SEVEN&i HLDGS. Co.,Ltd.

LEVERAGING GROUP STRENGTHS TO FOSTER INNOVATION

Integrated Report 2018

Corporate Creed

We aim to be a sincere company that our customers trust.

We aim to be a sincere company that our business partners, shareholders and local communities trust.

We aim to be a sincere company that our employees trust.

For details about ESG information, please refer to the CSR Report and the Corporate Governance Report.

CSR Report
http://www.7andi.com/en/csr/csrreport.html

Corporate Governance Report
http://www.7andi.com/en/ir/management/governance.html

Forward-Looking Statements

This integrated report contains certain statements based on Seven & i Holdings' current plans, estimates, strategies and beliefs; all statements that are not historical fact are forward-looking statements. These statements represent the judgments and hypotheses of the Company's management, based on currently available information.

It is possible that the Company's future performance will differ significantly from the contents of these statements. Accordingly, there is no assurance that the forward-looking statements in this integrated report will prove to be accurate.

Contents

Editorial Policy

We aim to inform all stakeholders, including shareholders and other investors, about the Group's value creation initiatives in an easier-to-understand manner by integrating non-financial information (about the environment, society, governance and the like) with financial information in a single report. To this end, we have used two documents as reference when compiling this report: "The International Integrated Reporting Framework," released by the International Integrated Reporting Council (IIRC) in December 2013, and "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation," issued by Japan's Ministry of Economy, Trade and Industry (METI) on May 29, 2017.

Guidance for Collaborative Value Creation

The official name of that document is "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation," which was issued by METI on May 29, 2017. It was formulated to encourage companies and investors to deepen their mutual understanding through information disclosure and dialogue and encourage action for sustainable collaborative value creation. Using the guide, we hope to revitalize information disclosure and dialogue. This report also emphasizes and utilizes guidance toward enhanced understanding of disclosure while adopting a governance-oriented perspective.

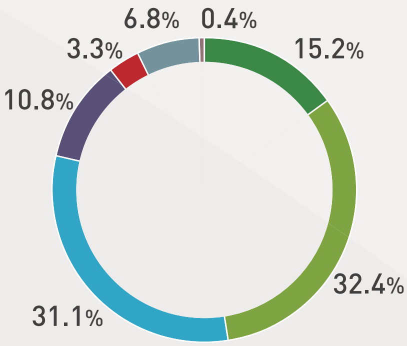
Use of Guidance for Collaborative Value Creation in this integrated report

We will leverage our synergies as a comprehensive retail group to address all life stages.

The Seven & i Group aims to serve as infrastructure considered indispensable to people's lives. We will do this by constantly remaining side by side with customers in the pursuit of "convenience" while providing products and services that correspond to every life stage.

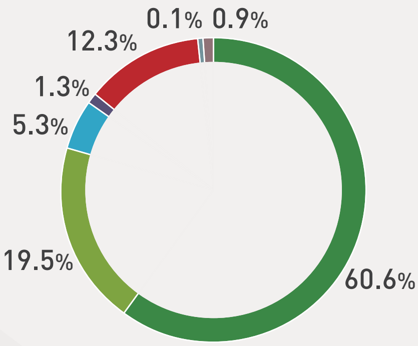
Group total sales *1		Approx. ¥**11.0** trillion
Number of customer store-visits per day	Japan	Approx. **23** million people
	Global	Approx. **64** million people
Store network *2 **of Seven & i Group**	Japan	Approx. **21,800** stores
	Global	Approx. **66,200** stores

*1. Amount includes franchise sales in Seven-Eleven Japan and 7-Eleven, Inc. store networks.
*2. Number of stores at February 28, 2018 (Japan) and December 31, 2017 (other countries and regions).



Revenues from Operations

*Includes eliminations/ corporate



Operating Income

(Fiscal 2018)

Domestic Convenience Store Operations (Seven-Eleven Japan, etc.)

¥928.6 billion
Up 3.0% YoY

¥245.2 billion
Up 0.6% YoY

Overseas Convenience Store Operations (7-Eleven, Inc., etc.)

¥1,981.5 billion
Up 19.5% YoY

¥79.0 billion
Up 17.3% YoY

Superstore Operations (Ito-Yokado, York-Benimaru, etc.)

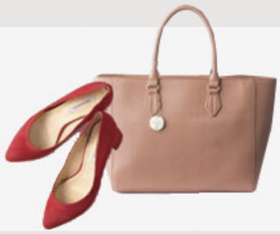
¥1,901.1 billion
Down 2.5% YoY

¥21.2 billion
Up 5.1% YoY

Department Store Operations (Sogo & Seibu, etc.)

¥657.8 billion
Down 9.8% YoY

¥5.3 billion
Up 87.2% YoY



Financial Services (Seven Bank, etc.)

¥202.9 billion
Up 0.5% YoY

¥49.7 billion
Down 0.8% YoY

Specialty Store Operations (Akachan Honpo, THE LOFT, Nissen Holdings, etc.)

¥416.6 billion
Down 7.5% YoY

¥0.4 billion
—

Others

¥23.5 billion
Down 1.3% YoY

¥3.6 billion
Down 8.4% YoY

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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.

We seek to be a retail services group that addresses the needs of each and every customer and constantly creates new value.

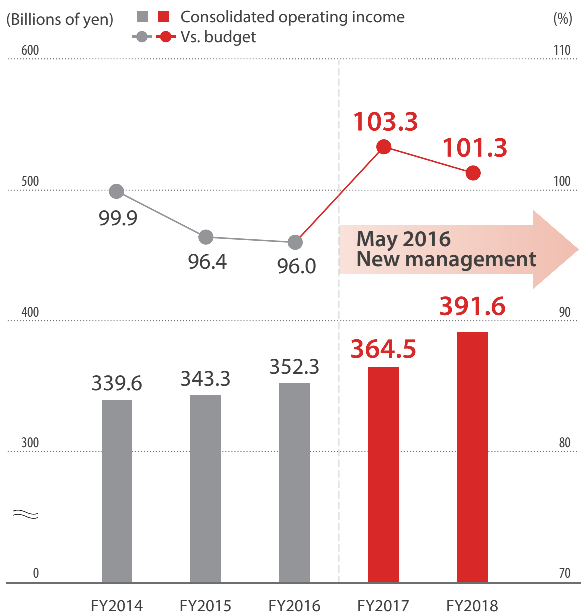
Performance Overview for Fiscal 2018 and Forecast for Fiscal 2019

In fiscal 2018, the year ended February 28, 2018, revenues from operations rose 3.5% year on year, to ¥6,037.8 billion, despite a drop in revenues from superstore and department store operations in Japan due to structural reforms and a subsequent reduction of the store network. The key driver of growth was overseas convenience store operations. Operating income climbed 7.4% year on year, to ¥391.6 billion, fueled by domestic and overseas convenience store operations as well as by enhanced profitability by specialty store operations. Net income attributable to owners of parent increased 87.2% year on year, to ¥181.1 billion, in an upward reversal following the booking of special losses associated with structural reforms in fiscal 2017.

For fiscal 2019, the year ending February 28, 2019, the domestic consumer environment is likely to remain somewhat lackluster. Nevertheless, we anticipate a solid consolidated performance, with increases of 10.7%, to ¥6,683.0 billion, in revenues from operations; 6.0%, to ¥415.0 billion, in operating income; and 15.9%, to ¥210.0 billion, in net income attributable to owners of parent.

Fiscal 2020 will mark the last year of the Medium-Term Management Plan. We will strive to reinforce domestic and overseas convenience store operations and improve profitability in structural reform businesses.

Consolidated Operating Income and Budget Ratio



Corporate Philosophy and Management Policy

Using the Group's DNA and the PDCA cycle to propel business development

Customer needs are changing all the time, paralleling changes in society. Our basic points for action as the Seven & i Group hinge on a corporate creed emphasizing "Trust and Sincerity" and a slogan highlighting "Responding to Change while Strengthening Fundamentals." This stance dates back to our earliest days in business. It is, indeed, an enduring component of our corporate DNA.

Complementing these basic points is the PDCA cycle. Since assuming the position of president at Seven & i Holdings, I have constantly encouraged employees throughout the Group to continue using the PDCA cycle in day-to-day operations. In the retail industry, any action, such as changing the product mix or reimagining the sales floor, is sure to elicit a reaction from customers. Adherence to the PDCA cycle lets us pinpoint issues in need of attention, then allows us to suggest possible responses, execute concrete measures, verify the results achieved by those measures and link the results to subsequent measures. This approach is beginning to show signs of success at Group companies.

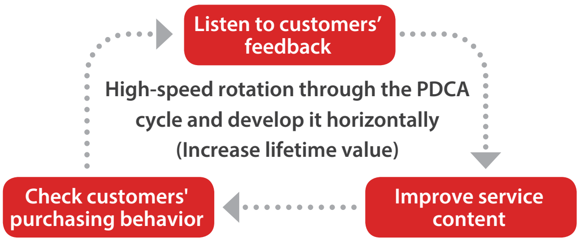
For example, some people find regular daily shopping an inconvenience. *IY Fresh*, which delivers fresh foods to customers, and *Net Convenience Store*, which enables customers to order items found in physical stores via the Internet, are still at the field-testing stage. However, the response appears good, and I believe this alternative to regular in-person shopping has the potential to become a future pillar of business.

I am firmly convinced that this PDCA cycle, if embraced throughout the Group from the front lines to management, will lead to sustainable growth and higher corporate value for the Group over the medium to long term. Reforms are essential to this process, beginning with the corporate governance structure.

Increase Customer Satisfaction

- Examples from *Net Convenience Store* (7-Eleven) and *IY Fresh* (Ito-Yokado)

Introduce services at small scale (MVP approach[*1]) through use of digital and IT formats and external collaboration, then work at high speed through the PDCA cycle to develop it horizontally



CRM[*2] strategy is not only for making recommendations, but also **in the following PDCA cycle for parlaying customer feedback and behavior into the development of new products and services**

By repeating this cycle, provide a shopping experience that is attractive and unique for each individual customer

*1 Minimum Viable Product approach: An approach of introducing services at minimum viable scale, then increasing satisfaction through continued improvement.
*2 Customer Relationship Management: A management approach that utilizes information capture, such as customer purchasing history, to personalize such processes as sales, marketing and customer support, and promote continuous contact with customers.

Roles of a holding company for operating companies:

1. Support the execution of management duties at operating companies
2. Oversee the execution of management duties at operating companies
3. Optimize the allocation of resources

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Sustainability Management

Emphasis on balancing solutions to social issues with enhanced corporate value

Japan's social landscape is changing, reflecting factors such as fewer children and more seniors in the population, a shrinking number of people per household, more retail stores closing their doors as communities hollow out and a shortage of labor, especially skilled personnel. The new social landscape has brought with it a multitude of issues requiring attention. There are also issues on the global level that must be addressed and, for these, it is not just governments and organizations that are required to act. Companies must contribute to solutions and comply with new rules as well. Expectations are exemplified by the United Nations' adoption of sustainable development goals (SDGs) to be achieved by 2030 under a concept shared by members of the international community. SDGs target increasingly serious global concerns, namely, climate change and resource depletion as well as poverty, inequality and violations of human rights.

To address the changing times and the demands of society, it is more important than ever before for management to quickly reflect comments and requests obtained through stakeholder dialogue, as appropriate, in decision-making processes and then implement the findings. Given the range of issues surrounding sustainability and the Seven & i Group's expanding business domains, management at Seven & i Holdings drew on dialogue with stakeholders to identify Five Material Issues (Materiality) of particularly high importance to the Group and society. Guided by these materiality themes, the Group will strive to meet the expectations and demands of society.

In line with our emphasis on materiality, we established a structure to promote steps designed to reduce any negative impact that we might have on society and to carefully control any risk that might threaten corporate sustainability. This structure also allows us to balance solutions to social issues with efforts to sharpen our collective competitive edge, and it facilitates business planning and promotion activities, delivering value to society as well as to the Group. At the same time, this structure is a step toward the creation of a new business model.

Inspired by the spirit of "Trust and Sincerity," the Seven & i Group will draw on inherent strengths, including business infrastructure and accumulated know-how, as well as management resources, to respond to the various changes that characterize the new social landscape. Our goals are higher corporate value in the medium to long term and the realization of a sustainable society.

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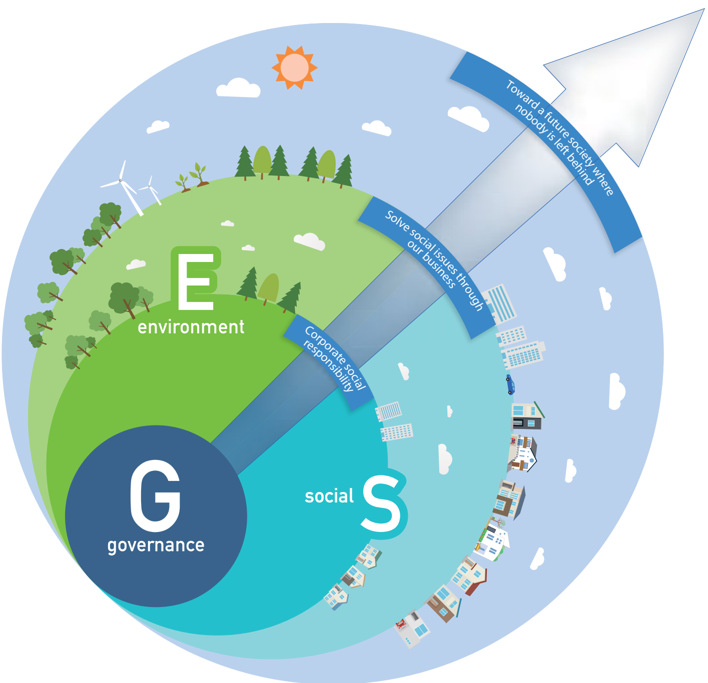

In 2015, the United Nations adopted the Sustainable Development Goals (SDGs), 17 goals that call for action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity, with the target year set for 2030.

Sustainability Management

Utilizing and strengthening human assets

Around 140,000 people, who are diverse in nationality or work pattern (including part-timers, temporary staff and employees with foreign citizenship), work for companies under the Seven & i Group umbrella. I believe our ability to create appealing workplaces for all of our employees allows us to build diversity in our human assets and also generate new value through access to fresh ideas. I define an appealing workplace as one that provides the necessary support for diverse employees and one that makes every job enjoyable. This is why we are keen to train and develop employees and why we seek to establish an employment environment that welcomes diversity in individuals and utilizes differences to an advantage.

As part of this effort, for example, Seven & i Holdings and Seven-Eleven Japan (SEJ) introduced a staggered work structure that allows full-time employees to choose their preferred starting time. The underlying purpose is actually twofold: to promote work styles with the flexibility to match different personal lifestyles, such as for people who hold down a job while caring for children or elderly parents, and thereby increase their motivation for work; and to achieve higher operating efficiency and productivity by changing the work-style format. As a Group, we are aware of our role in society, and we will continue to embrace work-style reform to create comfortable, pleasant work environments for employees and thereby contribute to a more livable society.

In addition, we established the Diversity & Inclusion Promotion Project, which uses diverse human resource activities to ensure sustainable competitiveness.

We believe that it is important to recognize and appreciate diversity in human resources and maintain a care-and-fair perspective that cares about diversity and treats employees fairly. This approach encourages employee engagement within the Group and maximizes individual qualities and strengths to fuel corporate growth.

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Achieving Targets of Medium-Term

Overview and progress of Medium-Term

The Medium-Term Management Plan, formulated in October 2016 and launched in fiscal 2018, is a three-year blueprint for growth that hinges on efforts to solidify overall strategies for the Group. We are making good progress toward stated targets as a cohesive corporate group. Priority measures include efforts to strengthen growth businesses and improve structural reform businesses. Numerical targets to be achieved by the end of fiscal 2020 are consolidated operating income of ¥450.0 billion and ROE of 10%.

The first year of the Medium-Term Management Plan delivered results on track with expectations. Consolidated operating income climbed 7.4% year on year, to ¥391.6 billion, and ROE hit 7.6%, fueled mainly by domestic and overseas convenience store operations. These segments have been tapped as major growth businesses. Steady progress toward our ultimate destination is also anticipated in the second year—fiscal 2019—with consolidated operating income pegged at ¥415.0 billion, up 6.0% year on year, and ROE of 8.4%. We will also increase the pace of structural reforms set for fiscal 2020, the last year of the Medium-Term Management Plan, and accelerate the implementation of various strategies aimed at achieving the stated targets.

