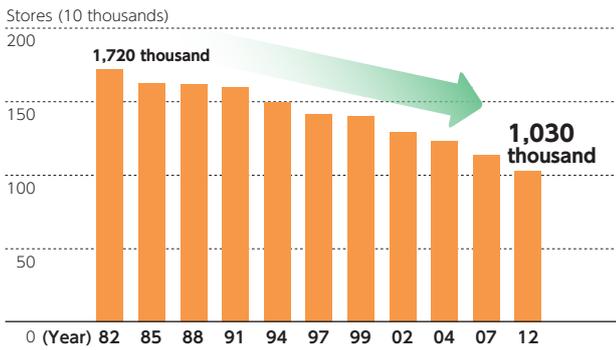
### EXISTING STORE SALES AT SEVEN-ELEVEN JAPAN

#### 34 Months of Continuous Year-on-Year Growth in Existing Store Sales



Note: SEJ’s existing store sales growth is presented based on a new standard from fiscal 2013 onward.  
Source: Japan Franchise Association Monthly Convenience Store Survey

## DECLINE IN NUMBER OF RETAIL STORES



Source: The Census of Commerce (Ministry of Economy, Trade and Industry)

team merchandising, where we ask the owners to think for themselves about product development that will satisfy their customers, and we then team up with external manufacturers that have production technologies to make the products. In other words, since the founding of the company, the store management has been led by individual stores, and the company has a robust business platform that is able to cope flexibly with changes in the social environment and regional characteristics. To give a specific example, in advance of the consumption tax rate increase in April 2014, we established a clear merchandising strategy for after the increase, and by systematically developing new products and renewing existing ones, we were able to continue growing our sales. Furthermore, when we piloted product development tailored to regional preferences in the Kansai and Nagano areas, we achieved results that

exceeded our national average. The greatest strength of SEJ is therefore the ability to respond to consumer needs using its business infrastructure. And, I believe we are seeing this translate into growth as a corporation.

We will reflect the example of SEJ across the entire Group as we proceed to drive the evolution of Chain Store management.

### Strengthening Operations at the Regional and Individual Store Levels

We aim to break free from conventional Chain Store management and strengthen the Group's regional response and build a store-led operating framework.

At SEJ, we reorganized the Merchandising Department in January 2015 by dividing it internally by regions. This is one way we aim to reinforce our regional response, with a view to strengthening our systems for developing and selling products to suit local markets.

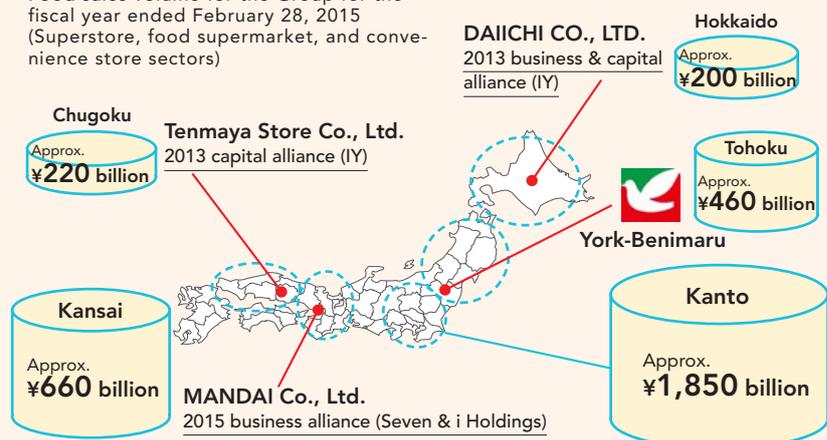
Meanwhile, at Ito-Yokado (IY), which is currently facing challenges, we will break free from conventional Chain Store management, and from dependence on wholesalers for development, by taking our own initiatives to create product lineups and sales areas that reflect consumers' needs. We will implement store management that is closely tied to the local community. To this end, we have greatly expanded the sales authority of stores, who have a good grasp of the characteristics of their local markets. At the same time, we have shifted to an organizational structure that can provide back up when stores require it, such as merchandise procurement functions.

