

Human Resources and Corporate Culture



People are the Seven & i Group's most important management asset. The Group has consistently practiced the Group corporate creed, "We aim to be a sincere company that is trusted," which was established in 1972, and the management principle, "Responding to Change while Strengthening Fundamentals," which was formulated in 1982. Both the creed and the slogan have become deeply ingrained as our corporate culture, and that culture has become the source of our growth. Moreover, in consideration of changes in society, such as the diversification of consumer needs and the shortage of human resources, in recent years the Group has focused on the promotion of diversity.

Ensuring a Common Understanding through Direct Communication

In accordance with the idea that "leadership is enabling employees to do their best," our management leaders are repeatedly communicating and promoting awareness of our basic strategies, such as "hypothesis and verification" and "item-by-item management," as well as the Group corporate creed and the Group slogan. In particular, the value placed on direct communication is one of the Group's notable strengths. For example, for 40 years Seven-Eleven Japan (SEJ) has held the Consultants Meeting once every two weeks at the Tokyo Head Office. This meeting is attended by about 2,500 Operations Field Consultants (OFCs) from around the country. The participants meet face-to-face to share and discuss not only the aforementioned basic strategies but also the latest market trends, examples of successes in each region, and information related to new products, including product features and information about the product launch, such as the background and objectives. As a result, OFCs are able to provide ordering and product lineup advice to franchisees based on a deep understanding of the business, which leads to a high percentage of stores that introduce products recommended by the SEJ Head Office.

Ito-Yokado (IY) has monthly meetings attended by store managers from around the country, which are known as Store Managers' Meetings. Management policies, sales plans, and product information are shared at these meetings. The foundation of these activities is our commitment to the idea that the sales front lines are the point of contact with the customer, and the role of the IY Head Office is to support the front lines. In this way, we have established a framework that facilitates the sharing of basic strategies and makes it easy to implement those strategies in line with each store's local community.

Some may think that with today's advanced communications, it is inefficient to assemble employees from around the country, but we believe that face-to-face communication is the most effective means to share values and an awareness of issues.



Consultants Meeting

Promoting Diversity

In 2012, we established the Seven & i Group Diversity Promotion Project to enhance our competitiveness in the achievement of sustained growth by facilitating the active participation of diverse human resources. Most of our customers are women, and accordingly our initial focus was on the promotion of active roles for women. We established targets to be achieved by the end of February 2016 and implemented a range of initiatives. One of these targets called for the percentage of female managers at the level of section manager or higher to reach 20%. We have achieved that target. Accordingly, we have formulated targets to be achieved by the end of February 2020, and we are now implementing initiatives in cooperation with Group companies.

Specifically, to promote the rapid, wide-ranging roll out of project initiatives in each operating company, the Diversity Promotion Project has been holding quarterly diversity promotion liaison meetings. These meetings are attended by the people responsible for diversity promotion at the operating companies.*1 In addition, we are holding seminars to provide female employees involved in childcare with assistance in career plan formulation as well as seminars for female managers to help them enhance their management capabilities. We are also conducting Diversity Management Seminars and utilizing handbooks to help raise the awareness of managers. Furthermore, we are implementing initiatives to encourage greater participation in the childcare process by men, and from the fiscal year ended February 2016, to eliminate the need for employees to retire to provide family care, we are taking steps to support both work and family care, such as sponsoring family care seminars.

These initiatives have been highly evaluated outside the Group, and in 2015 we received the Prime Minister's Award at the Leading Companies Where Women Shine Awards, established by the Cabinet Office, and the Corporate Activity Award from the Tokyo Stock Exchange. These awards were received due to favorable evaluations of the Group's high ratios of female

corporate officers and female managers, the Group's aggressive disclosure of the active roles of women, and the Group's efforts to change the awareness of women and men in management and non-management positions. In addition, in 2015 IY became the first company in the Tokyo metropolitan area to receive the "Platinum Kurumin" Mark*2 certification from the Ministry of Health, Labour and Welfare.

In June 2016, at a forum on rectifying the issue of long work hours, the president of the Company signed a declaration regarding the reform of work hours. Moving forward, we will implement further initiatives to reform working styles.