Medium-Term Management Plan numerical targets

Numerical targets FY2020

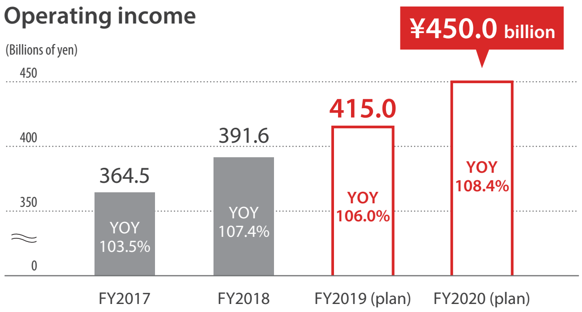
Consolidated operating income

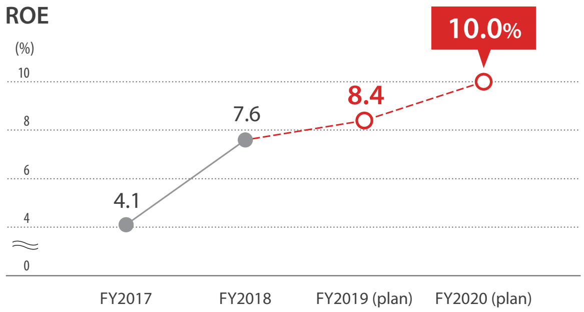
¥**450.0** billion

ROE **10**%

Management Plan

Management Plan





Accelerate execution of the plan for achieving FY2020 targets while pursuing Group synergies

Overview of Medium-Term Management Plan (announced October 2016)

1 Concentrate management resources with a core focus on growth in CVS operations in both Japan and North America

2 Promote "selection and concentration" of each geographic area and business category

1. Memorandum of Understanding on Capital and Business Alliance with H2O Retailing, succession of Sogo & Seibu department stores in Kansai region (completed), concentration of management resources on major stores in Tokyo metropolitan area
2. Ito-Yokado: Start an examination of measures to focus on Tokyo metropolitan area and food business

3 Adopt a perspective of property development in revival of general merchandise stores and department stores

4 Review the Omni-Channel Strategy

Prioritize customer lifetime value from the standpoint of the customer's strategy

5 Formulate our strategy, and revise our business segments from the perspective of our management approach by next spring (completed)

Financial Strategy

Capital expenditures

Disciplined investment aiming to achieve ROA that each operation set

- Examine investment efficiency through Portfolio Committee
- Priority allocation to growth businesses (M&As will also be considered in the North American CVS business)
- Structural reform businesses will invigorate existing stores

Fund procurement

While maintaining the Group's AA rating,

- Procure interest-bearing debt if funds are required for growth strategies
- Tolerate a debt/equity ratio of around 0.5 times based on expectations of growth in financial services

Shareholder returns

In line with the basic policy of return to shareholders matched to profit improvement, maintain a consolidated payout ratio of 40%

- Adopt flexible capital policies, while considering the balance with investments in growth businesses

Achieving Targets of Medium-Term Management Plan

Growth businesses

Domestic convenience store operations are a growth business. However, the operating environment is challenging, and franchise owners are carrying a heavier expense burden, largely because of an increase in the minimum wage, a high ratio of job openings to job seekers and wider enrollment in Japan's social security program. Against this backdrop, SEJ—with a network exceeding 20,000 stores in Japan—hammered out robust measures to support store management, convinced that a store with motivated management and staff is a key element of maximized corporate value.

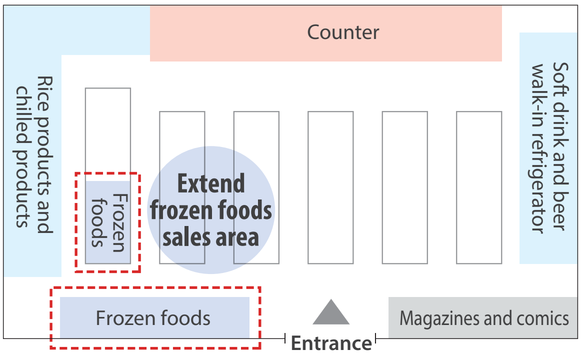
SEJ sees the changes in today's business environment as an opportunity to grow and actively introduces measures to expand its business in a balanced way. One such measure, implemented in September 2017, was a special discount of 1% on "Seven-Eleven Charge" royalties paid by franchise owners. The objective was to lessen the degree of uncertainty that operators felt from prevailing financial pressures and to create an environment in which franchise owners would be receptive to a more aggressive process of store management. A secondary objective was to attract future franchise owners.

The discount measure was something that only SEJ could complete because SEJ enjoys an excellent level of profitability in the domestic convenience store industry. The discount will cause a profit decrease of about ¥16.0 billion over one year, from the second half of fiscal 2018 through the first half of fiscal 2019. However, SEJ's management realized that success, amid intensifying competition, required a concerted effort now to strengthen the marketing capabilities of franchise operations and thus underpin efforts to distinguish SEJ from other convenience store chains. As a result, customer services have improved, product ordering from stores has increased and the growth rate of sales at existing stores has shifted favorably.

SEJ's efforts also extend to new store layouts geared to prevailing customer needs and the installation of dishwashers to boost operating efficiency at stores. In addition, SEJ began a review of the existing network structure, introducing an energy-saving system for product inspection at stores using radio-frequency identification (RFID*) technology and a new process that increases the distribution efficiency of products delivered to stores. SEJ is thus going beyond the service side of operations, enhancing the tangible, equipment-and-facilities-side of business, to improve productivity across the whole supply chain. I am sure this strategy will support stores and inevitably lead to growth.

Seven-Eleven Japan: Evolution of New Layouts

New layout going forward



Expand the sales space for frozen foods, for which increasing demand is expected, and strengthen delicatessen-, snack- and ingredients-type products.

● Introduction schedule

	FY2018 result	FY2019 plan
Existing stores	350	600
New stores	950	1,100
Total	**1,300**	**1,700**

Effect of new layout going forward

Impact of new layout on sales

Sales growth led primarily by frozen foods, daily foods and checkout-counter products

Approx. +¥15,000

(As of February 28, 2018)

Targeting further sales increases as the new layout is augmented by enriching the lineup of products

*RFID is a technology for contactless reading of data from an IC chip through the transmission of radio waves.

Overseas convenience store operations are another growth business. 7-Eleven, Inc. (SEI) contributes the second-highest operating income to consolidated results, after SEJ.

In North America, the convenience store industry is characterized by the ongoing withdrawal of oil majors from the retail business and continued realignment by dedicated convenience store chains. SEI, with the largest convenience store network in the United States, has captured about 6% of the market, giving SEI a huge opportunity to further expand its store network.

Against this backdrop, management felt that keys to future growth were a market concentration strategy and the establishment of a fast food supply network. In January 2018, SEI completed acquisition of a part of convenience store and gasoline retail businesses owned by U.S.-based Sunoco LP. This was the largest M&A transaction that the Group had ever done. Average daily merchandise sales per store in Sunoco's retail business are equal to or greater than the SEI daily average per store, and average daily gasoline sales per store are considerably more than the volume of gasoline sold at SEI's stores. Bringing the acquired businesses under the SEI umbrella should reinforce the store network and expand the supply chain. Going forward, SEI will direct its energy toward boosting profitability through steady efforts to rebrand the acquired stores under 7-Eleven signboards and promote franchising opportunities.

On the topic of strengthening the fast food lineup, Warabeya Nichiyo Holdings Co., Ltd., the largest supplier of take-home meals to SEJ's stores, began shipments of exclusive products to 7-Eleven stores in Texas from a Texas-based production facility in 2018. This enhanced Japanese-style product supply infrastructure and wider supply chain will underpin access to high-quality items, which will give average daily sales a healthy boost.

Achieving Targets of Medium-Term Management Plan

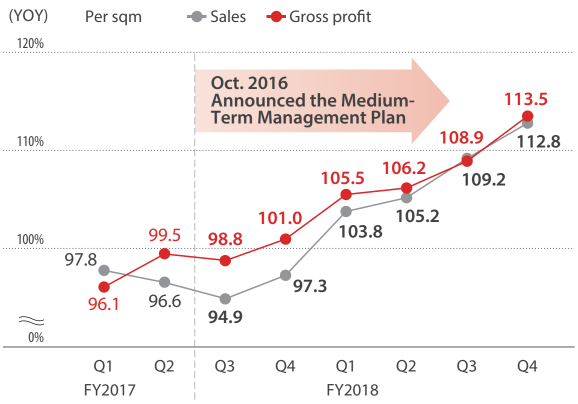
Structural reform businesses

For superstore operator Ito-Yokado, department store operator Sogo & Seibu and specialty store operator Nissen Holdings, which have been positioned as structural reform businesses, the operating environment remains challenging. It goes without saying that getting these operations back on their corporate feet is an urgent issue from the Group perspective.

Against this backdrop, Ito-Yokado set a goal of closing 40 unprofitable stores by 2020, with 24 stores shuttered in fiscal 2017 and fiscal 2018. At existing stores, Ito-Yokado aims to improve profitability by 1) converting from a general merchandise store format to an *Ario* high-profit shopping center format; 2) enhancing operations in sales floor space for food, a growth category; 3) reducing directly operated sales floor space for apparel and household goods, which have been long-running loss-makers mainly due to the rise of category killers, while promoting tenant occupancy that improves efficiency per unit of area; and 4) implementing store renewal through real estate redevelopment that leverages the geographical advantages of stores near train stations. In the strategy for enhancing food sections, in particular, management took a fresh look at the sales floor format for food. In December 2017, management selected 10 locations as pilot stores and expanded the delicatessen area at each store to 40% of the total sales area, up from the conventional 24%, to capitalize on rapidly growing demand for take-home meals. Ito-Yokado's earnings are sluggish overall, but these pilot stores marked year-on-year improvement in both customer visits and food sales. Going forward, Ito-Yokado needs to reconsider the apparel and household goods sections, raise the overall appeal of stores and build a store format that elicits a clear picture of growth.

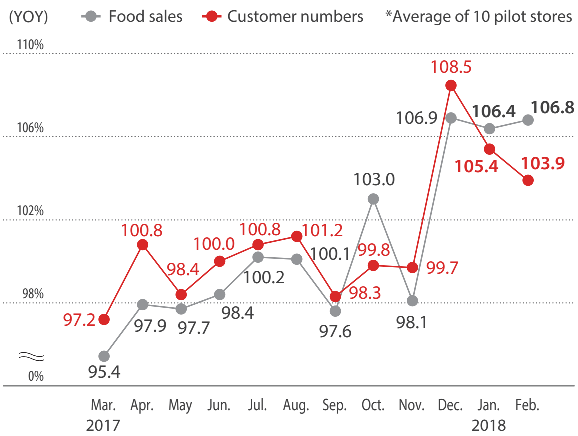
Ito-Yokado: Accomplishments of Structural Reforms

● Results of 26 stores that implemented structural reforms (quarterly YOY trend)



Ito-Yokado: Sales YOY and Customer Numbers YOY in Pilot Stores with Strengthened Food Offerings

● Customer numbers YOY at food sales area and food sales YOY in pilot stores



● Ito-Yokado: Progress on structural reforms

Details	FY2017	FY2018	Total
1 Reduce the volume of apparel, household goods and strive to convert sales areas to tenant space	7	19	26
2 Strengthen food (Renovate the food sales areas to new formats)	—	10	10
3 Close 40 stores from FY2017 to FY2021	15	9	24
4 Consider redeveloping stores that have been in business for 30 years or more	Plans call for redeveloping four stores in FY2020, followed by the successive redevelopment of more stores thereafter		

Meanwhile, Sogo & Seibu has not been immune to the effects of a steadily shrinking domestic department store market. To deal with prevailing challenges, Sogo & Seibu pushed ahead on an area-specific selection-and-concentration plan, transferring two stores in the Kansai region—Sogo Kobe and SEIBU Takatsuki—to H2O Retailing Corporation and also closing two unprofitable stores—SEIBU Funabashi and SEIBU Odawara—in fiscal 2018.

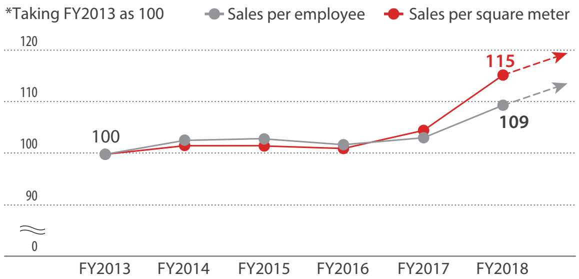
From fiscal 2019, the plan is to jump straight to a tangible growth strategy, drawing on resources that have been freed up by successful business restructuring in fiscal 2018. As part of the strategy to concentrate management resources at flagship stores in the Tokyo metropolitan area, Sogo & Seibu is currently remodeling the Sogo Yokohama store to enhance the beauty department, particularly the setup and selection of cosmetics, which are a key contributor to revenues.

Note that after a close examination of the progress that Sogo & Seibu has made under the new management structure, the time frame for Sogo & Seibu to achieve numerical targets—operating income of ¥13.0 billion and an operating profit margin of 1.8%—stated in the Medium-Term Management Plan, has been pushed back one year, from fiscal 2020 to fiscal 2021. In addition, the target for operating profit margin has been increased to 2.0%.

At Nissen Holdings, profitability has been improving owing to the implementation of "selection and concentration" of management as a whole, from scratch. Nissen Holdings will continue to focus on its structural reforms.

Sogo & Seibu: Accomplishments of Structural Reforms

● Sales per sqm*1 and per employee*2 index



● Comparison with results for FY2013

	FY2013	FY2018	Difference /YOY
Store count	24	15	(9)
Total sales floor	863k sqm	617k sqm	71.5%
No. of employees (incl. part-time employees)	9,557	6,984	73.1%

*1 Sales per square meter: Net sales divided by active sales area.
*2 Sales per employee: Net sales divided by the sum of average number of employees and number of part-time employees during the period.
Average number of part-time employees per month based on work hours of 163 hours per month.

Sogo & Seibu: Revise the Medium-Term Management Plan

● Disclosed target in October 2016

Operating income FY2020: ¥13.0 billion/ Operating profit margin: 1.8%

● Background to the revision

Announced the Medium-Term Management Plan in October 2016 ▶ Carefully examine progress on Medium-Term Management Plan under new management team ▶ Further structural reforms Concentrate management resources on key stores

Operating income FY2021: ¥13.0 billion/ Operating profit margin: 2.0%

Despite a one-year lag, realize profit margin growth on improved management efficiency following structural reforms

New Initiatives

Utilizing technology to get closer to our customers

Rapid advances in technology are leading to new services and transforming the retail environment. Against the backdrop of major changes that might occur only once in 100 years, the growth strategy favored by the Seven & i Group is one that hinges on the creation of services using IT and excellent reinforced content collected from a physical-store presence, that is, the customer services, stores and products that are the source of our competitiveness.

Every day, the Group welcomes about 23 million customers in Japan and, over the course of a year, the resulting purchasing activity generates more than eight billion pieces of customer data. Using IT, each operating company can learn a lot about purchasing trends on a customer basis from the collected data and improve the quality of products and services, which allows each company—and by extension, the Seven & i Group—to hone an even sharper competitive edge. The Omni-Channel Strategy, which once hinged on the e-commerce business, was a vital component of the Group's growth strategy, but the Group has redefined the strategy from the customer's perspective. Also, in fiscal 2019, we will set up a new structure responsible for digital strategy, enhance strategies including alliances with outside companies boasting top-caliber expertise in collecting and analyzing customer data, and quickly leverage opportunities to recommend and deliver personalized shopping and services.

Our strategy on customer relationship management (CRM) is one of our new initiatives. In fiscal 2019, we will introduce a service utilizing IT to build stronger connections between the Group and its customers. This rolled-out CRM strategy is the largest scale in the world. The goal is to centrally manage and utilize customer data collected from across store networks under the Group umbrella to facilitate product development and establish new business platforms, including a process to promote mutual customer referrals between physical stores and online shopping sites operated by Group companies.

Lateral access to the purchasing data of operating companies' customers will enable these companies to provide recommendations and services personalized for each customer, invariably leading to increased customer satisfaction.

Here is one concrete example of our plans. In June 2018, the Group introduced apps that enable each operating company or specific store to send recommendations and

Basic Philosophy Regarding Digital Strategy

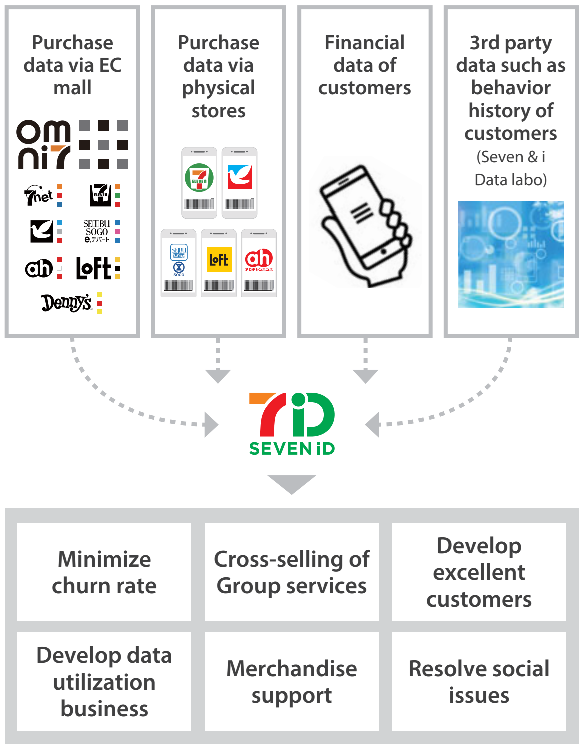
Customer Oriented

Customer Engagement

Customer Experience

CRM Strategy

This strategy focuses on the about 23 million customers that enter Group stores in Japan every day. SEVEN MILE PROGRAM, a Groupwide loyalty program, not only enables customers to enjoy shopping, but also assigns a 7iD, which serves as a common Group ID, allowing for customer information to be shared in an integrated manner throughout the Group. In the future, consideration may be given to data collaboration with external parties and utilized for various types of marketing and product development.



services fine-tuned to individual customer preferences, based on a variety of purchasing data that has been collected and analyzed. The objective is to make shopping more appealing, which will encourage customers to visit stores more often. The centerpiece of this plan is the SEVEN MILE PROGRAM. Customers receive “miles” corresponding to their purchasing history, with customer perks increasing as miles are accumulated. As perks include an assortment of promotions and goods, with gamelike features and other fun elements, the program will become a tool that makes shopping at Group stores more enjoyable.

Going forward, we will reinforce the CRM strategy and encourage Group companies to work together to develop new businesses and services, including a Group-only payment service for smartphones. Of course, we want to see mutual customer referrals between physical stores and the online shopping sites of companies operating under the Group umbrella, and we will demonstrate the flexibility to maximize synergies as only we, the Seven & i Group, can.

