

## Message from the President

We will work to establish a corporate culture that leverages originality and ingenuity while fostering collaboration between the front lines and management. On that basis, we will strive to become a retail business group that continually proposes new value to society.



### **Ryuichi Isaka**

President and  
Representative Director

Joined Seven-Eleven Japan Co., Ltd. (SEJ), in 1980. Became Director of SEJ in 2002 and Managing Executive Officer of SEJ in 2006. After working as Director & Managing Executive Officer of the Merchandising & Foods Department, became President and Representative Director of SEJ in 2009. President and Representative Director of Seven & i Holdings from May 2016

## My Approach to Management

Over seven years from 2009, I led Seven-Eleven Japan (SEJ) in the convenience store industry, which many people believed to be saturated. Looking back over those seven years, there were gradual changes in people's lifestyles due to such trends as fewer children per family, an aging population, and an increase in the number of working women. On the other hand, there was something of a paradox in that the number of retail stores declined. In response to these changes, SEJ went through a process of repeated deliberations about the social mission and value of convenience stores. This process resulted in the creation of the "close-by, convenient" concept, and everyone at SEJ, including franchisees, began working to create "close-by, convenient stores." In accordance with this concept, we not only reevaluated our product mix but also developed new fixtures and equipment designed for new product categories, and we worked to propose new sales methods. Furthermore, we rigorously implemented the management PDCA cycle, and franchisees, business partners, front-line employees, and management all worked together with a strong sense of unity. As a result, existing store sales were up year on year for 48 consecutive months as of July 2016, and SEJ has achieved record-high operating income for five consecutive years.

A major reason for SEJ's success was the cumulative effect of an independent approach to originality and ingenuity on the front lines combined with innovative initiatives by headquarters based on opinions from the front lines that were leveraged through a bottom-up management process. Of course, IoT and other technical innovations are important, but I believe that if we implement Groupwide initiatives to cultivate seeds of potential innovation from the operating companies, those seeds will develop into major strengths for the Group and we will be able

to create new value for society. I will strive to make necessary decisions resolutely and rapidly, and, at the same time, I would like to see the Group transition to a more-open organization with a strong sense of unity to further enhance the cultivation of ideas from the front lines.

## Overview of the Fiscal Year Ended February 29, 2016, and Forecasts for the Fiscal Year Ending February 28, 2017

In the fiscal year ended February 29, 2016, revenues from operations were ¥6,045.7 billion, a year-on-year increase of ¥6.7 billion, or 0.1%. Operating income was ¥352.3 billion, up ¥8.9 billion, or 2.6%. Looking at operating income, superstore operations and department store operations faced difficult conditions, but convenience store operations continued to show strong growth in operating income, recording a gain of 9.9%, or ¥27.3 billion. Moreover, due to an increase in the number of installed ATMs, financial services recorded growth in the total number of transactions as well as growth in credit card and electronic money operations. As a result, operating income in financial services rose ¥2.5 billion, or 5.3%. In this way, convenience store operations and financial services were the driving force behind growth in the Group's operating income.

For the fiscal year ending February 28, 2017, we are forecasting increases of ¥91.2 billion, or 1.5%, in revenues from operations and of ¥26.6 billion, or 7.6%, in operating income. We expect continued strong growth in convenience store operations and financial services. In addition, we will strive to achieve our targets by improving profitability in operations that did not achieve the expected results in the fiscal year ended February 29, 2016.

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## Message from the President

### Outlook for the Group's Operating Environment

In Japan, consumer purchasing behavior is continually changing due to the ongoing trends toward fewer children per family and an aging population, a rise in the number of one-person households, and an increase in the number of working women. We expect the changes in the social structure to intensify, including the decrease in the number of retail stores. We also anticipate acceleration in the declining preparation of meals at home and the growing use of e-commerce. Moreover, uncertainty about the future is increasing due to the shift to an underlying trend of yen appreciation, the plan for another increase in the consumption tax in October 2019, and other factors. Customers are taking an increasingly strict approach to product pricing and value.

On the other hand, looking at the future business environment, a key point will be addressing the trend toward a focus on the overall "customer experience" rather than "products." Nuts, a typical snack, is one example. Due to the recent health boom, the nutritional value of nuts has been the focus of growing attention, and the number of people eating nuts for breakfast has started to increase. Focusing on this "customer experience," we changed the shelving location of nuts. Previously, nuts had been shelved near delicacies and alcoholic beverages, but after we moved them to a location near cereal and yogurt, their sales increased substantially. If we can accurately track two types of changes — in the social structure and in consumer attitudes and behavior — I believe that the products and services that we can propose will have unlimited potential.