*1. Total for 12 companies: Seven & i Holdings, SEJ, IY, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank, York Mart, THE LOFT, Seven Bi no Garden, and Seven Financial Service (as of the end of July 2016)

*2. "Kurumin" certification recognizes companies that have met certain standards in such areas as implementing countermeasures to the trend toward fewer children per family and providing support for child rearing. "Platinum Kurumin" is a certification system for companies that have already received "Kurumin" certification from the Ministry of Health, Labour and Welfare and are implementing initiatives at a higher level.

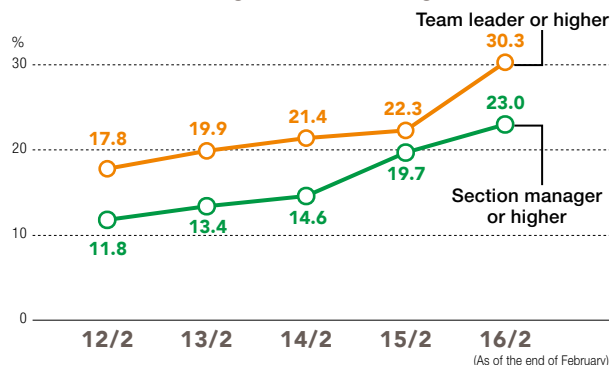
Five Targets to be Attained

By the End of February 2020

- Raise percentage of female managers: 30%
- Encourage male employees to participate in childcare
- Eliminate retirements resulting from need to provide family care
- Improve employee satisfaction
- Improve external evaluation

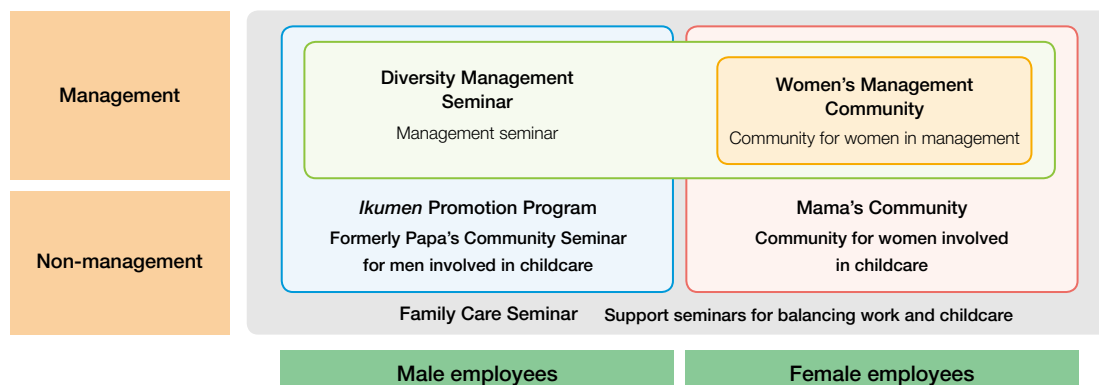
(Revised January 2016)

Trends in the Percentage of Female Managers



Note: Total for 8 companies (Seven & i Holdings, SEJ, IY, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank)

Promoting Active Roles for Women through Seminars and Community Activities



Franchisees



SEJ is the core company of the Group, and since SEJ's founding in 1973, it has advanced the franchise business in accordance with the philosophy of "modernizing and revitalizing small and medium-sized retail stores." Like consumers, franchisees are our valued customers, and at the same time they are also our most important partners in the pursuit of mutual prosperity.

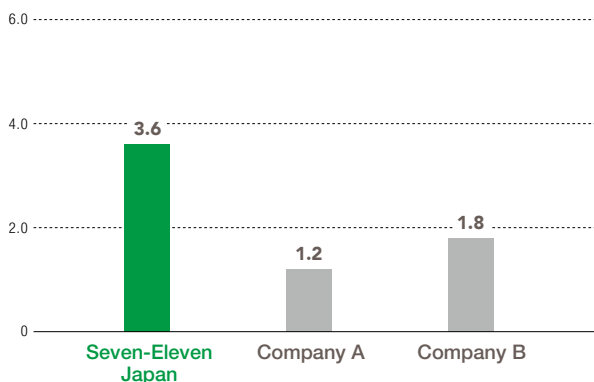
Franchise System and Its Distinctive Features

The relationship between the franchisees and the SEJ Head Office is based on a clear division of roles between the implementation of store management and the provision of support for store management. The two sides work together as equals. This system uses the gross profit allocation method, and accordingly both sides focus on increasing gross profit rather than sales. In addition to providing management advice, the SEJ Head Office covers 80% of utility costs so that customers are always provided with a comfortable sales environment. Moreover, the SEJ Head Office also covers 15% of defective products so that customers can always enjoy an extensive product lineup. In these ways, we are working to achieve mutual prosperity through the provision of helpful support to the franchisees.