Progress of 7&i’s Digital Strategy

From Oct. 2014 to Sep. 2015	**Personal Marketing Project** **Trial tests using smartphone app (SEJ, Ito-Yokado, etc.)** ▶ Confirm expectations for further sales growth by adding customer-oriented analysis to item-by-item management
From Nov. 2015	**Launched *omni7* website (Group’s integrated EC website)** **Integrate Group company e-commerce site with customers’ individual IDs** ▶ Acquire comprehensive grasp of purchase history to realize individually optimized customer recommendations
From Oct. 2017	**Launched *Net Convenience Store*** ▶ Service enabling ordering of physical-store products over the Internet
From Nov. 2017	**Launched *IY Fresh*** ▶ Food e-commerce centered on fresh foods in collaboration with ASKUL
From Jun. 2018	**Full-scale CRM operations (Launch Group company app)** • A system that enables customers to enjoy shopping • Comprehensively grasp purchase information at stores • Use purchase information in marketing and product development
Around Spring 2019	**Full roll-out of *Financial Project* (Launch settlement app)*** Provide new settlement methods that prevent customers from feeling stressed

*Assuming completion of procedures with supervising government agency

In Conclusion

The Seven & i Group’s strength is a cohesive force built from a mix of retail formats that does not exist anywhere else in the world. We will promote the development of every type of business. We will also demonstrate even more powerful Group synergies, generated through innovations in retail services and a business platform underpinned by a strong community connection, and we will constantly contribute new value to society.

As we travel this road, the understanding and support of our stakeholders are integral to our success.

August 2018

Ryuichi Isaka
President and Representative Director

We will strive to improve corporate value based on medium- to long-term perspectives.

Yoshimichi Maruyama

Executive Officer, General Manager of the Corporate Finance & Accounting Division

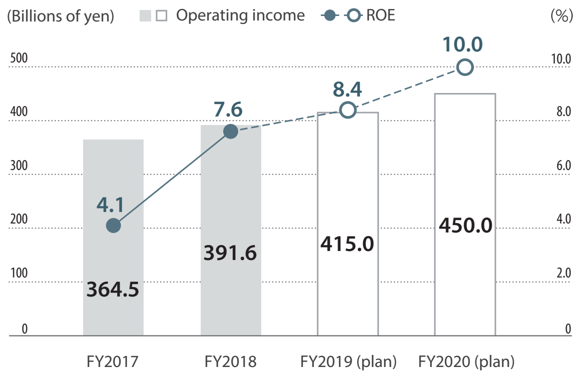
Joined Seven & i Holdings Co., Ltd. in 2008. Appointed Executive Officer and Senior Officer of Finance Planning Dept. in May 2017, then Executive Officer and General Manager of the Corporate Finance & Accounting Division in March 2018.

Improving Corporate Value

The Seven & i Group has set the following targets for fiscal 2020 under its Medium-Term Management Plan: operating income of ¥450.0 billion and ROE of 10%.

These targets illustrate our intention to step up efforts—in both sustainability and growth potential—aimed at improving corporate value over the medium and long terms.

To this end, it is important to create a positive cycle. On the one hand, we need to maintain and strengthen our sound financial structure and secure management resources to continue active investments for growth. On the other hand, we must fully examine the efficiency of our investments from medium- to long-term perspectives to further strengthen our financial base.



Pursuing Group Synergies to Expedite Achievement of Fiscal 2020 Targets

Maintain and Strengthen Our Sound Financial Structure

To maintain and strengthen our sound financial structure, it is important to first improve capital productivity and enhance profitability.

Therefore, we have set key performance indicators (KPIs) aimed at enabling everyone—from top management to front-line workers—to share in directing our operations. We are also working to strengthen our organization to advance effective initiatives throughout the Group.

At the Corporate Finance & Accounting Division, we use several indicators to measure the impact of our business plans and their progress on the soundness and efficiency of our financial status. These indicators include the owners' equity ratio, debt/equity ratio, return on invested capital and return on equity. To help us make more appropriate management decisions, we report to the Company's management in a timely manner on the Group's progress vis-à-vis the KPIs.

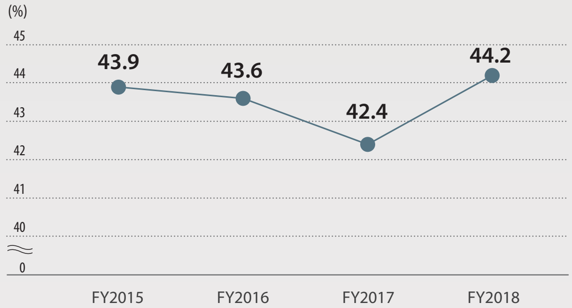
Meanwhile, the proportion of the Group's consolidated net assets denominated in foreign currencies is increasing, reflecting the development of our convenience store operations in North America. Accordingly, we will strengthen asset-liability management by currency and also work to improve the financial governance of subsidiaries.

Securing Management Resources for Growth

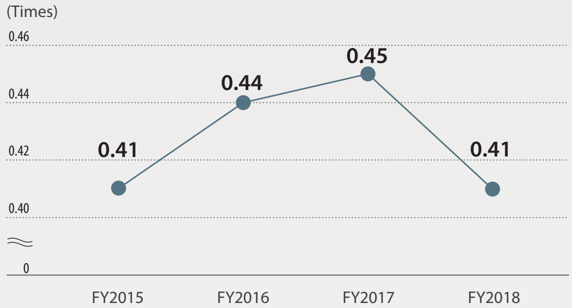
With the advancement of the Internet, AI and other technologies, the competitive environment and other business conditions surrounding the Group are changing dramatically. For this reason, we expect the scale of investments needed to address these changes and otherwise promote growth will increase considerably.

Major priorities for the Group, therefore, are to increase procurement capacity and diversify procurement methods. Here, we will focus on expanding and allocating our management resources optimally—including reviewing our business portfolio and formulating financial and capital strategies—while closely monitoring our financial soundness.

Owners' equity ratio



Debt/equity ratio



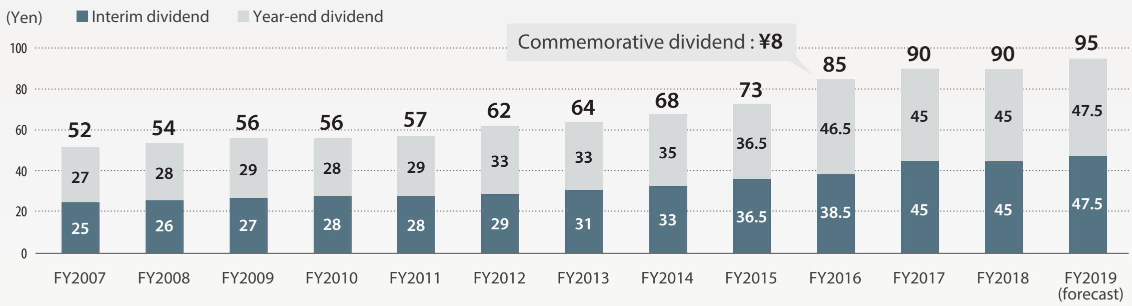
Approach to Shareholder Returns

Regarding the return of profits to shareholders, our basic policy is a return to shareholders matched to profit improvement. Under this policy, when declaring per-share dividends, we aim to make ongoing enhancements while maintaining a consolidated dividend payout ratio of 40%, with the objective of boosting the cash dividend per share.

In the fiscal year ending February 28, 2019, we plan to pay a full-year dividend of ¥95 per share, up ¥5 from the previous fiscal year, for a dividend payout ratio of 40%.

Dividends per share

Consolidated dividend payout ratio target: maintain **40**% and increase it



Dividend payout ratio (%)	36.4	39.4	55.7	112.7	45.2	42.2	41.0	34.2	37.3	46.7	82.3	43.9	40.0

In the fiscal year ending February 28, 2019, we plan to increase the total dividend by ¥5, to ¥95 per share (a payout ratio 40%).

With a business model that leverages the we will embrace the challenges of achieving

Committed to being a "sincere corporation trusted by all stakeholders," we are advancing operations based on "multi-business format Group management" as a business model, allowing us to address the various life stages of our customers (see figure at right).

We consider various social issues and the changing environment surrounding the Group business opportunities. By combining and utilizing our key management resources—know-how cultivated by Group companies in various businesses, as well as our diverse human resources—we are creating new products and services (value) that are unparalleled.

In addition, we gather information on the shopping histories, opinions and other data about customers who patronize our Group companies. We analyze this information from multi-faceted perspectives to identify new needs and develop and improve services. This "information deployment power," derived from our ongoing connections with customers, also helps us create new levels of corporate value for the Group.

Furthermore, we have established close relationships (a team collaborative development system) based on mutual trust with our business partners, including producers (such as farmers), manufacturers, vendors (wholesalers) and logistics companies. Harnessing the know-how and skills of these partners, we have amassed "innovation power," which forms the source of the Group's unique corporate value creation efforts.

We also adopt the viewpoints of customers to understand their various needs and subtle preference changes. This gives our employees "hospitality power," which allows them to serve each and every customer more meticulously. We have carefully cultivated such power since our founding.

In a spirit of trust and sincerity, we will strive to improve sustainable corporate value by using our unique business model to continue providing value to customers and society.

Social issues/environment/ opportunities encompassing the Group

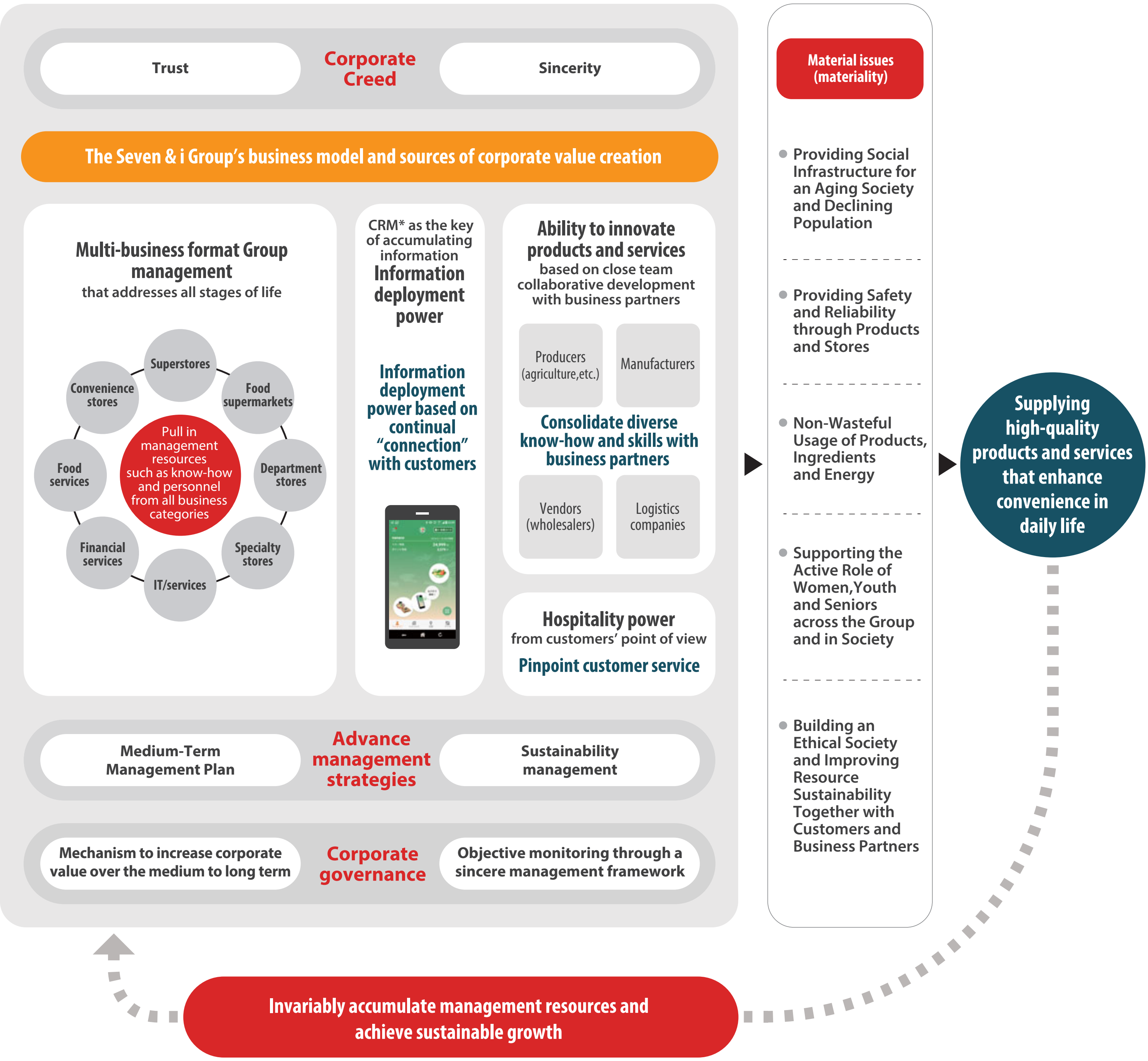
- Fewer children and an aging population
- Increasing number of working women
- Shopping more inconvenient, as retailers close up stores
- Increased preference for eating out and more demand for take-home meals
- Heightened awareness of food safety
- Risk of climate change
- Food waste

Junro Ito

Director and Managing Executive Officer

Joined SEVEN-ELEVEN JAPAN CO., LTD. in 1990. Appointed Director and Managing Executive Officer in 2002. Transferred to Seven & i Holdings as Director in 2009. Became Director, Managing Executive Officer and General Manager of the Corporate Development Division in 2016.

Group's unique attributes, sustainable growth and creating value.



*Customer Relationship Management: A management approach that utilizes information capture, such as customer purchasing history, to personalize such processes as sales, marketing and customer support, and promote continuous contact with customers.

We will deploy our core business to convert "social issues" to "shared value," aiming for sustainability (sustainable society)

Identifying Material Issues (Materiality)

The Group's business domains are expanding, and social issues and demands related to its businesses are diversifying. Against this backdrop, we need to confirm issues revolving around sustainability and address all of the expectations and requests of stakeholders as a group. For this reason, through dialogue with stakeholders we have identified Five Material Issues (Materiality) that we should address.

We recognize the negative impacts of our business on the environment and society, and we are striving to minimize such impacts. At the same time, we are promoting CSV (Creating Shared Value) initiatives to resolve material issues through our main businesses, including the provision of products and services and the operation of stores. Also through our business, we are aiming to help achieve SDGs (Sustainable Development Goals), adopted at a United Nations summit in 2015 as a set of common goals for the international community. To this end, we collated the SDGs according to their relevance to our material issues and incorporated them into our sustainability initiatives (see figure below).

While various issues related to the environment and society pose threats to corporate sustainability, we believe that efforts to resolve social problems will lead to new business opportunities.

We have clarified risks and opportunities related to our identified Five Material Issues and are working to reduce risks. By creating new businesses that resolve social problems, we aim to realize a sustainable society and deliver sustainable corporate growth.

Material Issue 1 Providing Social Infrastructure for an Aging Society and Declining Population

Risk
- Delays in responding to changing needs associated with the aging population, leading to a falling incentive to visit stores, etc.

Opportunity
- Create convenient shopping environments and services (including goods for the elderly and online shopping), leading to increased sales opportunities, etc.

Material Issue 2 Providing Safety and Reliability through Products and Stores

Risk
- Decline in trust due to product- and/or store-related accidents and/or legal violations, etc.

Opportunity
- Conduct strict safety and quality controls and offer health-promoting items and other new products that meet customer needs, leading to increased sales opportunities, etc.

Material Issue 3 Non-Wasteful Usage of Products, Ingredients and Energy

Risk
- Physical damage to stores and logistics network due to climate change, etc.

Opportunity
- Reassess energy saving, waste reduction and recycling efforts, as well as energy supply sources, leading to cost reductions, etc.

Material Issue 4 Supporting the Active Role of Women, Youth and Seniors across the Group and in Society

Risk
- Labor shortages and rising personnel costs due to declining workforce, etc.

Opportunity
- Promote diversity-oriented management to strengthen competitiveness, develop new businesses and attract exceptional talent, etc.

Material Issue 5 Building an Ethical Society and Improving Resource Sustainability Together with Customers and Business Partners

Risk
- Human rights problems in the supply chain leading to interruption of product supply, deterioration of product quality and/or loss of social trust, etc.

Opportunity
- Increase competitiveness through sustainable raw materials procurement and provision of products and services emphasizing ethical consumption, leading to increased sales opportunities, etc.

Please refer to the CSR section of our corporate website for more details. http://www.7andi.com/en/csr/theme/theme.html

Addressing ESG (New Evaluation Criteria for Corporate Value)

Traditionally, financial performance has been the main measure of corporate value, but financial factors alone are insufficient for judging the sustainability of corporate management. This has increased momentum to incorporate non-financial business evaluation criteria in the form of ESG (environment, social, governance), and investments in ESG are growing rapidly as a result. Long-term investors have a particularly strong interest in how companies integrate ESG elements into their business strategies. This includes how companies pursue SDG-related initiatives as a common global corporate evaluation method.

Even before this increase in momentum, the Group took assessments from ESG-related evaluation organizations seriously and maintained ongoing dialogue to incorporate the perspectives of long-term investors into management.

In addition to improving our evaluation by long-term investors, ESG-related initiatives are beneficial from the perspectives of solving environmental and social issues through new business, attracting stable shareholders and securing exceptional talent. For these reasons, we are actively pursuing ESG initiatives as investments in sustainable growth, rather than as business costs.

Seeking to utilize social issues as opportunities in our own business and to hone our competitive superiority, in June 2016, we established the Social Value Creation Subcommittee under the CSR Management Committee. Through the new subcommittee, we are working as a Group to develop and strengthen systems for creating new businesses that generate value for both society and the Company.

Going forward, we will strive to disclose information on our ESG initiatives in an easier-to-understand manner by setting KPIs to measure the progress of initiatives and quantifying their effects on the environment and society, as well as their relationship to our business performance, as much as possible.