### Store Management Closely Tied to Local Communities

The Seven & i Group is taking steps to strengthen its operations at the regional and individual store levels. We will leverage our infrastructure, including stores and distribution systems, while working to increase our procurement capabilities for regional merchandise through links with capital and business alliance partners. We will focus mainly on food products, which can easily reflect regional preferences.

#### Group Food Product Sales by Region

Food sales volume for the Group for the fiscal year ended February 28, 2015 (Superstore, food supermarket, and convenience store sectors)



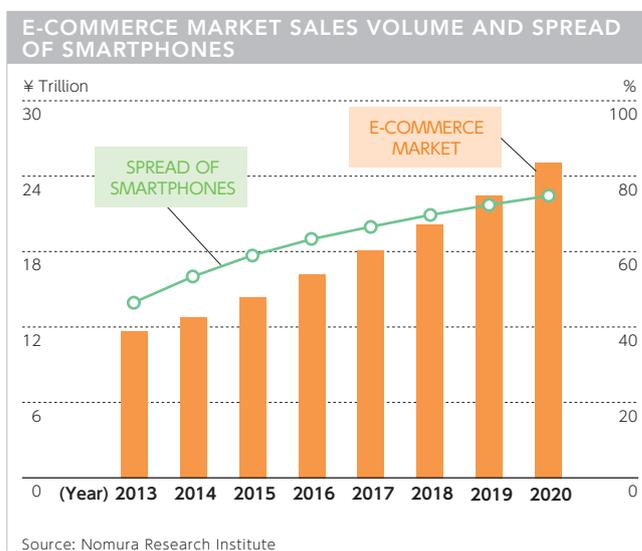
## The Omni-Channel Strategy

In its Omni-Channel Strategy, the Group integrates real stores with the Internet to enable customers to seamlessly order, purchase, and collect products from all manner of customer contact points. Merchandise sales will now need to provide both the immediacy of Internet shopping and the confidence of being able to actually hold a product in your hand to check the quality. We see the ability to provide total services in this way as a strength of the retail industry.

We expect to achieve two things through the Omni-Channel Strategy. The first is to strengthen our product development with new perspectives by teaming up with external manufacturers. The second is to strengthen customer service in real stores, as a way to provide people with the information they really want in an age where they are now flooded with information due to the proliferation of smartphones and other factors.

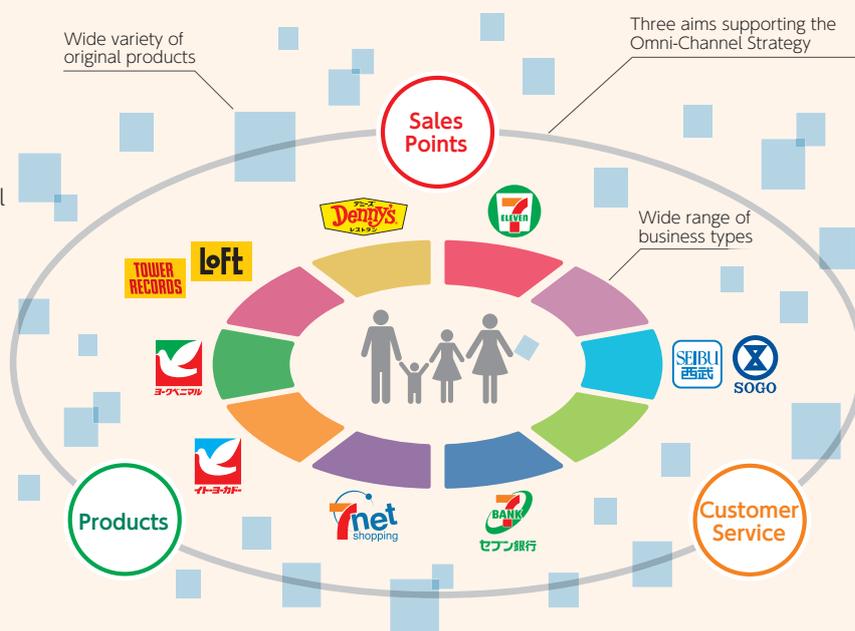
For example, at Sogo & Seibu, as one of our service functions for customers, we offer a free cosmetic counseling service called *Kirei Station*. The service is focused on providing proposals that meet customers' needs without being tied to cosmetics from any one manufacturer or brand. Here, customers' purchasing behavior moves between the Internet and real stores, from making counseling appointments to store front purchases and repurchases. This is one example of how we have realized the Omni-Channel Strategy of drawing out latent customer needs by making proposals through multiple channels.