In addition, SEJ has set the level of royalties paid by franchisees ("Seven-Eleven Charge") at a high level, even in comparison with other companies in the industry. The reason is that we are taking steps to increase our competitive strength and creating a cycle of favorable growth in profits for both franchisees and SEJ. For example, our per-store advertising expenses are more than double those of other companies, and we offer aggressive support for franchisees, such as in the development of new products and the introduction of new fixtures.

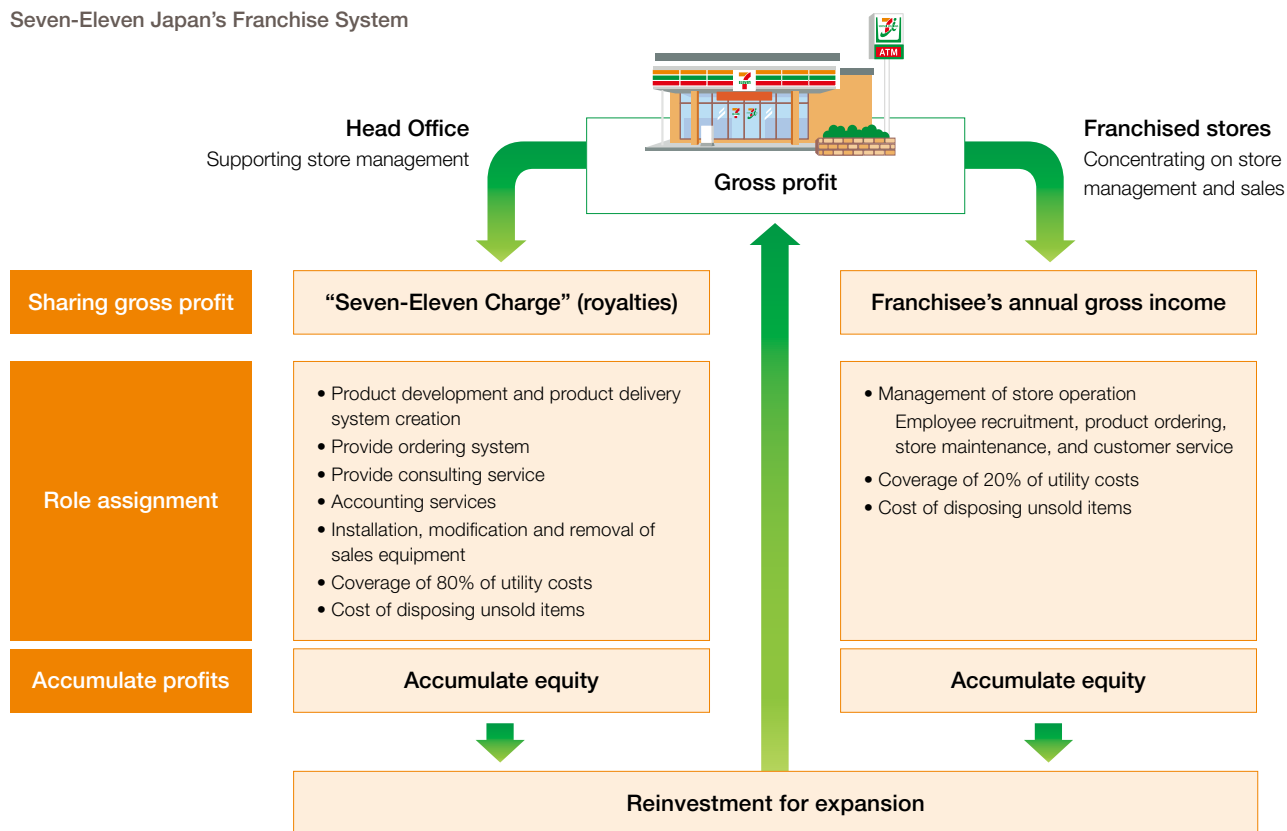
Domestic Per-Store Advertising Expenses

¥ Million



Note: Figures for Company A and Company B are on a non-consolidated basis.
Source: Financial results materials for each company for fiscal periods ended February 2016

