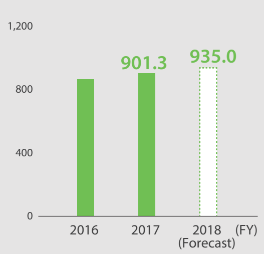
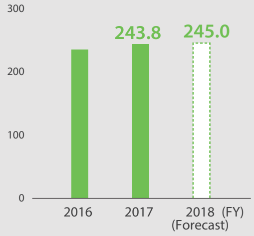
Review of Operations

Domestic Convenience Store Operations

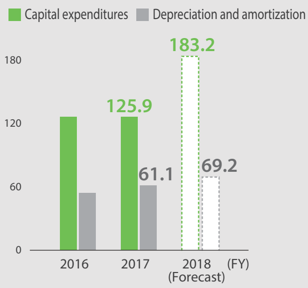
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



Core Operating Companies

Seven-Eleven Japan Co., Ltd.
SEVEN-ELEVEN HAWAII, INC.
SEVEN-ELEVEN (CHINA) INVESTMENT CO., LTD.
SEVEN-ELEVEN (BEIJING) CO., LTD.
SEVEN-ELEVEN (CHENGDU) CO., LTD.
SEVEN-ELEVEN (TIANJIN) CO., LTD.
(9 consolidated subsidiaries, 5 affiliates;
14 companies, in total)

Kazuki Furuya
President and
Representative Director
Seven-Eleven Japan Co., Ltd.

Business Overview for Fiscal 2017

Revenues from domestic convenience store operations rose 4.4% year on year, to ¥901,306 million, and operating income increased 3.7%, to ¥243,839 million.

Seeking to translate structural changes in society into growth opportunities, Seven-Eleven Japan (SEJ) continued to promote aggressive store-opening policies and reinforced efforts to develop products and improve quality. SEJ aggressively implemented a relocation plan to enhance store quality and also opened new stores based on a thorough review of store-opening standards. As a result, the domestic network reached 19,422 stores, as of February 28, 2017, up 850 from the end of the previous fiscal year. In merchandising, SEJ vigorously revamped basic products, such as sandwiches and fryer items, and worked to boost product quality, leading to a favorable shift in sales. Consequently, sales at existing stores continued to chart upward, extending growth for 55 consecutive months since August 2012. Total store sales—the combination of sales from directly operated stores and franchised stores—hit ¥4,515,605 million, up 5.2% from the previous fiscal year.

SEJ's store network in China comprised 219 stores in Beijing, 82 stores in Tianjin and 67 stores in Chengdu, as of February 28, 2017.

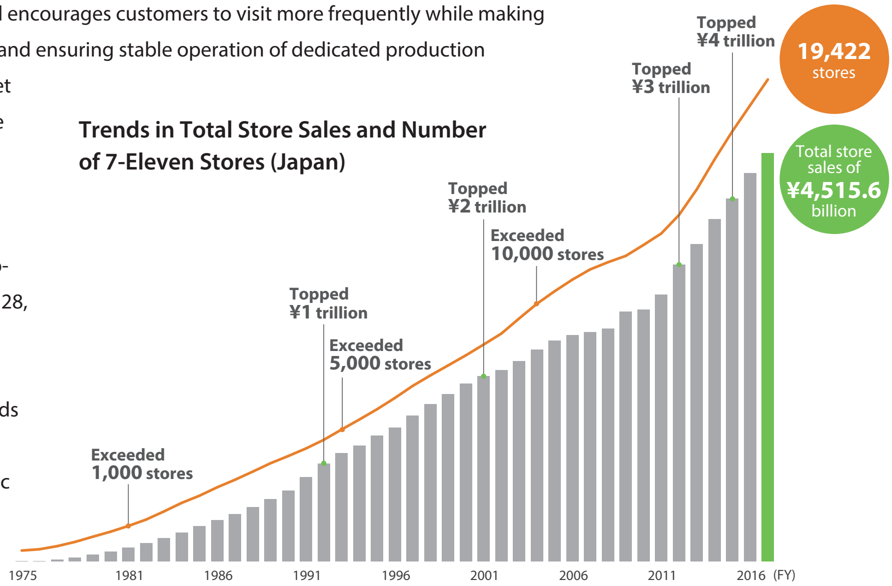
Sustained Growth Through Untiring Responsiveness to Change

Domestic convenience store operations are a pillar of growth for the Seven & i Group. At SEJ, we strive to create high-quality stores that address changes in society, and we take a vigorous approach to store openings. In the fiscal year ended February 28, 2017, SEJ captured a 42.7% share of net sales of the convenience store market in Japan.