We have positioned the Omni-Channel Strategy as a driver for our "second stage of growth," and will aim to use it to maximize the Group's value going forward. The Group's strength is its ability to leverage an infrastructure spanning a wide array of business formats, including convenience stores, superstores, food supermarkets, department stores, specialty stores, and restaurants, with a network of approximately 19,000 stores in Japan receiving approximately 20.5 million visitors per day. We also see business opportunities in the expansion of the e-commerce market, which is driven by an increase in individual users.



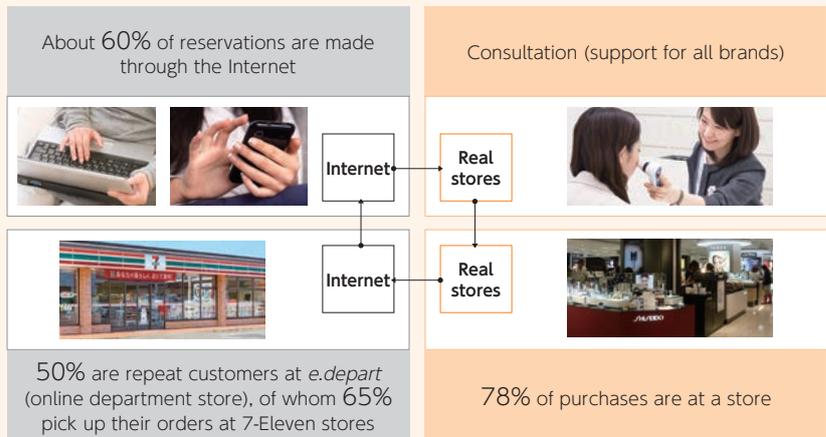
### Omni-Channel Strategy Conceptual Diagram

By merging real-store and Internet-based services, the Group aims to advance its sales, products, and customer service to realize the world's ultimate Omni-Channel retail format for providing services that meet individual customers' needs.



## Case Study of Kirei Station at Sogo & Seibu (Free Consultation Service for Cosmetics)

The purchasing behavior of customers shows a tendency to go back and forth between Internet stores and real stores. We can discover latent needs as a Group by setting up multiple channels and inter-linking them.

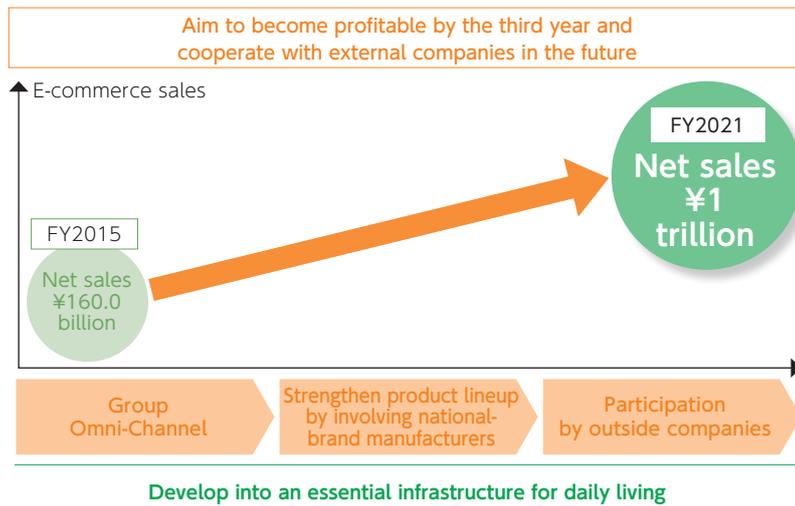


### • Developing New Sales Styles with the Omni-Channel Strategy

The Omni-Channel Strategy is gaining recognition among consumers for providing a unique service that brings together the flexibility of face-to-face sales and the convenience of Internet shopping. We have started our Omni-Channel Strategy with our own internal brands, but aim to expand the service by bringing national-brand manufacturers on board and eventually develop the system into an essential infrastructure for supporting consumers' lifestyles. We aim to turn a profit in the third year of operation, while consolidating our foundations, targeting net sales of ¥1 trillion in fiscal year ending February 28, 2021.