Seven-Eleven Japan's Franchise System



Support in Intangible Areas

SEJ has about 2,500 Operations Field Consultants (OFCs) in Japan. OFCs are each responsible for seven or eight stores, for which they provide store management know-how consulting. OFCs regularly visit the franchise stores in the region they handle, and they provide support for increasing store sales and profits by offering a variety of advice, such as suggestions for improving ordering and shelving through the process of hypothesis and verification. Furthermore, they provide support to enable store management to reflect the needs of customers in the local community. In addition, SEJ has built a framework under which information is carefully communicated to approximately 18,500 stores throughout Japan, and the stores then apply their understanding to management. Such information covers new products and other matters that is shared by the SEJ Head Office as needed, as well as information about management policies and initiatives that is shared by OFCs at meetings at the SEJ Head Office. At the same time, OFCs play the role of mediator in their close communication with the Head Office and the stores, such as informing the Head Office of the concerns and issues of franchisees and formulating countermeasures.

In addition to the support provided by OFCs, we also hold

semi-annual product exhibitions at 11 locations around Japan. At these exhibitions, the franchisees receive introductions to new products and services from the people responsible for product development as well as explanations of proposals for creating sales areas. Furthermore, to promote store management closely linked to local communities, we implement study meetings to improve service in each region and explanatory meetings for locally developed products.

Furthermore, since our establishment we have continued to provide awards to superior stores as a means of demonstrating our respect for the franchisee owners who are implementing superior store management. Specifically, the awards recognize the thorough implementation of the four basic principles — friendly service, product lineup, freshness management, and cleanliness — as well as exemplary management for the region, including the implementation of item-by-item management and numerical results. In the fiscal year ended February 2016, 225 franchisees were recognized with awards.

The implementation of this approach and framework, under which individual franchisees take the lead in management and the Head Office provides thorough support, has also become an established practice at 7-Eleven, Inc., in the United States, where it is similarly supporting growth in the franchise business.

Stores and Distribution Infrastructure



The Group's basic strategy is the market concentration strategy, under which Group companies implement concentrated store openings within the same region, without regard to store formats. This market concentration store opening strategy is the key to the Group's competitive strength. It increases customer recognition in our marketing activities, substantially enhances efficiency in distribution, and leads to differentiation through original products.

Additional Value Created by the Market Concentration Strategy

In addition to SEJ, the Group also implements market concentration for IY superstores and *Ario* shopping centers, principally in the Kanto region; York-Benimaru food supermarkets, mainly in the southern Tohoku and northern Kanto regions; and York Mart food supermarkets, principally in the southern Kanto region. The merits of the market concentration strategy include increased recognition among customers in the local community and efficient advertising and sales promotion focused on a specific region.

The most significant value is in the area of distribution. With a high concentration of stores in a region, delivery routes are more efficient and it is possible to reduce the amount delivered to stores at one time and to implement small-lot deliveries. Furthermore, the profitability of capital investment increases due to lower costs that accompany more-efficient distribution and makes it possible for SEJ to benefit from dedicated production facilities operated by manufacturers and suppliers as well as to operate combined distribution centers.