Inclusion in ESG indexes*

(as of April 30, 2018)

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

FTSE4Good

FTSE Blossom
Japan

MSCI
2017 Constituent
MSCI ESG
Leaders Indexes

MS-SRI

*Investment indexes that use environmental and social considerations, rather than financial aspects, as important elements for making investment decisions.

Improving Corporate Value in the Value Chain

The Seven & i Group delivers products and services that closely reflect customers' lifestyles in collaboration with business partners through wide-ranging business formats. One outcome of this is *Seven Premium*, a common Groupwide private brand launched more than 10 years ago.

Our mission is to always embrace the needs of individual customers and continue the challenge of creating new value by exploring ways to foster better lifestyles and a better society.

Seven & i Group Value Chain

1 Procurement

We procure raw materials in collaboration with multiple partners to deliver safe, secure, high-quality products to our customers at reasonable prices.

2 Product Planning and Development

Anticipating the ever-changing needs of society and customers, we harness the Group's exceptional product development capabilities to plan and develop original, high-value-added products.

3 Manufacturing

Through our manufacturing infrastructure, which takes advantage of business scale merits and partnerships with manufacturers, we use rigorous safety and quality control processes to make products.

Main Initiatives

1 Procurement

- Ensure product safety and traceability (distribution history) with a unified system
- Cultivate "Fresh Foods with Traceability" together with producers
- Use environmentally friendly raw materials, containers and packaging

2 Product Planning and Development

- "Team Merchandising" that deploys expert knowledge of business partners
- Timely responses to market conditions and customer needs
- Premium Life Enhancement Committee, which reflects customer feedback in product development
- Developing safe, secure, health-oriented products

3 Manufacturing

- Dedicated production facilities provide strong product appeal and quality control
- CSR audits of business partners' production facilities

4 Logistics

In addition to ensuring the freshness of products throughout the supply chain, we are improving our environmental responses and worker-friendliness by enhancing the efficiency of logistics and introducing new technologies.

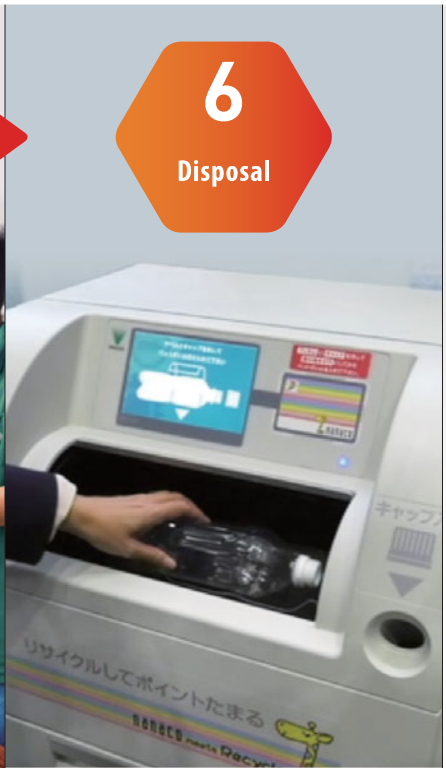
- Promoting use of hydrogen by introducing trucks and generators powered by fuel cells
- Using cold chain technologies to preserve quality
- Improving logistics efficiency by using joint distribution centers

5 Marketing and Sales

We are enhancing our service and support systems with the aim of making our stores more attractive as places where customers do their daily shopping and as places for individual employees to work.

- Providing service that gives customers peace of mind every day
- Creating a work environment with substantial education and training to help diverse employees advance
- Using radio-frequency identification (RFID) to save energy during product inspections at stores

6 Disposal



Seeking to realize a circular economy and reduce food waste throughout society as a whole, we are pursuing integrated environmental efforts across the board, from product design to usage, disposal and recycling.

- Efforts aimed at reducing food waste
- Operation of Seven Farms (for environmentally sustainable agriculture)
- Emphasis on recycling of containers and packaging

1

Procurement

Procuring raw materials that are safe, secure and cost-competitive

Distinctive factors that support our value chain

- Joint procurement for stable product quality and cost-competitiveness
- Traceability system to give consumers peace of mind

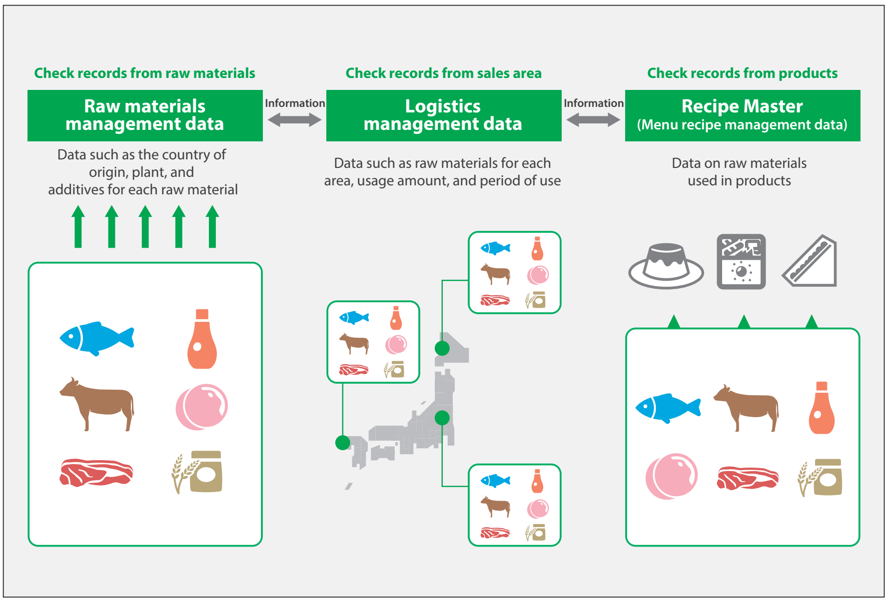
Joint procurement provides economies of scale

The Seven & i Group utilizes its network and merits of scale to jointly purchase materials, goods, equipment and other items. In addition to stabilizing product quality/volume and enhancing cost-competitiveness in the procurement stage, this enables us to achieve product traceability.

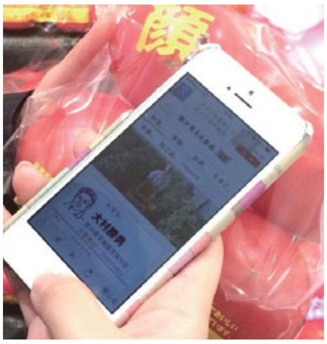
Even for the Group's private brand, *Seven Premium*, we have an integrated manufacturing system covering all processes—from raw materials procurement to product development and quality control—to realize high quality at prices that are consistent Groupwide.

Unified control of product creation history

With respect to daily products such as steamed rice and prepared dishes, Seven-Eleven Japan introduced its Recipe Master System, which uses a database to accurately monitor and control various aspects of food creation. These include the factory of manufacture and the type and volume of raw materials used, as well as the stores to which products containing specific raw materials are delivered.



Accurate grasp of fresh food production/ distribution history



Ito-Yokado's "Fresh Foods with Traceability" is limited to domestic agricultural, livestock and fishery products. Here, we accurately monitor each product's manufacturing location and method, as well as the distribution route, and convey this information to customers.

With York-Benimaru's "Products with Visible Production Areas," information about the producers is displayed in the stores, and customers can also input the production number on the product label to confirm an item's production history.

High-quality value chain built on environmentally friendly products

The Seven & i Group operates around 21,800 stores in Japan and handles a large number of products. Ensuring environmentally friendly products is one way to create shared value with our diverse stakeholders.

Packaging materials, in particular, help increase the value of products but also directly impact costs related to materials, energy consumption and disposal. For this reason, we have set high targets and are switching to packaging materials with a low environmental impact.

SEVEN&i PREMIUM

950 items

(as of February 28, 2018)
Introducing environmentally friendly packaging materials

2030
All packaging materials to be environmentally friendly

1. Use of recycled PET bottles

Reduced CO_2 emissions

PETボトル
再利用品

2. Use of wood from forest thinning

間伐は みどりを育てる 運動
認定番号K1405310

3. Switch to non-aluminum paper packaging

紙 ▶ 紙パック

2

Product Planning and Development

Gathering know-how in Group product development while meticulously monitoring social needs

Distinctive factors that support our value chain

- Strong product development capabilities through "Team Merchandising"
- Product planning and development sensitive to social needs and customers' opinions

"Team Merchandising": Our original product development method

In developing *Seven Premium* products, we use an original product development method cultivated by Seven-Eleven Japan called "Team Merchandising," which also combines the product expertise and development know-how of Ito-Yokado, York-Benimaru and other Group members.

Team Merchandising is a method by which the Group's product development division works with a team—made up of manufacturers and business partners best suited to the target product—to share information and know-how and develop the product. The aim of Team Merchandising is to develop the best products for customers in terms of quality and price. Deriving and making maximum use of the expertise of each manufacturer and business partner in this way enables us to create high-quality products on a par with national brands.

Seven Premium product development system

Product development staff in Seven & i Group companies are organized into 6 sections and 27 subcommittees to conduct joint product development with product manufacturers. As of February 28, 2018, they supply 12 companies in total.

Seven & i Group Merchandising Section

Seven & i Group Merchandise Management Department

Division managers' meetings at each company

Senior Merchandiser Meeting (within each section)

Foods

Daily Foods Section:	Fresh and Delicatessen Foods Section:	Processed Food Products Section:
6 subcommittees	4 subcommittees	5 subcommittees

Household, pharmaceuticals and apparel

Household Section:	Pharmaceuticals Section:	Apparel Section:
8 subcommittees	1 subcommittee	3 subcommittees

Timely responses to changing customer needs

Japan's low birthrate, aging population, together with increases in single-person households and the social advancement of women, are some factors underscoring our changing society that will also bring major changes in customer purchasing behavior, needs and other value standards. To swiftly address these changes, we have adopted a strategy of renewing half of our *Seven Premium* product lineup every year, even items that are selling well.

Through the Premium Life Enhancement Committee, our official community site for customer participation, we solicit requests, comments and impressions about products from customers to reflect in product development. We repeatedly undertake product prototyping and monitoring and constantly make improvements to always develop products that continuously keep our customers satisfied.

Developing products that reflect rising health-related needs

Recent years have seen more and more interest in and concern about health and nutrition among customers. With respect to *Seven Premium*, we actively develop products that support customers' healthy lives, citing "Health conscious" as one of the seven key points for product development.

In addition, Seven-Eleven Japan attaches the symbol mark on the right to its health-oriented food products, indicating that they were made with care for your health.

カラダへの想い この手から

No preservatives

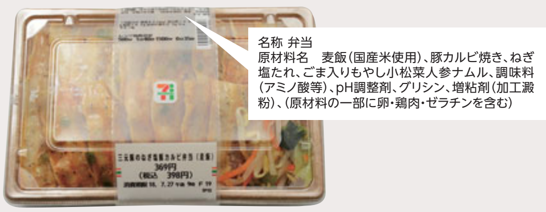
Synthetic coloring and preservatives are not used in the rice balls, boxed lunches, sandwiches and other original daily food products at 7-Eleven (around 2,000 items in total), as well as in *sozai* prepared dishes, boxed lunches and sushi rolls prepared on-site in Ito-Yokado stores.

No emulsifiers or yeast foods

Since fiscal 2018, when we added 7-Eleven's freshly baked bread to our *Seven Premium* range, we have sought to eliminate the use of emulsifiers and yeast foods in all bread and pastry products. We are also working to reduce the use of trans-fatty acids, which are the source of health concerns.

Allergy information displayed

For original products such as boxed lunches, *sozai* prepared dishes, bread and desserts, we display allergy-related information on the seven items mandated by law, as well as on 20 items for which display is recommended.



3

Manufacturing

Utilizing the Group's comprehensive strengths, we undertake rigorous safety and quality control processes in manufacturing our products.

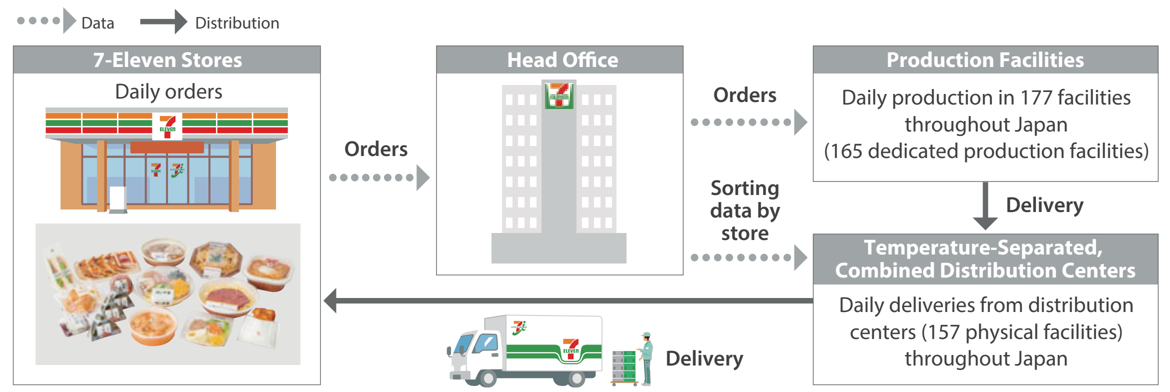
Distinctive factors that support our value chain

- Dedicated production facilities provide strong product appeal
- Establishment of an efficient, short lead-time product delivery system with strict safety and product quality standards
- Collaboration with business partners to promote human rights, labor and environmental considerations across the supply chain

Manufacturing infrastructure that includes dedicated production facilities for 7-Eleven stores

One of Seven-Eleven Japan's strengths is its manufacturing infrastructure of dedicated production facilities fitted with exclusive equipment that uses exclusive materials and exclusive recipes. This enables us to provide high levels of safety and quality while responding to customers' needs.

Products made at dedicated production facilities are delivered to our stores via temperature-separated, combined distribution centers. Orders received by stores are shared with production facilities and temperature-separated, combined distribution centers to realize efficient deliveries in a short time.



Uniting with business partners to take care of society and the environment

Since fiscal 2013, the Seven & i Group has conducted CSR audits to confirm compliance with its Business Partner Action Guidelines. These audits are performed once a year, mainly at our business partners' production facilities of private brand products in developing countries. In addition, we have compiled the responses to self-check sheets—which cite specific details necessary for compliance with the guidelines—into a database that we use as a reference when making decisions on ongoing transactions.

4
Logistics

Deploying efficient logistics to improve product freshness and business profitability

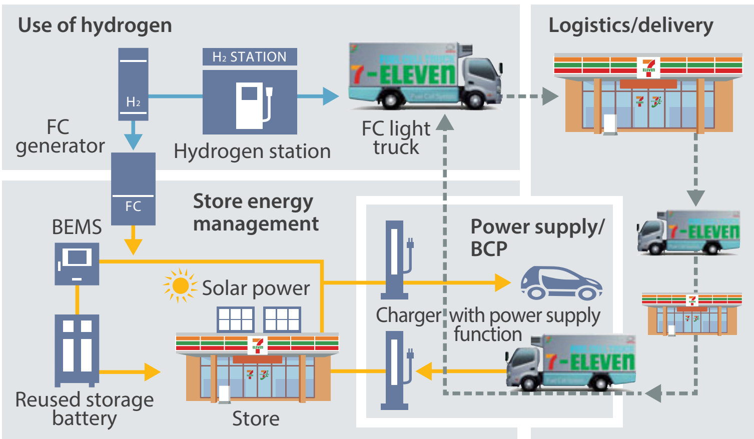
Distinctive factors that support our value chain

- Maintaining product freshness and business profitability through efficient logistics
- Using latest technologies to provide efficient, worker-friendly environments

Deploying latest technologies to improve efficiency and environmental responses

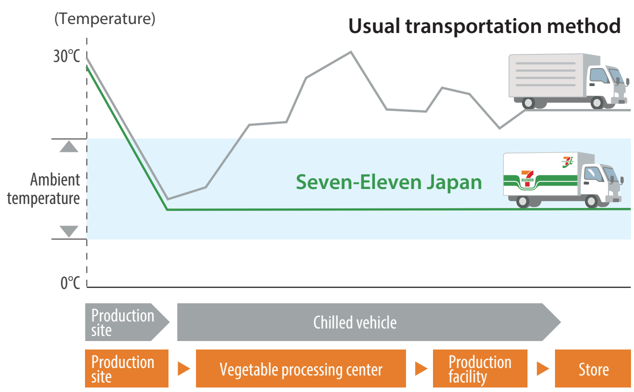
In August 2017, we began discussions with Toyota Motor Corporation aimed at helping realize a low-carbon, hydrogen-based society.

Going forward, we will introduce fuel cell trucks to our fleet of delivery vehicles (for refrigerated/frozen goods) and install fuel cell generators in our stores. In addition, we will introduce stationary energy storage systems that use automobile batteries at our stores. In addition to saving energy and reducing CO_2 emissions, we will consider using these systems as an emergency power supply in the event of a disaster.



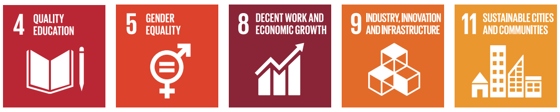
Freshness control from farms

To transport and process freshly harvested vegetables from farms, Seven-Eleven Japan is introducing cold chain (low-temperature logistics network) technologies to maintain freshness. The harvested vegetables are cryopreserved on the spot and transported to stores via delivery cars, sorting centers and production facilities under consistent temperature controls. This system enables us to maintain high quality and deliver fresh products to customers at our stores.