From our earliest days, we have adhered to a market concentration strategy under which we expand the store network in a region by opening new stores bordering the catchment areas of existing stores. This store-opening method keeps the 7-Eleven profile high and encourages customers to visit more frequently while making advertising and distribution activities more efficient and ensuring stable operation of dedicated production facilities in each region. The advantages of the market concentration strategy contribute significantly to the development of original product strategies and the creation of stores with close ties to the community. During the fiscal year ended February 28, 2017, we opened 1,682 stores. We will continue with our scrap-and-build strategy in the fiscal year ending February 28, 2018, opening 1,600 new stores for a net increase of 700 stores. Going forward, we will achieve further growth through detailed responses to changing needs at the community level and society in general. Ultimately, our goal is to capture 50% of the domestic convenience store market on a net sales basis.

For details, see Special Feature 1

Trends in Total Store Sales and Number of 7-Eleven Stores (Japan)



Stronger Front-Line Capabilities Achieved Through Close Communication Between Stores and Head Office

7-Eleven strengths are products, exemplified by flavor and quality that are carefully pursued, location of stores and services, such as ATM access, that underpin customer satisfaction and the social infrastructure. In addition, the stores benefit from a nationwide team of about 2,500 Operations Field Consultants (OFCs), who support franchised store management. OFCs make regular visits to the seven or eight franchised stores under their supervision and help solve franchise-specific issues, with an emphasis on four basic principles—product lineup, freshness management, friendly service and cleanliness. They offer suggestions to improve the accuracy of ordering and enhance the product lineup and display method, based on hypothesis and verification, and also implement customer service training for staff and strive to boost front-line motivation and the level of service by encouraging each store owner and store staff to embrace a team spirit.

OFCs from all over Japan gather at the Tokyo Head Office every other week to share information on basic strategies and the latest market trends, success stories in each area, new product features and the background and purpose of such product launches. These meetings are also a venue to confirm action plans for achieving monthly and weekly targets. The direction and approaches shared there are then carefully conveyed to all domestic stores by OFCs. This process of franchisees and the Head Office working as a cohesive unit facilitates store management.

Consultants Meeting

OFCs, who are responsible for providing management advice to stores, get together every other week to share information and know-how to strengthen front-line capabilities.

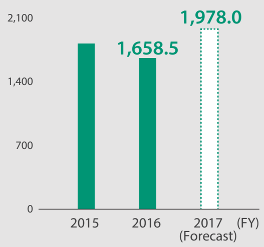
Conversations Through OFC Visits

OFCs work with owners and their staff to solve issues specific to respective stores, with an emphasis on four basic principles—product lineup, freshness management, friendly service and cleanliness.

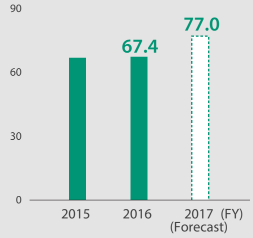
Review of Operations

Overseas Convenience Store Operations

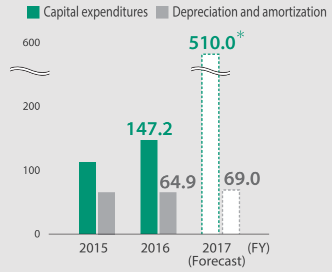
Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



* Includes acquisition of some of the business of Sunoco LP

Core Operating Companies

7-Eleven, Inc.

SEJ Asset Management & Investment Company

(75 consolidated subsidiaries, 2 affiliates; 77 companies, in total)

Joseph Michael DePinto

President and Representative Director
7-Eleven, Inc.

Business Overview for Fiscal 2016

Revenues from overseas convenience store operations decreased 8.9% year on year, to ¥1,658,542 million, but operating income increased 0.9%, to ¥67,421 million. 7-Eleven, Inc. (SEI), which pursues business in North America, promoted opening stores in urban areas but closed some existing and acquired stores, based on profitability. In July 2016, SEI acquired the stores of CST Brands, Inc., in the United States, and later that year, in September, began a phased acquisition of stores from Imperial Oil Limited of Canada. As a result, SEI's store network reached 8,707 stores, as of December 31, 2016, up 207 from a year earlier.