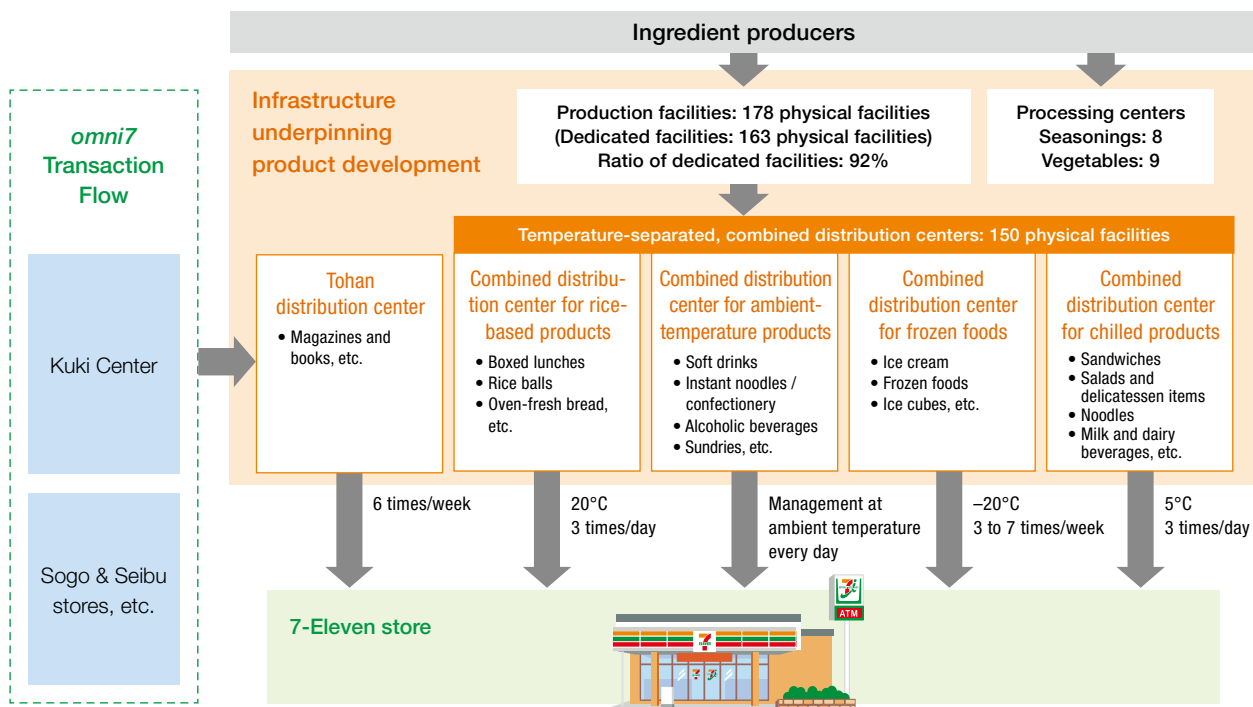
The dedicated production facilities, which work exclusively for SEJ using exclusive SEJ materials and recipes, manufacture such products as boxed lunches, rice balls, and sandwiches. Because the products from each plant are supplied only to SEJ, the manufacturers, suppliers, and SEJ conduct uncompromising product development, with only a moderate, appropriate level of tension. Of 178 facilities in Japan, 92% are dedicated facilities, which is by far the highest ratio in the industry. This leads to differentiation in the areas of product quality and quality control that cannot be duplicated by other companies.

Moreover, combined distribution centers are bases that enable products from different manufacturers and suppliers to be assembled and then delivered to stores on the same truck. These centers have been established in each region, with the optimal temperature separation to preserve freshness. There are temperature-separated facilities for chilled products (5°C), rice-based products (20°C), frozen products (-20°C), and processed foods, alcoholic beverages, and sundries (room temperature). Rigorous quality and sanitation management is implemented at these facilities. Through this framework, we provide customers with high-quality products in a timely manner by delivering such products as boxed lunches and rice balls three times a day. Moreover, this framework also leads to reductions in the number of delivery vehicles and in the distance traveled, thereby controlling greenhouse gas emissions and avoiding traffic congestion on the roads near stores.

omni7 Transaction Flow

Most of the products ordered on *omni7*, the Group's integrated portal site, are shipped from inventory at the Kuki Center, in

Production and Distribution System of Seven-Eleven Japan



Note: The number of production facilities, dedicated facilities, temperature-separated, combined distribution centers, and processing centers is as of the end of February 2016.

Saitama Prefecture, which was built exclusively for use with Internet shopping. When an order is to be picked up by the customer at a 7-Eleven store, it is shipped from the TOHAN CORPORATION's Tohan distribution center, a location base that receives books and magazines from the Kuki Center and ships them to 7-Eleven stores. The order is then delivered to the store together with books and magazines. In this way, we effectively utilize the distribution trucks that make deliveries of books and magazines to each store, so there is no additional delivery cost. Deliveries are made to stores nearly every day. Furthermore, the trucks that are returning from stores to the center have low load factors, and this system uses those trucks to handle returns of products purchased on *omni7*.