5
Marketing and Sales

Competitiveness created by a variety of services and diversity in human resources



Distinctive factors that support our value chain

- Providing service to ensure the safety and convenience of everyday life
- Removing the burden of shopping to further improve convenience
- Creating attractive workplaces where diverse human resources can excel and grow

Diverse services to support customers' shopping

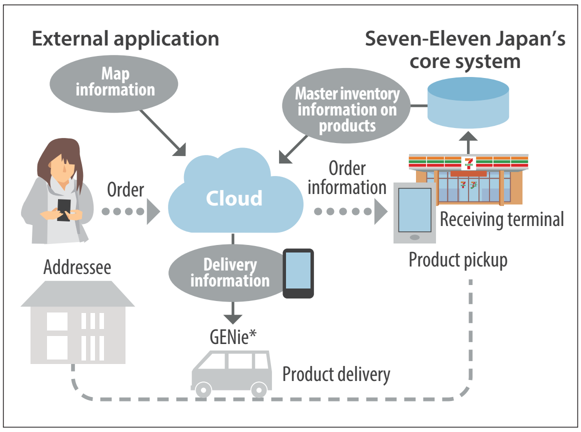
■ *Net Convenience Store*

In light of Japan's aging society, the number of people who feel that shopping is inconvenient is expected to increase in the future. To eliminate such inconvenience, since October 2017, Seven-Eleven Japan has conducted field tests of its *Net Convenience Store* service. These tests involve 15 stores in Sapporo and Otaru in Hokkaido, where the population density is low and the weather in winter is severe. With this service, customers place orders for products at physical stores via the Internet, and the products are delivered in as little as two hours. Responding to requests from customers who used the service, we are making various improvements, including accepting orders for specially reserved items and providing responses 24 hours a day. We will expand this service to all stores in Hokkaido during the current fiscal period (ending February 2019), with coverage of all stores nationwide planned for the following year (the end of February 2020).

■ *Seven Anshin Delivery*

Seven-Eleven Japan operates its *Seven Anshin Delivery* mobile store service in areas where shopping is inconvenient, such as places with large elderly populations and disaster-affected locations. With this service, mobile vehicles loaded with various products—from room-temperature items to frozen foods—circulate around an area to provide people with shopping opportunities. As of February 28, 2018, 7-Eleven had 58 trucks and Ito-Yokado had five trucks providing this service.

Order placed to physical store via the Internet



*GENie: A company that exclusively serves 7-Eleven stores in collaboration with Seino Holdings Co., Ltd.

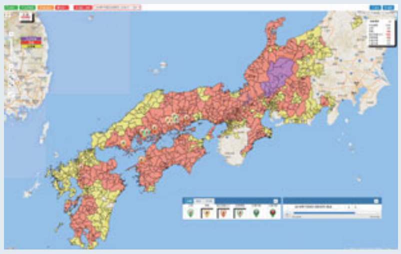
■ *Seven RakuRaku Delivery*

With this service, we deliver items purchased in stores or products ordered by telephone and the like to customers' homes or designated addresses via "COMS" (super-compact electric vehicles) and electric bicycles, which are environmentally friendly with low CO_2 emissions.

In April 2018, we started experimenting with voice-based orders in cooperation with Google's voice AI service, "Google Assistant."

Seven VIEW

Initial responses are extremely important to minimize damage in times of natural disasters, such as typhoons, earthquakes, heavy snow and rain, tsunami and floods. With this in mind, the Seven & i Group is developing a system called Seven VIEW, which will provide and share disaster information via Web-based maps. We collect information from public agencies, business partners and Group companies, enabling us to obtain material—including disaster updates, road traffic information and the status of each store—that is highly accurate. Our aim is to help build social infrastructure and restore supply chains in the aftermath of disasters.



Reasons to use Seven VIEW

1. Obtain pre-disaster forecasts to formulate relevant predictions
2. Accurately grasp and visualize status of damage in event of disaster
3. Formulate response measures based on a grasp of damage after a disaster occurs

Supporting the advancement of diverse human resources

In Japan, the shortage of labor has become a serious problem in the retail sector in recent years. As a developer of stores in diverse businesses, the Seven & i Group places importance on securing the required number of employees for its stores and improving the capabilities of each and every employee. To this end, we work actively to foster human resources.

In 2012, the Group opened the Ito Training Center with the aim of conveying the spirit of the Group's founding and cultivating human resources who will represent our next generation. To date, more than 300,000 people have used the training center, which plays a key role in developing the Group's human resources.

■ Supporting the advancement of women

Around 60% of the employees working at 7-Eleven stores are women, the majority of whom are housewives aged 30 to 60 years. We believe that creating environments that are work-friendly for women is an important business strategy. For this reason, we operate Seven *Nanairo* Childcare centers for employees of franchised stores, and we have started field-testing Spot Day Care as temporary childcare facilities.

■ Supporting the advancement of seniors

In Japan, where the workforce is shrinking, companies are facing more and more pressure to actively deploy senior human resources. Many seniors feel uneasy about working in convenience stores, which they regard as workplaces for young people. Seven-Eleven Japan actively participates in joint corporate briefings hosted by local governments on employing the elderly and holds "work explanation meetings" through government agencies. We also offer "hands-on cash register experience" sessions using real cash registers to help explain work content, as well as "work consultation corners" that enable seniors to speak directly to Seven-Eleven Japan employees. In these and other ways, we convey information about the job and its challenges. We will continue these initiatives in the future to help create local employment and realize active participation by the whole society.

■ Supporting the advancement of non-Japanese employees

7-Eleven is increasing the number of foreign employees in response to the rise of inbound tourist visitors. As of February 28, 2018, we had around 28,000 foreigners (more than the number of seniors) working at franchised stores, accounting for 7.4% of the total workforce. To promote 7-Eleven as a good workplace for international students who live in Japan and have a strong work ethic, we hold part-time job explanatory sessions at Japanese-language schools. Because the Japanese-language skills and country of origin differ according to the individual at the time of employment, it takes some time to educate workers at our franchised stores. To address this issue, we prepare and distribute preliminary educational documents to foreigners and offer them cash register and customer interface training sessions. Employees who aim to further improve their skills can also participate in Seven-Eleven Academy seminars for part-time student workers.

■ Using RFID* technology to enhance work efficiency

Seven-Eleven Japan is conducting field tests using radio-frequency identification (RFID) technology at its stores to save store-inspection labor costs. We started using RFID on room-temperature items in 2017 and expanded it to daily products in 2018. Through the tests, we have obtained a major benefit by shortening product inspection times at our stores. With RFID, the inspection time for daily products, which are delivered four times each day, takes less than one minute, far below the 60 minutes previously required.

We plan to expand RFID-based inspections of daily products to all stores in Hokkaido in the current fiscal year and further broaden the coverage thereafter.

*Radio-frequency identification (RFID) is a technology for contactless reading of data from an IC chip through the transmission of radio waves.

6

Disposal

Rigorous waste reduction aimed at realizing a circular economy

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Distinctive factors that support our value chain

- Reducing food waste (control at source, reuse, conversion to animal feed, conversion to fertilizers)
- Saving product resources and reducing use of expendables
- Recycling systems that support the creation of a circular economy

Reducing food waste through products with long expiration dates

The Seven & i Group rigorously controls the freshness of products at its stores in order to deliver safe, secure and fresh products to customers. While these efforts are important for protecting product quality, they are also burdensome for store owners and employees, and disposal costs for expired items are high.

Seven-Eleven Japan has reviewed its materials, manufacturing processes and temperature control processes to develop chilled boxed lunches with longer expiration dates than ever before, as well as bread, *sozai* prepared dishes and noodles that stay fresh longer, without relying on additives or sacrificing taste or quality. Making the product cycle longer than before helps us better support store operations. Moreover, we believe that prolonging the expiration date will have a positive impact on reducing food waste, and we will continue working actively on this in the future.

Extending the freshness of salads

Low-temperature, continuous process

1. Longer periods of freshness
2. Improved vegetable quality
3. Lower manufacturing costs
4. Improved appearance

Kept at constant temperature below 4˚C from procurement to manufacture

Longer periods of freshness

Before (1.5 days) → Now approximately 2.5 days

for a gain of 1 day

Performance in pilot area

Sales: **Approx. 20% increase**

Disposal loss: **Approx. 2% improvement**

*Difference in disposal rate compared with existing products

Two-part container separating vegetables from other materials, topped with a seal-type lid

Technological innovation worthy of dedicated production facilities for 7-Eleven stores
Expanding coverage sequentially from April 2018 (7,000 stores in first half of fiscal year, 13,000 by fiscal year-end and 19,000 in spring of 2019)

Seven Farms (environmentally sustainable agriculture)

Following the idea of treating food that has just passed its expiration date as a resource, we operate a network of environmentally sustainable farms called Seven Farms.

At these farms, we compost leftover food into fertilizer, which we use to grow vegetables that are subsequently sold at our stores. As of February 28, 2018, we had Seven Farms in 13 locations across Japan.

Waste minimization and recycling

Seven-Eleven Japan, Ito-Yokado, York-Benimaru and York Mart have had automatic plastic bottle collection machines at their stores since 2012—ahead of others in the industry. Plastic bottles inserted into the machines are automatically compressed and crushed, allowing them to be transported to recycling facilities in large volumes at one time and reducing the number of collections required. Some of the recovered plastic bottles are recycled into containers and used in household goods in the *Seven Premium* line.

SEVEN CAFÉ, which sells around one billion cups of coffee per year, is also working to utilize resources effectively. Here, we strive to minimize use of resources in containers, packaging materials and consumables. For example, we use a mixture of thinned wood and recycled plastic in our cups, and we use biomass raw materials in our coffee filters as part of our overall environmental initiative.

Automatic collection machine

Using environmentally friendly plastic

The Seven & i Group uses part of recycled plastic bottles collected at its stores in the packaging of household goods such as body soap refill packages in the *Seven Premium* line.

We aim to resolve social issues through store development.

Next-generation store themes

Seeking stores to represent the next generation

Since 2017, Seven-Eleven Japan has been introducing new layouts at every store to address changing customer needs, leading to certain results. Looking further into the future, however, we thought it important to lay the foundation for stores that should represent the next generation. Particularly in light of future demographics, we are seeking to establish workplace environments where diverse staff, including women and the elderly, can work easily, while creating stores where diverse customers can enjoy shopping in comfort. These conditions are indispensable for maintaining our competitiveness, we believe.

With this in mind, in December 2017, we completely renovated and reopened the 7-Eleven Chiyoda Nibancho store as a flagship next-generation outlet that broadly addresses social issues. This was followed by the 7-Eleven Sagamihara Hashimotodai 1-chome store, which opened in May 2018.

Harnessing the latest technologies of domestic and overseas companies

Both stores revolve around three key themes: reduce the environmental impact, improve worker-friendliness and provide a comfortable in-store environment. To achieve these objectives, we received proposals regarding the latest technologies and equipment from many domestic and overseas companies in wide-ranging fields. For the Chiyoda Nibancho store, we adopted 58 technologies from 38 companies, and for the Sagamihara Hashimotodai 1-chome store, we adopted 90 technologies from 50 firms. By incorporating in each case the technologies of multiple companies into one facility, we were able to achieve a higher level of perfection.

We will test and verify the new technologies adopted at both stores, then look to roll out those that appear highly promising to stores across the nation.

We will continue embracing the challenge of expanding nationwide our network of “people- and environment-friendly stores” that can continue to create value into the future.

Initiatives at 7-Eleven Sagamihara Hashimotodai 1-chome store (example)

People friendly

Deep-fryer range hood with "Oil Smasher" technology

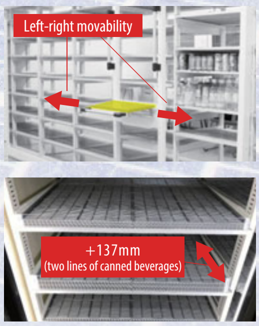
Work-time comparison

Reduction of around 14 minutes a day

Incorporates a disk with a special coating that uses water to extract oil. The disk rotates at high speed to block oil from entering the equipment, which greatly reduces cleaning time.

Walk-in replenishment racks and merchandise display shelves

The walk-in refrigerator is equipped with a left-right movable rack to facilitate replenishment of items. The display shelves can also be extended depthwise, enabling around 800 more products to be displayed, compared with the past.



Back-door chilled case

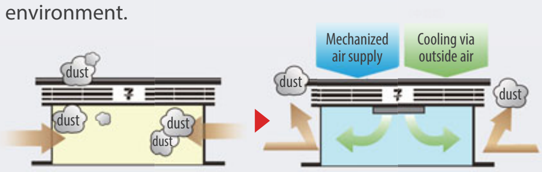
Work-time comparison

Reduction of around 56 minutes a day

A new chilled case, behind which items can be replenished from the walk-in refrigerator. The "Roller Mat" mechanism uses gravity to help products slide to the front of the display.

Air-conditioning ventilation plan with positive in-store pressure

Controlling the quantity of the air supply in a timely manner helps maintain a state of positive pressure, where the pressure inside the store becomes higher than that outside. This helps stabilize the store temperature and reduce in-store cleaning, providing a more comfortable environment.



Environment friendly

Renewable energy ratio 46.0%

Wind- and solar-powered signboard

Electricity generated (actually used):

Approx. 473 kWh/year*

(Approx. 0.3% of store electricity consumption)

Wind and solar power generation equipment is installed in the signboard (advertisement tower) in front of the store, and electricity thus generated powers nighttime illumination.

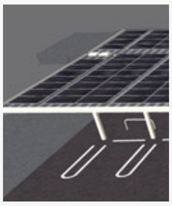
Solar panels on carports and rooftop

Electricity generated (actually used):

Approx. 64,608 kWh/year*

(Approx. 36.6% of store electricity consumption)

We have built carports in the parking lot to make it easy for customers to visit by car in wet weather. On top of the carports, and on the store rooftop, we have installed wide, highly efficient solar panels to generate electricity.



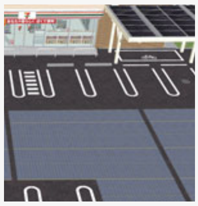
Road-type solar panels

Electricity generated (actually used):

Approx. 16,145 kWh/year*

(Approx. 9.1% of store electricity consumption)

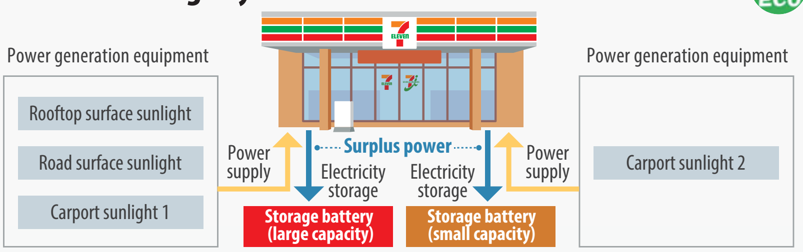
We have installed solar panels with a highly permeable, highly durable coating over the 201.6 m² surface of the parking lot to generate electricity.



*All generated electricity is the calculated value and excludes losses that are expected to occur during electricity storage and discharge.

High-efficiency power generation/storage system

To use power more efficiently, we have built an optimal energy supply system that takes into account the specifications and arrangement of each piece of power generation/storage equipment.



Large-capacity lithium ion storage system

Two large-capacity (176kWh) storage batteries have been installed, making it possible to store surplus electric power generated from daytime solar power for use at night.

Electricity stored by secondhand rechargeable batteries

We have built two battery banks fitted with 10 secondhand Toyota Prius rechargeable batteries, enabling a total of 20kWh of surplus power, generated from solar panels, to be stored.

7-Eleven Chiyoda Nibancho store: Next-generation flagship store

The 7-Eleven Chiyoda Nibancho store, which we renovated and reopened in December 2017, is positioned as our next-generation store. Embodying the concept of "stores that are friendly to people and the environment," it features numerous cutting-edge technologies aimed at reducing the environmental impact, improving worker-friendliness and providing a comfortable in-store environment. Located on the first level of the Seven & i Holdings head office building, the store also functions as a base for disseminating information on creating new stores to address social issues.

Site attributes of 7-Eleven Chiyoda Nibancho store

- Location within Group head office building facilitates dissemination of information.
- Because the store is inside the building and does not have a large parking lot or roof, it is difficult to introduce large-scale environmental equipment.

	Previous		New	
Sales floor space	201.3m²	▶	213.3m²	+ 12m²
Number of products	3,000	▶	3,300	+ 300 items

Stores that are friendly to people (example)

New-model walk-in refrigerator
ECO

We have introduced a method that uses cold air in an optimal manner to cool products on walls and shelves. With this method, workers are no longer directly hit by cold air.

Sliding shelves and brackets
ECO

We switched completely to sliding-type product display shelves, which increased work efficiency. We also adopted a bracket that converts existing display shelves into sliding ones.

Plant-derived store display stickers
ECO

Stickers in our store displays are polyethylene made from bioethanol derived from sugarcane. This helps reduce CO_2 emissions because plant-derived materials absorb CO_2 in the atmosphere during plant growth, and the sum of emission at incineration and absorption during plant growth is regarded as zero.

Boosting ROE and ESG practice should be level, while we ask ourselves what kind of make from the perspective of the SDGs.

We conducted the following interview with Mr. Kunio Ito, an Outside Director, on the evaluation of management and governance of the Seven & i Group, as well as the role of Outside Directors, and received his advice for the sustainable growth of corporate value in the future.

Q Please tell us your impression of the Seven & i Group's business.

I feel that the Group has a major raison d'être, with both strengths and weaknesses.

The Seven & i Group is surrounded by wide-ranging stakeholders, including customers, business partners, shareholders and other investors, local communities, franchisees and employees. When I was appointed four years ago, I noticed that the Group was fulfilling its various responsibilities through dialogue with its respective stakeholders and felt that it had an important raison d'être in society. The fact that the Group has both strengths and weaknesses also left an impression. The Group has maintained steady growth on the back of highly refined systems built by Seven-Eleven Japan, its main operating company. By the same token, convenience store operations account for a major proportion of business. If those operations stop performing well, there could be a large impact on the Group overall, which I thought was a potential weakness.

Q Please tell us the status of discussions at Board of Directors' meetings and give your evaluation of governance reforms.

We are progressing with governance reforms, with "dialogue" as the key word.