On the product front, SEI continued to direct effort into the development and sale of *7-Select* private-brand products and fast foods. SEI saw sales of soft drinks and alcoholic beverages increase. These trends fueled a positive year-on-year shift in sales at existing stores in the United States on a U.S.-dollar basis, but the impact of exchange rates caused total store sales—that is, sales from directly operated stores and franchised stores—to decrease 7.3%, to ¥2,735,199 million.

Establishment of a Foundation for Growth Through the Market Concentration Strategy and M&As

In recent years, SEI has been working to make distribution and sales more efficient by emphasizing the market concentration strategy, especially on the east and west coast and in the midwest—areas of the United States with noticeably high population density. Within this strategy, we are reinforcing store-opening activity in urban office districts where demand for fresh foods, such as sandwiches, salads and cut fruits, is high. Of the roughly 150,000 convenience stores in the United States, SEI has barely 6%, so there is still sufficient room for growth. We aim to capture a larger share of the market through M&A opportunities, as appropriate, to accelerate the formation of a more extensive store network.

The market concentration strategy is directly related to the conversion of stores to franchise status. Typically in the United States, convenience stores are directly operated stores attached to gas stations, which are the core source of sales. But a sustained focus on the market concentration strategy and consistent efforts to convert directly operated stores into franchises have prompted an increase in the number of franchised stores oriented toward merchandise sales. As a result, royalty revenues are contributing to enhanced SEI profitability. As of December 31, 2016, franchised stores represented about 80% of all stores, not including those in Canada, and average daily sales per store continued to expand, reflecting a stronger fresh foods lineup, stricter standards for opening stores and repeated excellent-quality M&A targets.

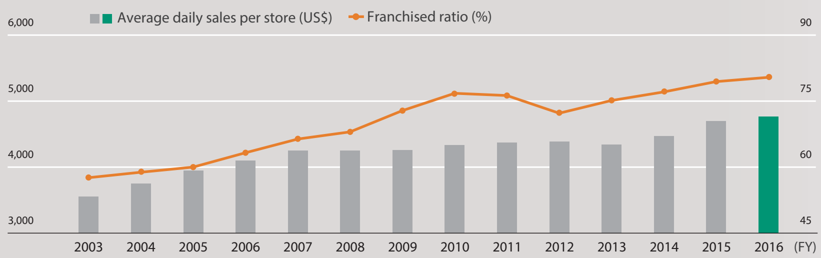
As part of our strategic M&A pursuit, in April 2017, we decided to acquire some of the retail business of Sunoco LP, adding 1,108 stores, primarily in Texas and New York, regions that overlap with our store-opening area. Through this acquisition, we expect to greatly reinforce our store network, enhance the supply chain and improve profitability.

Merchandising Attuned to Market Characteristics and Customer Purchasing Behavior

Our merchandising hinges on highly precise marketing and efforts to promote differentiation through top-quality fast foods and *7-Select* private-brand products. In the United States, with its very diverse cultural landscape, foods tend to be more regionally distinctive than in Japan. In addition, consumers have noticeably high standards for food quality and are always looking for time-saving options. We analyzed these market characteristics in detail and applied the insight gained to the development process for fresh foods, which have not been particularly well stocked in the market as a whole. At the same time, an analysis of customer purchasing behavior has enabled us to implement detailed responses with an emphasis on best-selling products by time of day. For example, the data prompted us to reinforce sales of hot foods, such as pizza and fried chicken, which are customer favorites in the evening and late at night.

We will enhance the appeal of products and continue to expand the store network as we work toward goals of $5,000 in average daily sales per store, a network of 10,000 stores and $1.0 billion in operating income by the fiscal year ending December 31, 2019. Going forward, we will improve profitability by further increasing the franchised ratio and enhancing the quality of each store.

Average Daily Sales per Store and Franchised Ratio



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating income (millions of US$)	137	172	293	275	269	335	367	379	410	478	523	563	639	704
Rate of growth in existing store sales in the U.S.(%)	+3.2	+5.3	+4.4	+3.1	+3.1	+0.4	+0.6	+1.5	+2.8	+2.9	+1.0	+3.1	+5.8	+2.1
Total number of stores	5,784	5,799	5,829	6,050	6,088	6,196	6,389	6,610	7,149	8,118	8,292	8,297	8,500	8,707

Key Numerical Targets for Fiscal 2017

	Fiscal 2017 Targets	Year-on-Year Change
Total store sales	¥3,141.0 billion	+¥405.8 billion
Operating income	¥89.0 billion	+¥12.3 billion
Existing store year-on-year change	103.1%	—
Gross profit margin	34.9%	+0.1%
Store openings	1,408 stores	+1,052 stores
Net increase in number of stores	1,188 stores	+981 stores
Capital expenditures*	**¥510.0 billion**	**+¥293.2 billion**