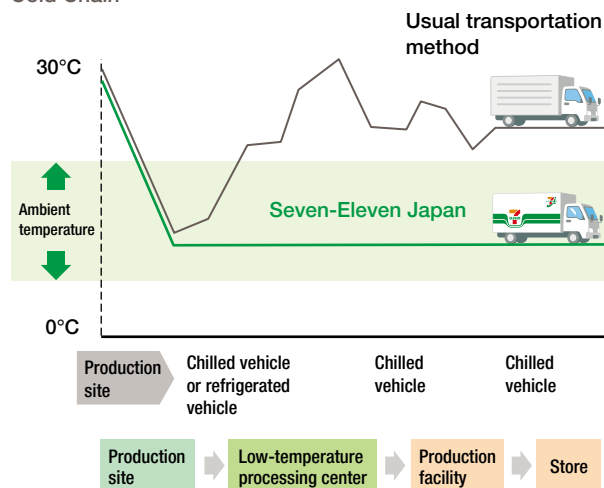
However, there are no inventories of books or magazines at the Kuki Center, and these products are shipped from inventory at a Tohan distribution center. In addition, when there is no inventory at the Kuki Center but a Sogo & Seibu store, for example, does have inventory, the order is shipped from the store that has the product to the Tohan distribution center. In both cases, nearly all of the shipments are handled using existing distribution infrastructure.

Moreover, when an order is to be delivered to the customer's residence, books and magazines from the Tohan distribution center and other products from the Kuki Center or another location are shipped to a base operated by a delivery company, which then delivers the order to the customer.

Freshness Management from Immediately after Harvest

To transport and process fresh vegetables that have just been harvested, SEJ introduced cold chain distribution in 2005. Under this system, vegetables that have just been harvested are put into cold storage on the spot and kept at a consistently managed temperature in their journey in the delivery vehicle, through the sorting center, and from the production facility to the store, where they are displayed for customers in fresh condition.

Cold Chain



Manufacturers / Suppliers

For the Seven & i Group, which operates in the retail industry, the manufacturers and suppliers who develop, manufacture, and distribute the products that are provided to customers are indispensable partners. In particular, in the development and manufacturing of private-brand products, which is the Group's strength, collaborative initiatives are an important management resource that creates differentiation from other companies.

Original Product Development through Team Merchandising

The development of the Group's *Seven Premium* private-brand products and SEJ's original products, such as boxed lunches, rice balls, and sandwiches, is conducted through Team Merchandising. Under this approach, the optimal teams are formed with manufacturers and suppliers for each product and ingredient. The manufacturers and suppliers that are our partners participate in the Nihon Delica Foods Association. The members of this association include approximately 70 ingredient producers — such as manufacturers of rice-based products, bakery products, delicatessen items, noodles, and Japanese pickles — as well as food preparation experts. In addition to conducting product development through Team Merchandising, we also implement joint procurement of ingredients and equipment. In these ways, we are working to maintain uniform quality throughout the country and to reduce costs.

► In regard to Team Merchandising, please refer to the explanation in Special Feature 1: Leveraging Group Synergies to Drive Growth on page 16.



Background to Strong Partnerships

Manufacturers and suppliers leverage their own leading-edge technologies to develop *Seven Premium* products. One reason is that the Group and these companies share a commitment to providing the best products to customers, and we have established relationships of trust over many years. There are also several other reasons.

First, the overwhelming customer contact points and sales capabilities of the Group, especially SEJ, are a major factor. SEJ takes a rigorous approach to the implementation of its management policies at each franchisee in Japan. As a result, the stores introduce a high percentage of products recommended by the Head Office, providing a degree of reliability that supports forecasts for a certain level of sales. We benefit from a favorable cycle under which the high level of our sales capabilities fosters cooperation from manufacturers and suppliers, which in turn enhances product development capabilities, resulting in further improvement in our sales capabilities.

The second reason is the sharing of superior marketing capabilities. As seen with *Seven Premium* and *SEVEN CAFÉ*, by rigorously thinking from the customer's viewpoint, the Group has opened up new markets and created a large number of hit products. Moreover, due to our overwhelming number of customer touch points from our 20,000 stores nationwide, our *nanaco* and POS systems enable us to acquire large amounts of sales data. We utilize that data in a process of hypothesis and verification, which always forms the basis for our orders. In conducting product development, manufacturers and suppliers are able to draw on the Group's marketing capabilities, which would be difficult for them to access on their own.