Since we adopted a new management organization two years ago, an emphasis on dialogue has emerged as an important policy, and I'm surprised at how energized the Board of Directors' meetings have become. Participants have become more active in asking questions, and explanations about discussion items and agendas have become more polite, which inevitably requires longer meeting times. President Isaka's emphasis on dialogue is also driving these major changes at Board meetings. While we always respectfully answer questions from shareholders at Annual Shareholders' Meetings, we place important emphasis on dialogue with all stakeholders. Our Board of Directors' meetings have also become more dialogue driven. I have come to realize that stimulating dialogue at Board of Directors' meetings, from both internal and Outside Directors and Audit & Supervisory Board Members, leads to an increase in corporate value.

We have been evaluating the Board of Directors' effectiveness since fiscal 2017. In fiscal 2018, however, we conducted questionnaire surveys and interviews with internal Directors (conducted by a third-party organization) and

achieved at a high contribution we can

Outside Directors (conducted by in-house staff). All members of the Board of Directors and the Audit & Supervisory Board now proceed with discussions with information thus gathered, as well as through the aggregation and analysis of opinions and proposals for improvement. Using the questionnaire results, we held talks on four occasions and gave serious consideration to issues and improvement proposals, which led to a major push for governance reforms, I believe. To further increase the effectiveness of the Board of Directors, we have set Group governance improvement and the creation of a successor plan as priority themes for fiscal 2019. Having decided on the direction and method of initiatives to undertake, we now maintain major one-year PDCA cycles for evaluating the Board of Directors for the coming fiscal years.

Q Please tell us what about the Board of Directors has impressed you.

We are realizing governance based on both a sense of urgency and a free-and-open mind-set.

I feel that the Board of Directors now maintains both a sense of urgency and a free-and-open mind-set. For example, in cases where important decisions had to be made, Outside Directors (including myself) provided advice, and we requested reversal or revision of a proposal on multiple occasions. Internal Directors responded strongly to these requests, but we ultimately made a good decision. Building a system that encourages repeated discussions on important matters has led to improvements in governance, I believe.

Q Please describe the role that Outside Directors play in the Board of Directors.

Our role is to read between the lines to prevent decisions against the interests of shareholders from being made, not to compromise ourselves to the atmosphere.

In addition to “objectivity” and “transparency,” I believe that “explainability” is an important judgment criterion for the Board of Directors. “Explainability” means the ability of the Board of Directors to explain its decisions properly to shareholders and other stakeholders. Outside Directors represent the interests of numerous shareholders, so we should not make decisions that we cannot properly explain to them. Although it is necessary to read the contextual background of discussion items and agendas, I believe we should avoid compromising ourselves to make judgments with “objectivity” or “transparency.”

My obligation also entails gathering information on people close to the front lines.

I recognize that my obligation is to ensure the sustainable growth of the Seven & i Group's corporate value, and I participate in discussions at Board of Directors' meetings to carry that out. By participating in discussions as Board members, Outside Directors can help prevent internal members from being swayed by "in-house paradigms." Because information submitted to the Board of Directors has usually been prepared for the purpose of passing motions, it is difficult to make correct decisions based solely on such information. As Outside Directors, we need to have factual information, and therefore we endeavor to communicate with people other than internal Board members on a daily basis. Listening to a certain number of opinions enables us to understand what people really think about the Company, which in fact may be different from what is stated at Board of Directors' meetings. For making important decisions, therefore, factual information obtained through daily communication is very useful. To foster appropriate decision-making conducive to corporate growth, Outside Directors should make an effort to obtain information from the front lines, in addition to having information presented at Board meetings.

Through governance reforms, we are fostering consensus for discussions based on long-term perspectives.

We will continue improving corporate value through governance reforms.

The Group is currently striving to continuously improve corporate value through governance reforms. To this end, it is important for each and every member of the Board of Directors to discuss specific agenda items based on a strong commitment to achieving the sustainable growth of corporate value. The term "corporate value" conjures up an image of being confined inside a picture frame and not venturing outside. Instead, we need to promote discussion while adding a specific interpretation in concrete terms as to what kind of initiatives will lead to the creation of corporate value. At Board of Directors' meetings, I feel that we are now fostering consensus when undertaking discussion and making decisions based on long-term perspectives, rather than short-term ones, while remaining conscious of sustainable growth in corporate value.

Q What do you think is necessary for the Group to achieve sustainable growth in the future?

I think it is important to create a pool of talented people who will be responsible for our future management.

I am also the chair of the Nomination and Compensation Committee. Even though I have responsibilities to personnel at the executive level and above, I hope to help build a fair personnel system for all. A fair personnel system is conducive to sustainable improvements in corporate value. For this reason, I aim to communicate with top management, including the president, and make an effort to share information on in-house human resources.

When a great leader leaves the scene, companies often enter a period of difficulty in producing talented personnel. This applies to many companies. Producing talented people on an ongoing basis is fundamental for a company to achieve continuous growth. Therefore, it is important to create a pool of talented people who will be responsible for future management.

I hope to bring together ROE and ESG at a high level to realize sustainable growth.

Since the *Ito Review* four years ago advocating ROE of 8% or higher, I have constantly emphasized the importance of capital productivity. Seven & i Holdings is currently aiming for ROE of 10% or higher, but I want to raise it even further. Meanwhile, there is an increasing need to be mindful of ESG (environment, society, governance). For this reason, I am promoting the coined term "ROESG" as a combination of ROE and ESG. People who invest capital in a business will not invest in companies that do not increase capital productivity, and ESG is also important for sustainable growth. Rather than being conflicting ideas, I think that ROE and ESG should be compatible.

The Sustainable Development Goals (SDGs) were adopted at a United Nations summit in 2015. With its numerous stakeholders, the Seven & i Group has a great influence on society. Accordingly, we need to be more proactive than other companies in creating a sustainable society. I think we should materialize ROESG at a high level by envisaging "what we should be like" from an SDG-related perspective, then ask ourselves what kind of contribution we can make to help create a sustainable society.

Kunio Ito

Outside Director

Professor, Hitotsubashi University Business School
Professor, Chuo University, Graduate School of Strategic Management
Specialist in accounting, corporate governance and corporate valuation.
Published "Ito Review" in 2014 under a project of the Ministry of Economy, Trade and Industry.
Became Outside Director in May 2014.

Features of Corporate Governance and Initiatives toward Its Reinforcement

The mission of Seven & i Holdings, as a holding company that supports and monitors its operating companies, is to strengthen corporate governance and maximize the corporate value of the Seven & i Group. In taking steps to achieve these goals, the Company pursues Group synergies and implements the appropriate allocation of management resources.

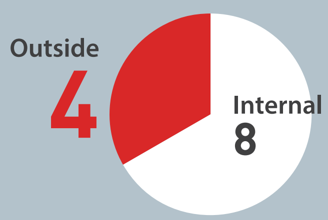
On the other hand, each operating company fulfills its own responsibilities in its field of business, where it acts independently to secure growth in profits and higher capital efficiency.

In this way, responsibilities are clearly allocated among Group companies and, through supervision by the Directors and auditing by the Audit & Supervisory Board Members, the Company's corporate governance system strives to ensure that these operating company activities are implemented in a manner that is fair, appropriate and effective.

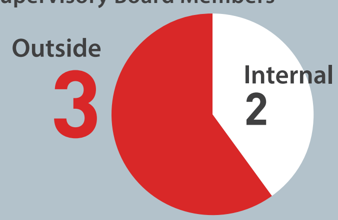
Outline of Seven & i Holdings' Corporate Governance

1. Composition and number of Outside Directors and Outside Audit & Supervisory Board Members

Directors

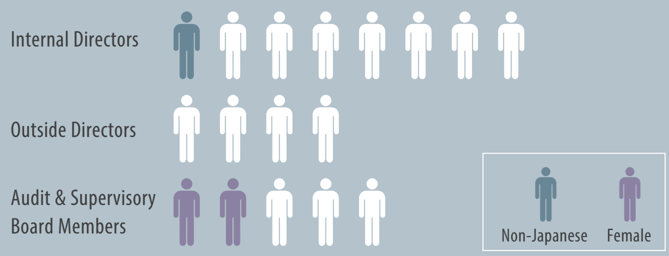


Audit & Supervisory Board Members



One-third of Directors are Outside Directors.

All Outside Directors and Audit & Supervisory Board Members have been designated Independent Directors and Independent Audit & Supervisory Board Members.



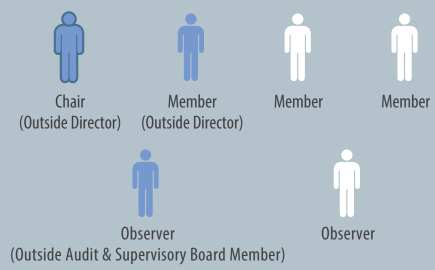
2. Establishment of the Nomination and Compensation Committee

An Independent Outside Director has been appointed the Chair of the Nomination and Compensation Committee, an advisory committee to the Board of Directors.

Ensures the objectivity and transparency of procedures for nominating officers and determining compensation.

From the standpoint of ensuring appropriate procedures, **one internal and one Outside Audit & Supervisory Board Member serve as observers.**

Composition of the Committee

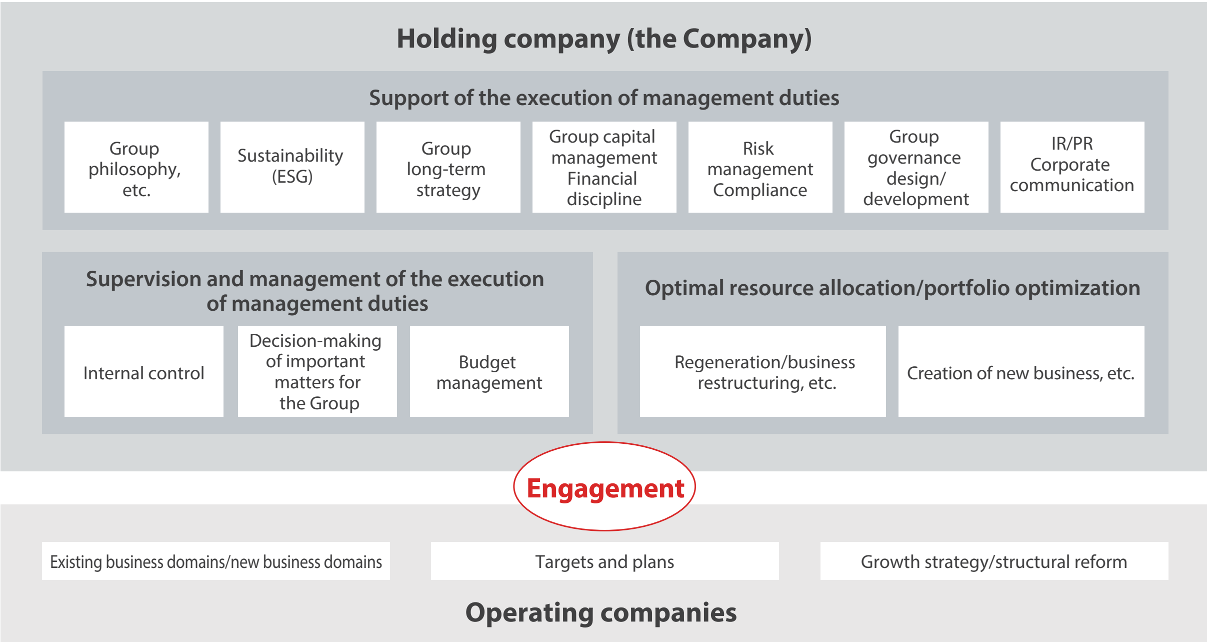


3. Organizational reforms aimed at further improving the precision of Group governance (March 2018)

Acceleration of information sharing through a six-division system	**Strengthening of digital strategy promotion structure**	**Strengthening field capabilities for operating companies by transferring administrative functions**

Group Governance Structure that Drives Corporate Value Creation

1 Group governance through a holding company structure



Medium-Term Management Plan numerical targets (fiscal 2020)

Consolidated operating income of ¥450.0 billion, ROE of 10%

We have adopted group governance through a holding company structure as a framework to drive not only short-term but also medium- to long-term corporate value creation for the Group based on its philosophy and management policy.

As the holding company overseeing the Group, the Company will provide management execution support for operating companies as well as supervision, and implement optimal resource allocation for sustainable growth and improvements in medium- to long-term corporate value of the Group. At the same time, we are responsible for instilling the Group philosophy, etc., formulating sustainability policies and Group long-term strategy, conducting Group capital management and financial discipline, developing risk management and compliance structures, and conducting "Group management" such as the development of Group governance and "Group communication" including IR and PR.

Meanwhile, operating companies within the Group implement PDCA based on targets and plans set through engagement with the Company within the scope of the business responsible, while remaining individually autonomous as they boldly challenge and fulfill their responsibility for structural reform and growth strategy in an effort to improve corporate value and capital efficiency.

By making engagement and cooperation between the Company as a holding company and operating companies even closer and stronger based on the clarified division of roles among Group companies, we will not only steadily implement the Medium-Term Management Plan but also strive to realize the management philosophy and management policy, and improve the Group's corporate value.

2 The Company's organizational reforms in fiscal 2019, aimed at further improving the precision of Group governance

The Company has implemented the following organizational reforms from March 2018 for the purpose of strengthening responsiveness as a holding company, developing structures to advance focused policies for the Group and enhancing the functions of operating companies.

Going forward, the Company will work to implement PDCA on its own to improve its function as a holding company.

The Company's organizational reforms in fiscal 2019

Acceleration of information sharing through a six-division system

Divisions have been newly established as the superior organization, fulfilling their respective functions. By shifting to an organizational structure that further promotes information sharing, we will not only be able to share information more closely but also promote efficient management through swift reporting to management.

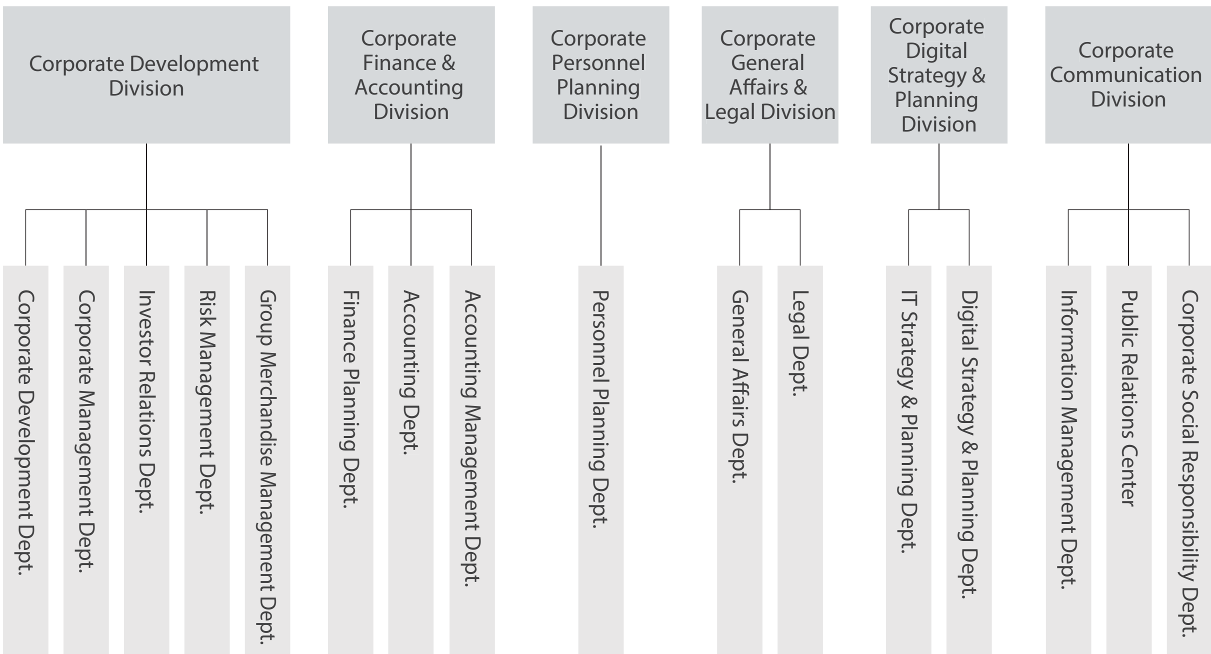
Strengthening digital strategy promotion structure

We have created a new digital strategy promotion structure to use IT and leverage the information of each individual customer to advance product development and CRM strategy more in line with needs as we realize the creation of services that integrate pioneering IT and physical stores.