7-Eleven stores handle around 2,800 products; however, around 3 million items are available in the store, including the Group's Internet-based products. In the future, we envisage an open platform available for participation by external companies, which we expect to create various possibilities, such as increases in store visits and acquisition of new customers.

### ■ Omni-Channel Strategy Business Road Map



### ■ Project Creation for Plan Implementation

| Project                    | Theme  |
|----------------------------|--|
| 1. Products                | Development of innovative, high-quality private brands and product information conveying value and appeal        |
| 2. Stores and Distribution | Receipts and returns accepted at stores, customer sales via tablet devices, and same-day deliveries              |
| 3. Internet and Membership | Universal ID for customer-focused loyalty programs and settlement services, and individualized product proposals |
| 4. Security                | Security qualification acquisition, customer base management, and supervision and audit systems                  |

## Further Expansion of Private-Brand Product Sales

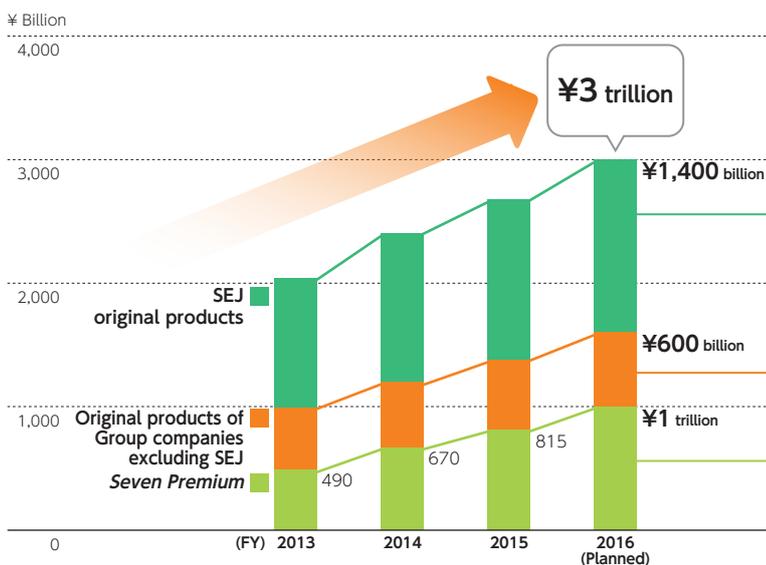
As consumer needs continue to diversify, we are working to create high-value-added products that consumers will love. The Seven & i Group has already harnessed team merchandising with outstanding suppliers. We have developed a line of products that combine quality and reasonable pricing to build a new private-brand concept that accommodates consumer tastes. This private brand embodies the Group's corporate policy of providing quality-oriented products. Another feature is that it provides products at a uniform price for all formats from convenience stores to department stores.

### Seven Premium

We launched *Seven Premium* private-brand products in May 2007. We created this category by drawing on original product development techniques within SEJ and leveraging the product development expertise and sales capabilities of Group companies. With customers

increasingly seeking quality and reasonable pricing, *Seven Premium* product sales grew 21.6% year on year in the fiscal year ended February 28, 2015 to ¥815 billion, and our target for the fiscal year ending February 29, 2016 is ¥1 trillion.

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



### 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 could not be developed without our essential 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.



Seven Gold: Golden Bread

## POSITIONING AND CONCEPT FOR PRIVATE-BRAND PRODUCTS



### Seven Gold

- *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



## Renewing Existing Products

The Seven & i Group's emphasis on responding to change also underpins its product development. Each year, we renew around 50% of our existing *Seven Premium* products to ensure customers do not tire of the taste and to further improve quality. As a result of our efforts, *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 144, an increase of 24 from the previous fiscal year.