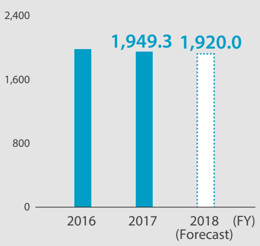
Note: Exchange rates: US$1 = ¥108.78 in Fiscal 2017 and ¥110.00 assumed for Fiscal 2018
*Includes acquisition of Sunoco business

Operating/Segment Information

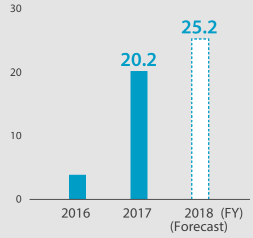
Review of Operations

Superstore Operations

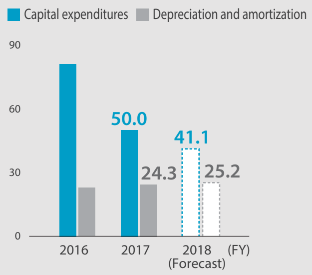
Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



Core Operating Companies

Ito-Yokado Co., Ltd.
York-Benimaru Co., Ltd.
York Mart Co., Ltd.
Ito-Yokado (China) Investment Co., Ltd.
Hua Tang Yokado Commercial Co., Ltd.
Chengdu Ito-Yokado Co., Ltd.
(21 consolidated subsidiaries,
5 affiliates; 26 companies, in total)

Tomihiro Saegusa
President and
Representative Director
Ito-Yokado Co., Ltd.

Yukio Mafune
President and
Representative Director
York-Benimaru Co., Ltd.

Business Overview for Fiscal 2017

Revenues from superstore operations slipped 1.7% year on year, to ¥1,949,313 million, but operating income skyrocketed 417.3%, to ¥20,228 million.

In Japan, Ito-Yokado superstores pursued a process of business restructuring, including opening four stores—three *Shokuhinkan* (food specialty stores) and SEVEN PARK *Ario* Kashiwa—and also reviewed the sales area configuration, based on the existing store-tenant mix, and closed 15 stores. The number of stores as of February 28, 2017, was 171, down 11 from a year earlier. In regard to merchandise, the emphasis was on efforts to enhance product lineups matched to individual stores and regional characteristics and to boost sales of differentiated products, exemplified by *Seven Premium*. As a result, the rate of growth in existing store sales for the fiscal year ended February 28, 2017, fell below the level recorded in the previous fiscal year, but profitability dramatically improved, primarily due to a reduction in sales promotion expenses, a better gross profit margin and apparel inventory optimization.

In domestic food supermarkets, York-Benimaru had 213 stores in operation—a year-on-year increase of eight stores—mainly in the southern Tohoku area, and York Mart had 78 stores in operation—up two—mainly in the Tokyo metropolitan area, as of February 28, 2017. Of note, York-Benimaru reinforced sales of fresh foods and also worked to enhance the lineup of *sozai* prepared dishes to meet demand for ready-to-serve and easy meals as well as to differentiate itself with products showcasing security, safety, flavor and quality. As a result, the rate of growth in existing store sales for the fiscal year ended February 28, 2017, was up from the previous fiscal year.

As for superstores in China, the Group had six stores in Chengdu and two stores in Beijing, as of December 31, 2016.

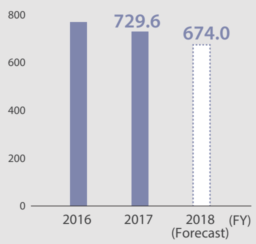
Cooperation with Production Areas to Bring Fresh Foods under *Seven Premium* Private Brand

Superstores are engaged in structural reforms designed to achieve a quick performance recovery and crystallize a strategy for medium- to long-term growth. This segment is rolling out merchandise that meets changing customer needs to strengthen foods, a growth category. *Seven Premium*, a private brand celebrating its 10th anniversary, will be redefined for the next 10 years, and *Seven Premium Fresh*, featuring fresh foods, will draw on the Group's overall capabilities to deepen ties with local providers and give customers access to fresh items with underlying security and safety.