Strengthening field capabilities for operating companies by transferring administrative functions

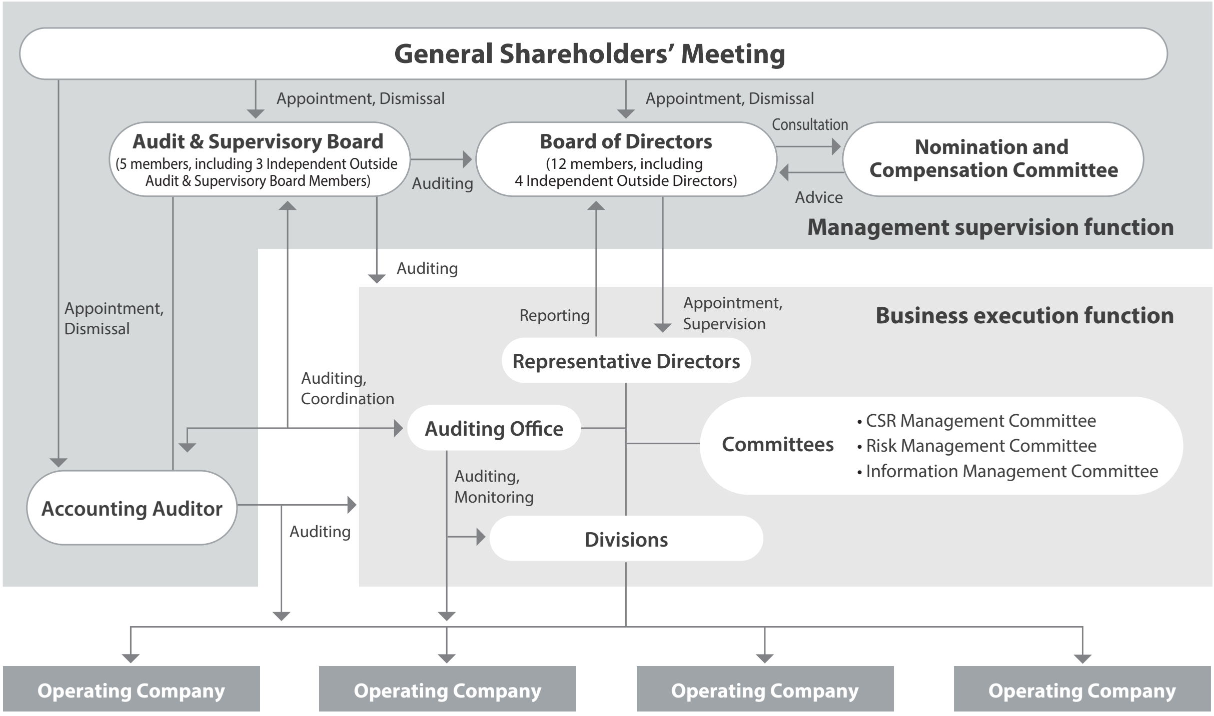
Some administrative functions will be transferred to SEVEN-ELEVEN JAPAN CO., LTD. to achieve improvements in field capabilities for the purposes of establishing a mutually efficient business operation structure, accelerating administrative reform capabilities and strengthening the governance of operating companies by redefining the role as a holding company that maximizes corporate value for the Group overall and the role of operating companies.

The Company's Divisional Structure (as of June 4, 2018)



Overview of the Corporate Governance Framework

Corporate Governance System (As of June 4, 2018)



1 Separation of the supervision function of the Board of Directors and the business execution function of executive officers through the introduction of an executive officer system (Clarification of the scope of delegation to management)

The Company's Board of Directors comprises 12 Directors (12 men and 0 women), of whom four are Outside Directors, and it meets on a monthly basis as a general rule.

To facilitate prompt decision-making and business execution within a drastically changing management environment, the Company has introduced the executive officer system. This has separated the supervision function of the Board of Directors and the business execution function of executive officers. This has also developed an environment that allows the Board of Directors to focus on the formulation of management strategies and the supervision of business execution, and the executive officers to focus on business execution. The system comprises 20 executive officers (19 men and 1 woman).

As for selecting management, to ensure more timely reflection of the wishes of shareholders, the Company has set the term of Directors at one year.

Clarification of the scope of delegation to management

The Company specifies the matters that should be prescribed by the Board of Directors in the Rules of the Board of Directors, the regulations of decision-making authority, etc., and the Board of Directors decides on matters as stipulated in the Companies Act and such internal regulations, etc.

In addition, the regulations of decision-making authority, etc., clearly prescribe the scope of decision-making by the President and Representative Director in an effort to clarify the decision-making process and responsibility structure for management and accelerate decision-making through the reasonable delegation of authority.

2 Reasons for selecting the current corporate governance structure

The Audit & Supervisory Board, which maintains independence and includes multiple Outside Audit & Supervisory Board Members with expertise in such areas as law and financial accounting, conducts audits in active cooperation with auditors and the Auditing Office. On the other hand, the Board of Directors, which maintains independence and includes multiple Outside Directors with high-level management experience and insights, focuses on the formulation of management strategies and supervision of business execution. The duties assigned to each executive board complement one other and ensure effective corporate governance at the Company.

The Company adopted the corporate governance structure described above because we deemed it effective for achieving and ensuring corporate governance for the Company and for enabling appropriate and efficient corporate management.

Use of an Audit & Supervisory Board system

The Company has adopted an Audit & Supervisory Board system as a corporate governance structure because we believe that the following characteristics and benefits of such a system are effective to ensure the appropriateness of corporate governance for the Company.

1) Each Audit & Supervisory Board Member has independent audit authority (the unitary system), and each Audit & Supervisory Board Member is capable of auditing from a multi-faceted perspective.

2) The independence of Audit & Supervisory Board Members is clearly legislated, which enables independent and objective audits.

3) The authority of Audit & Supervisory Board Members to investigate subsidiaries is legislated, and this is also effective from the perspective of Group audits.

3 Nomination and Compensation Committee structure

The Company has established a Nomination and Compensation Committee, chaired by an Independent Outside Director, which functions as an advisory committee to the Board of Directors. The knowledge and advice of Outside Directors are put to good use in committee discussions about nominations and compensation of the Representative Directors, Directors, Audit & Supervisory Board Members and executive officers. In addition, the committee ensures objectivity and transparency in procedures related to decisions on nominations and compensation of the Representative Directors, Directors, Audit & Supervisory Board Members and executive officers. This structure promotes improvement in the supervisory function of the Board of Directors and further enhances the corporate governance function.

Main discussion items and composition of the Nomination and Compensation Committee

1) Main Items for Deliberation

- Basic policies and standards for the nomination of candidates for officers of the Company and candidates for Representative Directors of the core operating companies
- Details of appointment proposals of candidates for officers of the Company and candidates for Representative Directors of the core operating companies
- Basic policies and standards for compensation, etc., for officers of the Company and the core operating companies
- Details of compensation, etc., for officers of the Company (excluding Audit & Supervisory Board Members) and Representative Directors of the core operating companies

2) Composition (as of June 4, 2018)

Chair:	Kunio Ito (Independent Outside Director)
Members:	Ryuichi Isaka, Katsuhiro Goto (2 internal Directors), Kunio Ito, Toshiro Yonemura (2 Independent Outside Directors)
Observers:	1 internal Audit & Supervisory Board Member 1 Outside Audit & Supervisory Board Member

Notes: 1. The chair and committee members are selected by the Board of Directors, and the observers are decided through discussion among Audit & Supervisory Board Members.
2. Decisions of the committee are made by a majority of members in attendance, and in the event of a tie, the decision is made by the chair.

4 Corporate governance through various committees

The Company has established the CSR Management Committee, the Risk Management Committee and the Information Management Committee under the Representative Directors. Each committee works with the operating companies to determine Group policies, and manage and supervise their dissemination and execution in an effort to strengthen corporate governance.

CSR Management Committee

The CSR Management Committee was established to promote, manage and supervise CSR activities for the entire Group. The Corporate Ethics and Culture Subcommittee, Consumer Affairs and Fair Business Practices Subcommittee, Environment Subcommittee and Social Value Creation Subcommittee have been established under the CSR Management Committee as cross-organization bodies responsible for studying and implementing specific measures in response to the Five Material Issues (Materiality) of the Group overall. With these subcommittees, we aim to contribute to the resolution of social issues involving stakeholders through further ensured compliance and business activities and to achieve the mutual sustainable development of society and the Group from the perspective of ESG (environment, society and governance).

In addition, the Group has designated an external third-party institution as a whistle-blower contact point (Help Line) for the Group's employees and business partners as part of the internal control system for the entire Group. Officers responsible for the CSR Management Committee regularly report on and confirm the status of response to internal reports at the Board of Directors.

Risk Management Committee

The Company has established, developed and operated an integrated risk management structure centered around the Risk Management Committee, based on the "basic rules for risk management," to appropriately analyze and evaluate risks, as well as properly respond to risks for each business in consideration of the management environment and changes in risk factors for the Company and each Group company.

The Risk Management Committee regards as risks all phenomena that threaten the continuation of the Group's businesses and hinder sustainable growth, and it works to strengthen comprehensive and integrated risk management.

During fiscal 2018, the Company worked to identify risk issues common to the Group and unique to each company and reduce risks through cooperation between divisions responsible for each of the risk items for the Company, and a feedback structure for risk-related information with operating companies to further strengthen risk management.

Information Management Committee

The Information Management Committee supervises efforts to strengthen corporate governance and information security based on information collection and management.

Continuing from fiscal 2017, in fiscal 2018, the Committee worked to strengthen information collection, management structures and structures for cooperating with each company for the timely and appropriate gathering and handling of material information, while strengthening structures for the centralized management of such information and reporting without omissions or delays to management and the relevant divisions.

In addition, to respond to society's growing concerns about personal information protection and to ensure the safety and security of customers using the Group's integrated e-commerce site, *omni7*, ISO27001 certification, which is an international standard for Information Security Management Systems (ISMS), has been acquired at locations that handle customers' personal information related to *omni7*, as the Group worked to strengthen information security and expand certified business locations as necessary. At the same time, we have worked to further strengthen information security by setting information security levels that should be achieved as a Group and rolling out these standards in accordance with PDCA cycle methods in ISMS certification at each Group company.

Composition of the Board of Directors

Board of Directors at the Company

Composition of the Board of Directors (balance of knowledge/experience/capabilities, diversity and size of the Board of Directors)

It is important for the Board of Directors to be composed in a manner that achieves a balance between diversity and appropriate size, and that it is well balanced overall in terms of the knowledge, experience and capabilities required for effectively fulfilling its roles and responsibilities as the Board of Directors.

In particular, because it is necessary for the Company to conduct comprehensive and multi-faceted management in diverse business domains as a holding company, we have decided to study the composition of the Board in consideration of a good balance in terms of knowledge, experience and capabilities, in addition to diversity of female and foreign officers, etc.

Also, consideration is given to selecting members with appropriate knowledge of finance and accounting for the Company's Audit & Supervisory Board.

The Company has prescribed the policies above in the Guidelines for Directors and Audit & Supervisory Board Members (approved by the Board of Directors on April 7, 2016).

Composition of the Board of Directors in fiscal 2019

In terms of the members of the Company's Board of Directors in fiscal 2019, the following points were taken into consideration as this fiscal year is an interim period for the Medium-Term Management Plan:

1) It is necessary to continuously confirm the progress of strategy, etc., prescribed in the Medium-Term Management Plan.
2) There are multiple ongoing issues from before, including the consideration of officer successor development plans and officer compensation systems.

In light of the above, we considered members believed to be appropriate for the Board of Directors of a holding company that principally formulates Group strategy and provides supervision on business execution while taking into consideration a good balance of knowledge, experience and capabilities as well as diversity without making major changes and while maintaining appropriate size.

There were some resignations by Directors and Audit & Supervisory Board Members who reached the age prescribed in the Company's regulations, and Outside Directors and Audit & Supervisory Board Members for whom a set number of years has elapsed since appointment. However, from the perspective that it is necessary to have Outside Audit & Supervisory Board Members who have specialized legal knowledge in addition to knowledge related to finance and accounting, persons with abundant experience in these specialized fields have been reappointed as Outside Audit & Supervisory Board Members.

Furthermore, in consideration of the opinion gained through an evaluation of the effectiveness of the Board of Directors that Outside Directors with experience as managers were needed, Outside Directors with abundant experience as managers have been newly appointed.

The Company's Board of Directors will continue to effectively fulfill its roles and responsibilities with members who ensure diversity.

Reasons for the selection of Directors (internal)

Name	Reason for selection
Ryuichi Isaka	He has a broad range of knowledge on the Group's management developed as a Director of the Company and Group companies. The Company would like him to leverage this in maximizing the Group's corporate value by promoting the creation of new business and the revitalization of existing businesses, utilizing its comprehensive strength as a retail group with a diverse range of business formats, as aimed for by the Company.
Katsuhiro Goto	He has a broad range of knowledge related to business management developed as a Director of the Company and Group companies. The Company would like him to leverage this in advancing the Group function (providing high-value-added services and integrating management divisions, aimed at cost reduction) and digital strategy, etc., as new strategies, as aimed for by the Company.
Junro Ito	He has a broad range of knowledge on ESG (environment, society and governance) developed as a Director of the Company and Group companies. The Company would like him to leverage this in improving corporate value including non-financial aspects and the smooth performance of Group management, as aimed for by the Company.
Katsutane Aihara	He has a broad range of knowledge on systems developed as an executive officer of the Company. The Company would like him to leverage this in strengthening information systems for Group companies.
Kimiyoshi Yamaguchi	He has a broad range of knowledge on PR developed as an executive officer of the Company. The Company would like him to leverage this in developing new business, etc., for Group companies.
Fumihiko Nagamatsu	He has a broad range of knowledge on human resources, etc., developed as an executive officer of the Company and Director of Group companies. The Company would like him to leverage this in human resources strategy for Group companies.
Kazuki Furuya	He has a broad range of knowledge on the franchise business developed as a Director of Group companies. The Company would like him to leverage this in advancing the Group function (pursuing synergy in merchandising, procurement, logistics, product development, sales, etc.), as aimed for by the Company.
Joseph Michael DePinto	He has a broad range of knowledge on the franchise business developed as a Director of Group companies in the U.S. The Company would like him to leverage his advice from an international perspective in the Company's Board of Directors and the promotion of global management at the Company.

Reasons for the selection of Directors (Outside)

Name	Reason for selection
Yoshio Tsukio	He has many years of experience and knowledge as a media policy expert. The Company would like him to leverage this broad range of advanced knowledge, experience, etc., in the Company's management.
Kunio Ito	He has many years of specialized knowledge in accounting, management studies, etc., as a university professor. The Company would like him to leverage his abundant experience and appropriate supervision functions, etc., as an outside officer at other companies in the Company's management.
Toshiro Yonemura	He has had a career that includes important posts such as the Superintendent General and Deputy Chief Cabinet Secretary for Crisis Management. The Company would like him to leverage this broad range of valuable experience and knowledge, etc., in the Company's management.
Tetsuro Higashi	He has had a career that includes important posts such as the Representative Director, Chairman of the Board and President of Tokyo Electron Limited. The Company would like him to leverage this broad range of valuable experience and knowledge, etc., as a corporate manager in the Company's management.

Reasons for the selection of Audit & Supervisory Board Members (internal)

Name	Reason for selection
Noriyuki Habano	He has a broad range of knowledge on the operations of the Group overall developed as a Senior Officer of the Auditing Office of the Company. The Company would like him to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Yoshitake Taniguchi	He has been responsible for the finance and accounting divisions of the Company and Group companies, and has abundant experience and specialized knowledge in finance and accounting. The Company would like him to leverage this knowledge, etc., fostered through this career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.

Reasons for the selection of Audit & Supervisory Board Members (Outside)

Name	Reason for selection
Kazuko Rudy	She has abundant experience and knowledge as a marketing theory expert. The Company would like her to leverage this knowledge, etc., fostered through her career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Kazuhiro Hara	He has abundant experience and specialized knowledge in finance and accounting as a certified public accountant. The Company would like him to leverage this knowledge, etc., fostered through his career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.
Mitsuko Inamasu	She has abundant experience and specialized knowledge of law as a lawyer. The Company would like her to leverage this knowledge, etc., fostered through her career, to contribute to the achievement of sound, sustainable growth and the creation of medium- to long-term corporate value for the Company and to establish a quality corporate governance structure worthy of society's trust.

Exchanging opinions with Outside Directors and Outside Audit & Supervisory Board Members

Every Outside Director and Outside Audit & Supervisory Board Member attends meetings regularly and, as required, meetings such as those for exchanging opinions in addition to the Board of Directors with Representative Directors, Directors and Full-time Audit & Supervisory Board Members, etc. Each time, these meetings include the setting of themes centered around management issues and issues with a high level of social interest, reports from Directors and internal control divisions, etc., on the status of business execution and internal control at the Company and Group companies, and explanations in response to questions from Outside Directors and Outside Audit & Supervisory Board Members. Furthermore, Outside Directors and Outside Audit & Supervisory Board Members have cooperated to have frank and lively exchanges of opinions including views based on expertise as well as a broad and high level of management experience and knowledge, etc., from each Outside Director and Outside Audit & Supervisory Board Member on the Company's management and corporate governance, etc.

In addition, every Outside Director and Outside Audit & Supervisory Board Member visits the offices of major subsidiaries, etc., and exchanges opinions with the Directors and Audit & Supervisory Board Members, etc., of operating companies.

Through these activities, Outside Directors provide supervision on business execution, and Outside Audit & Supervisory Board Members audit business execution and accounting.

Management Opinion Exchange Meeting*

The purpose of this body of all of the Company's Directors and Audit & Supervisory Board Members is to provide advance explanations on agenda items for the Board of Directors' meetings to the Directors and Audit & Supervisory Board Members and share information on management and business strategy, etc., for the Company and operating companies.

*Name changed from the Outside Directors' Meeting as of April 2018.

Evaluation of effectiveness of the Board of Directors

Basic approach toward evaluation of the Board of Directors

The Company has established the evaluation of the Board of Directors as an important factor in the PDCA cycle to confirm whether the Board of Directors is effectively functioning to achieve corporate value and improve corporate governance, as aimed for by the Company, through objective analysis and thorough discussion by the Board of Directors' members, to lead to specific actions toward further improvements.

Policy toward the Board of Directors' evaluation process for fiscal 2018

Previously

For the Board of Directors' evaluation in fiscal 2017, a self-evaluation method based only on discussions by the Board of Directors was used because only a short time had passed since the Company had moved to a new management structure. It was believed that there could still be some unfamiliarity with a general evaluation process covering the entire year.

Now

For the Board of Directors' evaluation in fiscal 2018, the Board of Directors' Secretariat spent sufficient time listening to opinions and improvement proposals from every Director and Audit & Supervisory Board Member through a combination of advance questionnaires, individual interviews and discussions while referring to advice from external consultants. Using a summary of the points, the members of the Board of Directors decided to conduct a self-evaluation through concentrated discussion on the future state of the Board of Directors.

Scope covered by the evaluation

The scope of the evaluation included not only the Board of Directors but also related meetings such as the Nomination and Compensation Committee as an advisory committee and the Management Opinion Exchange Meeting.