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

|                         | FY2014           | FY2015           |
|-------------------------|------------------|------------------|
| Daily food products     | 72 items         | 90 items         |
| Beverages and alcohol   | 28 items         | 28 items         |
| Confectionery           | 10 items         | 14 items         |
| Processed food products | 10 items         | 12 items         |
| <b>Total</b>            | <b>120 items</b> | <b>144 items</b> |

## Progress among Major Group Companies and Outlook for Fiscal Year Ending February 29, 2016

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 opportunities for long-term growth in the changing social environment. These included an aging population, households with fewer members, an increase in the number of working women, 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, and drove the evolution of its stores into “close-by, convenient stores” by

developing high-quality original products and extending its lineup of daily essentials to meet consumers' expectations. Moreover, SEJ is targeting all food-related markets including food and beverage retail, restaurants, and take-home meals—a combined target market with total sales of approximately ¥74 trillion. Since SEJ's current share of this gigantic market 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 29, 2016, SEJ plans to open a record-high 1,700 stores.

In North America, 7-Eleven, Inc. (SEI) will continue to focus on development and sales of fresh food offerings, mainly hot food, and the *7-Select* range of private-brand products. It will also improve store operations through rigorous item-by-item management and other means. SEI will continue to convert its directly operated stores into franchised stores as this initiative has started 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, and it will continue to open stores in urban areas and market concentration areas, including through M&As.

### • Superstore Operations

In superstore operations, IY will focus on enhancing sales capabilities by strengthening the development of private-brand products and face-to-face sales with customers. At the same time, it will take steps to breathe new life into existing stores, such as expanding their authority to make decisions on stock ordering and sales and constructing a store-led operating framework. We will also strengthen our *Net Supermarket* business to serve as a base for driving forward the Omni-Channel Strategy.

At York-Benimaru (YB), we rigorously implemented sales area creation that is closely tied with local communities, focusing particularly on the Tohoku and northern Kanto regions, and our efforts have highly impressed our customers. Including YB's subsidiary Life Foods, which produces and sells delicatessen items, the operating income ratio continues to exceed 4%. YB will continue to distinguish its offerings in fresh foods even more in collaboration with Life Foods.

### • Department Store Operations

In department store operations, Sogo & Seibu is expanding retailer-managed merchandising, focused on *Limited Edition* private-brand products, and store-managed sales areas to differentiate its offerings and make its department stores more attractive. We are targeting sales of ¥120 billion (up ¥20 billion from the previous fiscal year) in sales of our retailer-managed merchandising and store-managed sales areas for the fiscal year ending February 29, 2016. Furthermore, we will enhance high-quality customer service, total consulting functions, and other amenities.

Based on the foregoing, we are forecasting consolidated revenues from operations of ¥6,400 billion and consolidated operating income of ¥373 billion in the fiscal year ending February 29, 2016, which will be record highs, and for a fifth consecutive year in the case of operating income.

## 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.

In our basic investment policy, we have planned to make investments of ¥460 billion on a consolidated basis. We will actively invest in growing businesses. As part of this, we will invest intensively in convenience store operations, the core driver of Group earnings, and enhance their profit margins. Moreover, we will increase our investment in existing stores as a structural reform project and lift our asset turnover ratio. Eyeing medium- to long-term growth, we will also make infrastructure investments in systems for achieving our Omni-Channel Strategy.

### 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. We increased cash dividends per share for the fiscal year ending February 28, 2015 by ¥5, to ¥73, and in the fiscal year ending February 29, 2016, we are planning to increase dividends by ¥4 per share, to ¥77. We seek to maximize returns to shareholders through further earnings improvements going forward.

## Conclusion

We have continued to see social changes as opportunities, and have grown by constantly innovating. With our "second stage of growth," the Omni-Channel Strategy, we will anticipate changes in consumption trends and establish a new style of retail. It is the Group's mission to continue tackling such challenges. These efforts lead to increases in corporate value over the long term. We will continue working to maximize synergies between Group companies and to carve out a history of innovation that sets us apart as a Group. We would like to ask for the continued support of our shareholders and investors in the years ahead.

July 2015



NORITOSHI MURATA

President and Chief Operating Officer