The third point involves costs. Typically, when manufacturers conduct product development using new technologies, they need to implement large amounts of capital investment and advertising if they distribute their own brand through multiple sales channels. However, if they implement joint development with the Group, they can implement manufacturing and store sales at a level of investment that is close to that of trial manufacturing, and they can acquire actual customer feedback in real time. As a result, their initial costs are substantially reduced and they can move ahead with product development. Moreover, at convenience stores there is no concern about discount sales, and accordingly this approach has the merit of making it easier to recover development costs.

► The Business Partner Guidelines and the Business Partner Consultation Helpline are described in the CSR section of the Company's website.

Local Communities

Addressing the needs of local communities is an important policy of the Group, and we aim to establish a strong presence so that each of our stores is considered to be essential for the local community. To that end, in addition to providing products and services that meet the preferences of each region, we are advancing initiatives to revitalize local communities in cooperation with governments and taking steps to enhance our social infrastructure function.

Business Development with Close Ties to Local Communities

In January 2015, SEJ's Merchandising Department divided the Japanese market into nine regional blocks. On that basis, we are strengthening our response to local community needs, such as developing flavors that meet regional tastes and using local food ingredients. In addition, IY has expanded the delegation of authority to stores, which understand the characteristics of local communities, and the Head Office has delegated product procurement functions to regions. In these ways, we are advancing a transition to store management with roots in local communities.

Furthermore, we are also aggressively promoting collaboration with local retail businesses. In the food supermarket business, where detailed responses are necessary because differences in regional preferences are especially likely to arise, we are working to increase our regional food procurement capabilities through collaboration with companies with which we have capital and business alliances. These initiatives are centered on Hokkaido and the Kansai and Chugoku regions, where we have few stores. This collaboration is also useful in the development of new products.

► For further information about our initiatives to address regional preferences, please see the segment columns in the Review of Operations section on page 28.

Business and Capital Alliances with Regional Retailers

Partner companies	Region of partner companies	Business format of partner companies	Details of alliance
Daiichi × Ito-Yokado	Hokkaido	Food supermarket	Capital and business alliance
Tenmaya / Tenmaya Store × Seven & i Holdings / Ito-Yokado	Chugoku region	Superstore / Food supermarket	Capital and business alliance
Mandai × Seven & i Holdings	Kansai region	Food supermarket	Business alliance

Collaboration with Municipalities

The Group has concluded comprehensive alliance agreements with municipalities and is working to revitalize local regions. We are cooperating in a wide range of fields, such as conducting product development and sales that facilitate local production for local consumption, providing support for seniors by offering safety checks and monitoring services when delivering products, implementing educational activities in nutrition education and health promotion, and participating in regional environmental conservation activities.

In addition, in cooperation with municipalities SEJ is expanding the services that it can provide with its in-store multi-functional copier machines. These services include providing copies of residence certificates, seal registration certificates, and family register certificates. Other Group companies are moving forward with the installation of multi-functional copier machines so that they can provide the same services.

Number of Agreements with Municipalities for Each Operating Company (As of the end of February 2016)

Seven-Eleven Japan	56
Ito-Yokado	19
Sogo & Seibu	6
York-Benimaru	3

Infrastructure Functions in the Event of Disasters

In addition to comprehensive alliance agreements with municipalities, the Group has concluded supply-support agreements to prepare for rapid regional support in the event of disasters. In addition, with certain municipalities we have also concluded agreements for supporting people who cannot return home because they are not able to use public transport or roads after a large-scale earthquake. Under these agreements, to the extent possible, we provide such services as tap water, access to restrooms, local road traffic information, and map information to people who are walking home.

Moreover, we are working to establish fuel storage stations, secure a distribution network, and construct a disaster counter-measure system to make regional information visible in greater detail so that we can continue to operate stores even during disasters and continue to provide products and services that are essential for daily living. Currently, for example, we are advancing the construction of 7VIEW (Seven Visual Information Emergency Web). 7VIEW will facilitate the provision, sharing, and joint use of disaster information through cooperation not only within the Group but also with suppliers and others. In this way, we will establish a system that will be able to take into account accurate assessments of the status of areas in which our stores are located, share information from municipalities and other sources, and disseminate information to local residents through our stores.