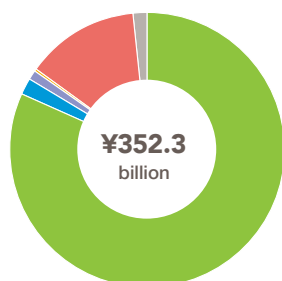


### Future Management Issues

The Group is overly dependent on convenience store operations and financial services for the generation of profits. The weak profits of other operations are a major issue for the Group, and consequently I believe that efficient resource allocation, especially investment in growth fields, will be extremely important. In dealing with unprofitable businesses, if the hypotheses and plans are mistaken, then we will correct them. However, if results do not improve even after we accurately implement the PDCA cycle, then we will have no choice but to reallocate our resources. Having said that, our operations are closely linked to the daily lives of consumers, and we cannot ignore the customers who are using our stores or the local communities where our stores

### Composition of Operating Income by Segment

(Fiscal year ended February 29, 2016)



Convenience store operations	86.3%
Superstore operations	2.1%
Department store operations	1.1%
Food services	0.3%
Financial services	14.1%
Mail order services	(2.4)%
Others	1.6%
Eliminations/Corporate	(3.0)%

### Capital Investment Plan for the Fiscal Year Ending February 28, 2017: Core Operating Companies

— Expanding store openings in growth businesses,  
activating existing stores —

	Amount	YoY %	YoY increase/ decrease
Consolidated capital expenditures	<b>492.7</b>	124.9%	+98.2
Seven-Eleven Japan	<b>170.0</b>	136.5%	+45.4
7-Eleven, Inc.	<b>190.0</b>	118.9%	+30.2
Ito-Yokado	<b>28.6</b>	83.4%	(5.6)
York-Benimaru	<b>13.2</b>	124.0%	+2.5
Sogo & Seibu	<b>12.5</b>	98.8%	(0.1)

## Moving forward, our growth strategy calls for focusing the Group's strengths to create new value with close ties to local communities.

are located. We cannot simply close stores because they are not profitable. Each store must address different local needs, and accordingly we will not look at operations by business format. Rather, we will reevaluate the value of each individual store from the viewpoint of customers in the local community while implementing ongoing dialogues with a variety of stakeholders.

In the past, SEJ decided its own direction and moved forward on that basis. Now, if businesses whose results are not meeting expectations repeatedly hold in-depth deliberations and determine their own direction in the same way, then I am confident that their organizational strength will improve significantly. If we foster change by earnestly working to meet the needs of local communities, without any preconceived ideas, then I think we will definitely see results.

### Leveraging Group Synergies

Internally, I think we should refer to Group synergies as growth strategies, and we should investigate them more deeply rather than simply implementing them on a Groupwide basis. The operating companies each have their own special strengths. Ito-Yokado has many stores located in the daily flow of consumer lifestyles in each community, while Sogo & Seibu has superior customer service and a wide pipeline with excellent suppliers. Moving forward, we will reevaluate these strengths and work to generate synergies. For example, if we step up collaboration in regions where the stores of the Group's operating companies are concentrated, we should be able to provide safer, more secure products at reasonable prices. In the past, synergies were generally considered to involve Groupwide initiatives, such as *Seven Premium*. Moving forward, however, I believe that essential growth strategies will entail leveraging the Group's strengths to create new value with close ties to local communities.

### Accelerating the Omni-Channel Strategy

Currently, e-commerce accounts for about 7% of domestic consumption. Accompanying advances in information and communications technologies, consumers are making steadily increasing use of the Internet for shopping. As a result, the Group's Omni-Channel Strategy has an extremely important position. The operating companies are taking the lead in implementing this strategy, and the active roles that all Group employees play is a key theme of these initiatives.

We will continue to enhance areas that need improvement, such as product lineup and usability, and we will leverage the strength of our overwhelming network of stores, at which customers can pick up and pay for their orders as well as make returns. Moreover, about 40% of the users of *omni7*, the Group's integrated portal site, are also making additional, unplanned purchases when they come to our stores to pick up their orders. Moving forward, we will advance the development of products with value that leverage the strengths of each operating company. We will also consider collaboration with other companies, such as those with appealing products that we lack and those with independent strengths in e-commerce.