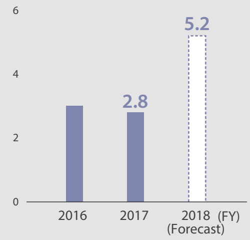
A noteworthy feature of our superstore operations is the wide selection of fruits and vegetables, meats and seafood, including *richly flavorful bananas*, *Canadian pork* and *Atlantic salmon*. Going forward, we will take advantage of the high profile and reputation for reliability that *Seven Premium* has acquired and enrich the lineup of fresh foods that make meal preparation easier for customers from two-income households and one-person households. This will turn the brand into a driver of growth in the food category. Our corporate gaze goes beyond Ito-Yokado and York-Benimaru superstore operations to sales at stores in a diverse range of formats as well as overseas development.

Department Store Operations

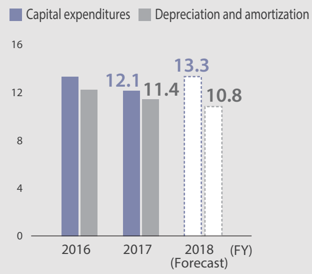
Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



Core Operating Company

Sogo & Seibu Co., Ltd.

(5 consolidated subsidiaries, 5 affiliates; 10 companies, in total)

Takuji Hayashi
President and Representative Director
Sogo & Seibu Co., Ltd.

Business Overview for Fiscal 2017

Revenues from department store operations dropped 5.1% year on year, to ¥729,612 million, and operating income fell 5.7%, to ¥2,867 million.

Department stores are known for high-quality customer service, and Sogo & Seibu worked to polish this facet of operations and enhance the ability of specialist sales staff, such as beauty advisors, to highlight total advice capabilities. However, the rate of growth in sales at existing stores was down in the fiscal year ended February 28, 2017, compared with the previous fiscal year, mainly because of sluggish interest in apparel. We closed four stores—Sogo Kashiwa, SEIBU Asahikawa, SEIBU Yao and SEIBU Tsukuba—in line with business restructuring and called for voluntary retirement to bring the number of essential employees to a more suitable level. At the end of February 2017, we had 19 stores in operation, down four from a year earlier.

Concentration of Management Resources into Flagship Stores in the Tokyo Metropolitan Area, and Establishment of Model for Suburban-Type Department Stores

Business restructuring for department store operations is now under way. We have been accelerating reforms, focusing on stores that contribute effectively to overall performance and concentrating management resources into flagship stores, particularly those in the Tokyo metropolitan area with its giant consumer market. At the same time, we have undertaken large-scale renovations aimed at creating a new department store model appropriate to the suburbs around the Tokyo metropolitan area. A fine example of this approach is SEIBU Tokorozawa. As a model for suburban-type department stores with close ties to the community, this store got a new layout, highlighted by a two-floor food section. With this change, the number of customers surged more than 150% over the previous fiscal year. Efforts at SEIBU Tokorozawa have already proven successful, establishing the store as a regional leader store, mainly through the enhanced food section, which encourages customers to visit more often, and through a food and lifestyle strategy. We will apply this to other stores as a model for success.

Expand Success Story

Sogo Yokohama
Cosmetics and beauty strategy
→ Strengthen cosmetics
→ Consider application of model to stores in Tokyo metropolitan area from fiscal 2019
Sogo Chiba, Sogo Omiya

SEIBU Tokorozawa
Regional leader store strategy
→ Strengthen food and consumption of "experience"
→ Two-floor food section
Double-digit growth in food sales after renovation
Consider applying layout to other stores after verifying results

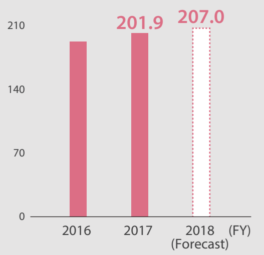
Sogo Chiba
Food and lifestyle strategy
→ Strengthen food and consumption of "experience"
→ Expand the domain of consumer experience with products closely connected to the local community

Implement the PDCA cycle and seek growth by expanding success story at SEIBU Ikebukuro store to other stores

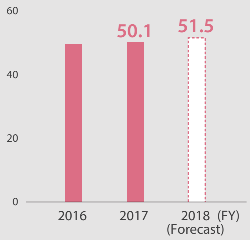
Review of Operations

Financial Services

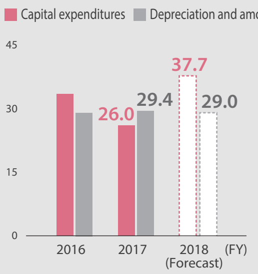
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)

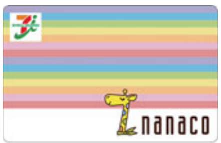


Capital Expenditures/Depreciation and Amortization (Billions of yen)



Core Operating Companies

Seven Bank, Ltd.
Seven Financial Service Co., Ltd.
Seven Card Service Co., Ltd.
Seven CS Card Service Co., Ltd.
(8 consolidated subsidiaries)



Business Overview for Fiscal 2017

Revenues from financial services operations rose 4.9% year on year, to ¥201,932 million, and operating income increased 0.9%, to ¥50,136 million.