### Sustainability as a Retail Group with Close Ties to Local Communities

As a retail services group with close ties to people's lifestyles and local communities, we strive to realize customer satisfaction by providing customers with value and peace of mind. This approach is the source of the Group's growth, and the social issues that are surfacing and expanding are extremely important issues for the Group. Accordingly, we believe that our duties include working to create new value by helping to resolve social issues faced through our core business activities.

## Targeting the next growth stage, in the year ahead we will clarify and share our mission and the course toward the achievement of that mission.

Currently, people are increasingly concerned about global environmental problems, and companies face growing demands and expectations for more-aggressive initiatives to resolve social issues. In 2014, in response to these changes in the times and social demands, we engaged in dialogues and discussions with a variety of stakeholders, and we identified five material issues (Materiality) for the Group to address. Prior to the identification of these issues, as I mentioned, at SEJ we thoroughly considered the social value of the Company and its stores. We originated the new concept of “close-by, convenient,” and we made that concept the center of our business activities. Group companies are taking steps to activate local communities, such as concluding comprehensive alliance agreements with municipalities and promoting training for those who provide support to people with dementia. Moreover, we established the Diversity Promotion Project and are stepping up our initiatives to advance the Group’s sustainable competitiveness and promote active roles for diverse human resources, including women.

Innovation on the front lines will be the key to what we can accomplish as a group in the years ahead. For example, in the past, deliveries of products to our convenience stores were typically handled during the daytime. However, there were many cases in which a day’s supply of products arrived during the daytime, and as a result there was an overflow of products in the small stores, which inconvenienced customers. We took steps to level out deliveries by also making deliveries at night-time, when fewer customers visit stores. As a result, we were able to provide a comfortable shopping environment for customers. We also realized a variety of other benefits, such as the alleviation of traffic congestion near the stores, reductions in greenhouse gas

emissions due to the smooth movement of trucks, and cost improvements due to improved truck fuel efficiency. This is a good example of how initiatives to resolve problems at the store level ended up enabling us to provide significant value to society.

In consideration of these types of cases, the entire Group will work together with enhanced motivation to generate new business opportunities, in such areas as products and services, and thereby help to resolve social issues through its core businesses.

### \* Five Material Issues (Materiality)

- Providing Social Infrastructure for an Aging Society and Declining Population
- Providing Safety and Reliability through Products and Stores
- Non-Wasteful Usage of Products, Ingredients and Energy
- Supporting the Active Role of Women, Youth and Seniors across the Group and in Society
- Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

### My Vision of the Group’s Future

Looking 5-to-10 years ahead, I think that the key words for the Group will be “food” and “global.” First, in regard to the key word “food,” we are already active in the sale of fresh foods, and that will remain an important business going forward. However, given the aging of society and the increase in the number of working women, there are a growing number of people who do not have time to prepare meals, and there will be an expanding need for the preparation of fresh food. Furthermore, we will take steps to



not only sell prepared products at Group stores but also deliver them directly, such as to hospitals, companies, and schools. By deepening our approach to the category of food, I am confident that we will be able to build a solid position.

In regard to the key word “global,” there are currently about 60,000 7-Eleven stores in 17 countries and regions, and there is still significant room for further growth. In particular, we are focusing on developing countries and the United States, where infrastructure demand is strong. The strength of SEJ’s business model is the robust supply chain, and, by building a similar supply chain overseas, I believe that it will be possible to achieve rapid business expansion.

### In Closing

To maintain the trust of large numbers of stakeholders, we will work closely with each operating company as “Team Seven & i,” and we will fulfill our disclosure responsibilities. In addition, we will incorporate the diverse opinions of Outside Directors and Outside Audit & Supervisory Board Members and will implement fair and transparent decision-making processes through the Nomination and Compensation Committee and the Management Committee (Portfolio Committee).

The Group’s mission is to continually propose new value to society and to contribute to society’s advancement. I would like to build an organization in which employees in all locations boldly take on challenges with that sense of our mission. It is not an exaggeration to say the year ahead will determine whether or not we can take an important step toward the next stage. Accordingly, we will make the next year a period for clarifying

and sharing our future mission and the course toward its realization. We will work with determination to tackle a variety of issues so that the Group can become even stronger, and accordingly I would like to ask for your continued understanding and support of the Seven & i Group.

August 2016

President and Representative Director