As of February 28, 2017, the number of installed Seven Bank ATMs stood at 23,353, up 965 from a year earlier, largely paralleling aggressive store openings by SEJ. The total number of transactions also increased. In credit card operations, the closure of some Sogo & Seibu stores led to a decrease in transaction volume for Seven CS Card Service. But Seven Card Service saw higher transaction volume for its credit card operations and electronic money services, and delivered favorable results.

Promoting Secure, Convenient Financial Services for Everyday Life

Seven Bank installs ATMs at various locations, including stores under the Seven & i Group umbrella as well as at train stations and airports. In addition, Seven Bank provides convenient and easy-to-use account services. In card operations, transaction volume continues to expand inside and outside the Group, with notable customer interest in *nanaco* electronic money.

Business with a View toward Coexistence and Coprosperity

We provide ATM services that enable customers who use ATMs to do so anytime, anywhere and with peace of mind. We also provide various advantages to the financial institutions with which we have formed alliances, from a cost perspective and a customer service perspective. Seven Bank and its partner financial institutions have built a unique business model with a view toward coexistence and coprosperity.

Advantages to Customers

Convenient hours and locations

- In principle, accessible 24 hours a day, 365 days a year
- No need to carry large sums of cash on business trips or personal travel
- Same services available at all ATMs across the country

Convenient hours and locations

- Many ATMs are installed inside brightly lit 7-Eleven stores for greater security during use at night

Advantages to Partner Financial Institutions

Facilitates national development of ATMs accessible year-round without typical costs associated with own bank-operated ATMs

Can be used as bank's own ATMs

- Each partner banks can decide on ATM service fee charged to customers
- Unit can display same screen as ATMs of partner banks

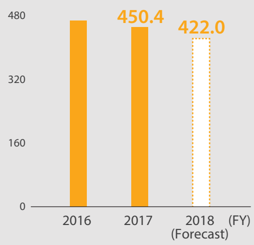
And...

Banks can devise marketing strategies that utilize Seven Bank's ATMs

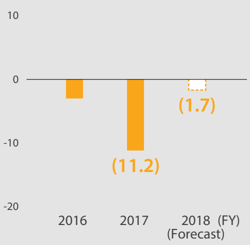
Review of Operations

Specialty Store Operations

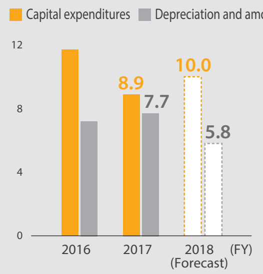
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



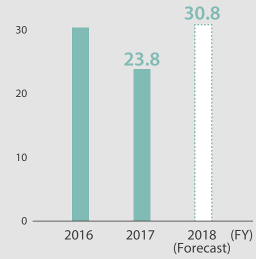
Core Operating Companies

Akachan Honpo Co., Ltd.
Seven & i Food Systems Co., Ltd.
THE LOFT CO., LTD.
Nissen Holdings Co., Ltd.
(21 consolidated subsidiaries, 5 affiliates; 26 companies, in total)

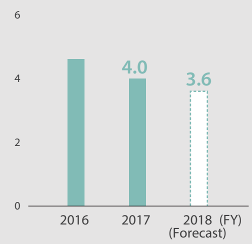
Review of Operations

Others

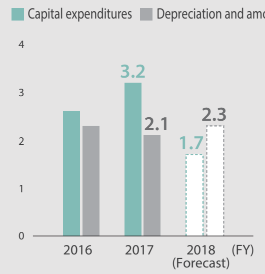
Revenues from Operations
(Billions of yen)



Operating Income
(Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



Core Operating Companies

Seven & i Create Link., Ltd.
Seven & i Asset Management Co., Ltd.
Seven & i Net Media Co., Ltd.
SEVEN & i Publishing Co., Ltd.
Seven Culture Network Co., Ltd.
IY Real Estate Co., Ltd.
Yatsugatake Kogen Lodge Co., Ltd.
K.K. Terre Verte
I ing Co., Ltd.
PIA Corporation
(9 consolidated subsidiaries, 4 affiliates; 13 companies, in total)