Main points for the evaluation

The clauses related to the Board of Directors, etc., in the Corporate Governance Code were used as the perspectives and points of the evaluation.

Results of the Board of Directors' evaluation

An overview of the results of the Board of Directors' evaluation that was conducted is as follows:

Overview of the results of the Board of Directors' evaluation for fiscal 2018

1) Made great progress in quantitative aspects (number of statements by members, discussion time, volume of information exchanged, etc.)
2) Made significant advances in qualitative aspects (contents of discussions, progress of discussions, atmosphere of free discussions, transparency, etc.)
3) Worked to focus on engagement with the goal of being an open Board of Directors
4) Set focus themes in an aim to further improve effectiveness

Focus themes

The Company's basic duty as a retailer starts by promptly addressing matters as their contents require and making innovations and adjustments toward resolution. We believe that the same applies for the operation of the Board of Directors.

Our main themes during this time have been addressed for items for which practical adjustments are possible, and we have already started to respond by incorporating items that require separate discussions into a concrete annual schedule.

Items including the progress of these main themes will be confirmed and evaluated from the next Board of Directors' evaluation.

We will work to further improve the effectiveness of the Board of Directors to achieve sustainable growth and medium- to long-term improvements in corporate value in consideration of the results of this Board of Directors' evaluation.

Focus themes for fiscal 2019 (examples)

Focus themes	
Group governance development	Confirm the main roles that should be fulfilled as a holding company while specifically setting the confirmation and strengthening of management conditions for each major operating company as an item to be reported in the annual discussion schedule in advance
Successor planning, etc.	Discuss and confirm the operation status at the Board of Directors several times per year
Governance at overseas subsidiaries	Increase the number of reports on governance at overseas subsidiaries at the Board of Directors and conduct monitoring
Complex M&As Discussions on other matters	The Board of Directors will continue to make advance reports and hold discussions on matters before they are finalized and encourage timely understanding and progress of matters
Matters related to the Nomination and Compensation Committee	The following points will be studied in an ongoing manner while a position as an optional advisory committee for the Board of Directors is maintained: • Separation of the Nomination Committee and the Compensation Committee • Further clarification of nomination and compensation standards
Composition of the Board of Directors	The following points will be studied in an ongoing manner: • Achieving a composition with at least one-third Outside Directors • Appointment of female Directors

Basic policy toward the qualities and selection of Seven & i Group's representative (the Company's President) (Succession plan for the Group's representative)

The Company prescribes the qualities required of the Group's representative (the Company's President) in the Guidelines for Directors and Audit & Supervisory Board Members as follows:

The following should be appropriate for the Group's representative (the Company's President):

Qualities	Perspectives
Business management capabilities	• Capable of solving problems • Has excellent decision-making capabilities, etc.
Leadership capabilities	• Sets constructive targets and leads to results that go beyond these targets • Strong ability to communicate with officers and employees • Able to promote change, etc.
Human nature	• Able to understand own strengths and weaknesses and is capable of working with other people to compensate for qualities they lack • Has stance of always learning

In addition, the basic policy toward the selection of the Group's representative (the Company's President) has been prescribed as follows:

- Evaluate the character of the candidate through a reliable procedure based on multi-faceted and objective materials
- Specifically consider whether the candidate has the management capabilities required for resolving the management challenges faced by Group companies
- Specifically confirm and evaluate the leadership style and capabilities of the candidate

Basic approach to compensation of Directors and Audit & Supervisory Board Members

In regard to the compensation of Directors, the Company emphasizes compensation that is linked with financial results and corporate value. To further increase motivation and the desire to contribute to improved financial results and increased corporate value over the medium to long term, and to secure highly capable human resources who will support enhanced corporate governance through appropriate supervision and auditing of operational execution, the Company provides compensation levels and compensation systems that are appropriate to responsibilities.

Compensation of Directors and Audit & Supervisory Board Members

The compensation of Directors and Audit & Supervisory Board Members is decided within the following compensation framework limits determined by the General Shareholders' Meeting:

- Directors: Not more than ¥1.0 billion per year (not including amounts paid as salaries to Directors who serve concurrently as employees)
  Maximum issue value for stock options for stock-linked compensation share subscription rights for Directors awarded under these compensation framework limits: ¥200 million per year
- Audit & Supervisory Board Members: Not more than ¥100 million per year

Compensation of Directors

- **System for compensation of Directors**

The basic components of compensation for Directors are fixed monthly compensation and results-linked compensation (bonuses or stock options for stock-linked compensation). The compensation system is based on the position of each Director.

The compensation of the Outside Directors, who are independent from business execution, consists only of fixed monthly compensation. Outside Directors are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).

- **Method of determining compensation of Directors**
  Through deliberations by the Nomination and Compensation Committee, the compensation of Directors is determined in accordance with the evaluation of each Director's function and degree of contribution as well as the Group's results.

Compensation of Audit & Supervisory Board Members

- **System for compensation of Audit & Supervisory Board Members**
  With an emphasis on further strengthening the independence of Audit & Supervisory Board Members from management, the compensation of Audit & Supervisory Board Members consists only of fixed monthly compensation. Audit & Supervisory Board Members are not paid results-linked compensation (bonuses or stock options for stock-linked compensation).
- **Method of determining compensation of Audit & Supervisory Board Members**
  The compensation of Audit & Supervisory Board Members is determined through discussions by the Audit & Supervisory Board.

Audits by the Audit & Supervisory Board

The Company's Audit & Supervisory Board sets an audit plan based on the fundamental audit policy of ensuring the sound, sustainable growth of the Company and Group companies and establishing a quality corporate governance structure worthy of society's trust. It conducts audits by establishing and operating internal control systems and an advancement structure for compliance and risk management as essential audit items.

Every Audit & Supervisory Board Member fulfills such tasks as attending meetings of the Board of Directors and other important sessions, exchanging opinions with the Representative Directors and holding regular meetings with Directors, etc., on the status of business execution. They also view important approval documents such as requests for managerial decisions and conduct inspections on the status of operations and finances at head offices, etc. Meanwhile, at subsidiaries, Audit & Supervisory Board Members conduct audits by working to share information with the Directors and Audit & Supervisory Board Members, etc., of subsidiaries. They also visit the head offices, stores and logistics centers of subsidiaries, following audit plans to conduct inspections on actual business and receive reports.

Internal audits

Operational auditing staff and internal control evaluation staff have been assigned as independent internal audit divisions within the Auditing Office to enhance and strengthen the internal audit function. Operational auditing staff confirm and supervise internal audits on major operating companies including the status of the development and operation of compliance structure. They also fulfill a supervisory function through direct audits and the internal audit function for auditing the Company itself as the holding company. Internal control evaluation staff evaluate the internal control related to financial reports for the entire Group.

Compliance

Each of the Group's core operating companies has established a Corporate Ethics Committee and is working to ensure that all employees have knowledge of the "Seven & i Holdings Corporate Action Guidelines" and rigorously comply with laws and regulations. The "Seven & i Holdings Corporate Action Guidelines" were revised in September 2011 in line with changes in the Group's fields of business and operating environment. In addition, each operating company formulated "Principles for Action Guidelines" and specified standards for the actions of employees. Moreover, the personnel responsible for the operating companies' Corporate Ethics Committees participate in the Seven & i Holdings Corporate Ethics and Culture Subcommittee. In this way, the Company is working to foster shared objectives and a common understanding throughout the Group and to share measures that have proven effective. Furthermore, the operating companies' Corporate Ethics Committees analyze and verify the details of consultations from the Help Lines for company employees and from the Groupwide Help Line, a consultation help desk that is operated by a third-party organization for all employees of domestic consolidated subsidiaries. Through these committees, we are taking steps to improve the workplace environment, such as working to limit and prevent actions that violate the "Seven & i Holdings Corporate Action Guidelines" and to resolve any problems.

Mitsuko Inamasu
Outside Audit & Supervisory Board Member

Kazuko Rudy
Outside Audit & Supervisory Board Member

Noriyuki Habano
Full-time Audit & Supervisory Board Member

Toshiro Yonemura
Outside Director

Yoshio Tsukio
Outside Director

Kazuki Furuya
Director

Kimiyoshi Yamaguchi
Director and Executive Officer

Junro Ito
Director and Managing Executive Officer

Ryuichi Isaka
President and Representative Director

Kunio Ito
Outside Director

Tetsuro Higashi
Outside Director

Yoshitake Taniguchi
Full-time Audit & Supervisory Board Member

Kazuhiro Hara
Outside Audit & Supervisory Board Member

Katsuhiro Goto
Vice President and Representative Director

Katsutane Aihara
Director and Executive Officer

Fumihiko Nagamatsu
Director and Executive Officer

Joseph Michael DePinto
Director

Segment Information (Fiscal 2018)

Core Operating Companies

Domestic Convenience Store Operations

- 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.

(10 consolidated subsidiaries, 5 affiliates; 15 companies, in total)

Overseas Convenience Store Operations

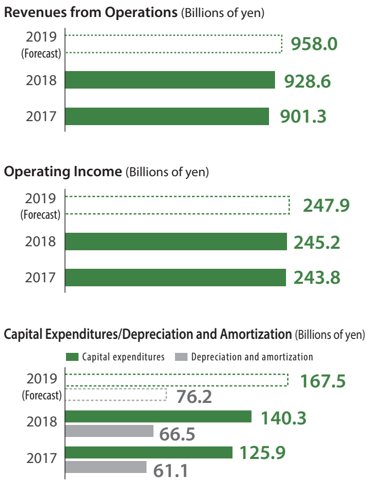
- 7-Eleven, Inc.
- SEJ Asset Management & Investment Company

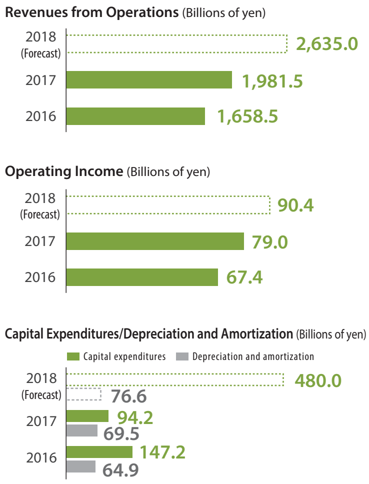
(72 consolidated subsidiaries, 2 affiliates; 74 companies, in total)

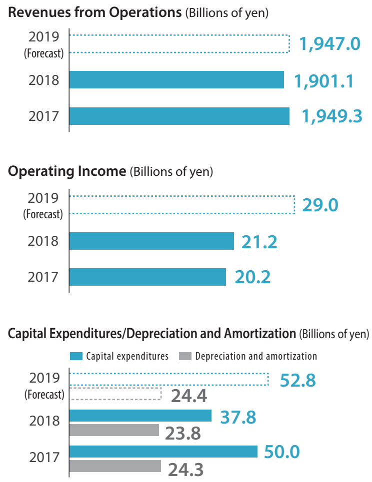
Superstore Operations

- 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)







Kazuki Furuya
President and Representative Director
SEVEN-ELEVEN JAPAN CO., LTD.

Joseph Michael DePinto
President and Representative Director
7-Eleven, Inc.

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

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

Review of Operations

As of February 28, 2018, Seven-Eleven Japan had 20,260 domestic stores and continues to fulfill its infrastructure function of operating “close-by, convenient” stores, which are essential to maintaining people’s lifestyles. SEJ is working to create stores that will be treasured by customers in local communities, by measures such as developing high-quality products, introducing new store layouts that respond to changing customer needs prompted by changes in society and working to improve operating efficiency at stores to improve customer service.

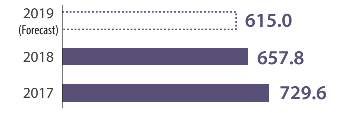
As of December 31, 2017, 7-Eleven, Inc. in North America had 8,670 stores and is focusing efforts on developing and selling fast foods and *7-Select* private-brand products. It has promoted opening new stores based on an M&A strategy and a market concentration strategy, by measures such as acquiring some U.S.-based Sunoco LP stores in January 2018, and closed some existing and acquired stores where profitability was low, as a way to increase profits.

As of February 28, 2018, the domestic superstore Ito-Yokado had 164 stores and is implementing structural reforms, including closing unprofitable stores, in addition to reviewing the configuration of the sales areas through the tenant mix and remodeling stores into shopping centers. York-Benimaru, which operates 220 supermarkets mainly in the southern Tohoku area, is collaborating with its subsidiary Life Foods, making efforts to thoroughly distinguish its fresh food and delicatessen products, and strengthening a product lineup that supports the needs of local communities.

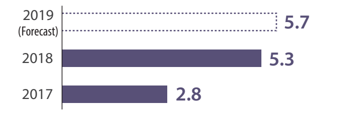
Department Store Operations

- Sogo & Seibu Co., Ltd.
  (5 consolidated subsidiaries, 3 affiliates; 8 companies, in total)

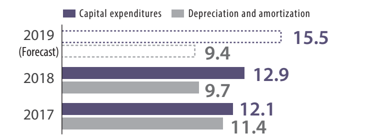
Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)



Capital Expenditures/Depreciation and Amortization (Billions of yen)



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

As of February 28, 2018, Sogo & Seibu operated 15 stores. While investment capacity is limited by decreased profits from the shrinking department store market and sluggish demand for apparel, investment of management resources has been selectively allocated to four stores in the Tokyo metropolitan area including the flagship store SEIBU Ikebukuro. Structural reforms are being implemented, directed toward creating appealing stores that emphasize the growth categories of food, cosmetics and luxury items.

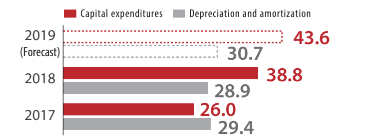
Financial Services

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

Revenues from Operations (Billions of yen)

Operating Income (Billions of yen)

Capital Expenditures/Depreciation and Amortization (Billions of yen)



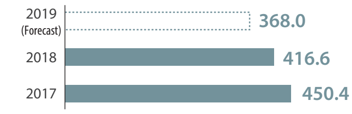
Yasuaki Funatake
President and Representative Director
Seven Bank, Ltd.

Seven Bank operates a domestic network of more than 24,000 ATMs, which are accessible 24 hours a day, 365 days a year. It has worked extensively to develop its cash receipt service and international money transfer service via ATMs, creating “new kinds of convenience” with approximately 600 domestic partner financial institutions, etc. Seven Bank also provides back office support based on commissions and overseas ATM services through its subsidiaries.

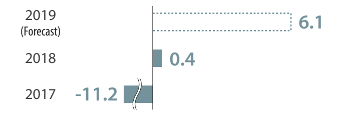
Specialty Store Operations

- Akachan Honpo Co., Ltd.
- Seven & i Food Systems Co., Ltd.
- THE LOFT CO., LTD.
- Nissen Holdings Co., Ltd.
  (19 consolidated subsidiaries, 5 affiliates; 24 companies, in total)

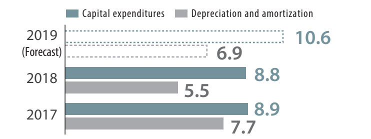
Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)



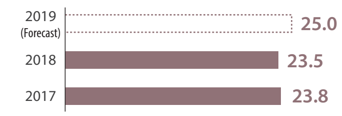
Capital Expenditures/Depreciation and Amortization (Billions of yen)



Others

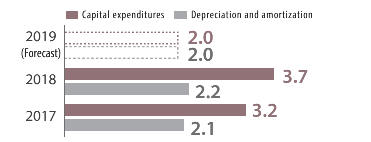
- Seven & i Create Link Co., Ltd.
- Seven & i Asset Management Co., Ltd.
- Seven & i Net Media Co., Ltd.
- SEVEN & i Publishing Co., Ltd.
- Seven Culture Network Co., Ltd.
- Yatsugatake Kogen Lodge Co., Ltd.
- K.K. Terre Verte
- I ing Co., Ltd.
- PIA Corporation
  (8 consolidated subsidiaries, 4 affiliates; 12 companies, in total)

Revenues from Operations (Billions of yen)



Operating Income (Billions of yen)

Capital Expenditures/Depreciation and Amortization (Billions of yen)



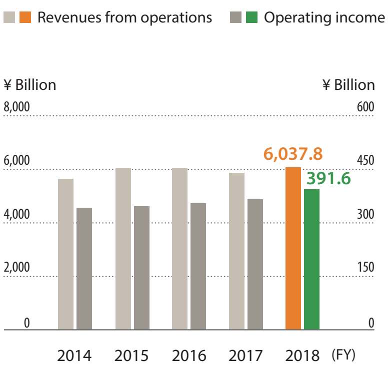
Financial and Non-Financial Highlights

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28 or 29

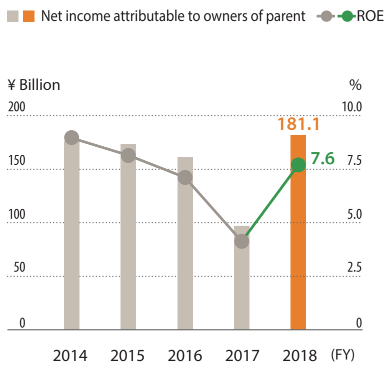
	2009	2010	2011	2012
For the fiscal year:				
Revenues from operations	¥ 5,649,948	¥ 5,111,297	¥ 5,119,739	¥ 4,786,344
Operating income	281,865	226,666	243,346	292,060
Net income attributable to owners of parent	92,336	44,875	111,961	129,837
Capital expenditures*1	188,943	211,189	338,656	255,426
Depreciation and amortization*2	140,529	132,232	132,421	139,994
Cash flows from operating activities	310,007	322,202	310,527	462,642
Cash flows from investing activities	(139,568)	(115,158)	(312,081)	(342,805)
Cash flows from financing activities	(169,755)	(156,708)	(56,258)	(40,561)
Free cash flows*3	170,438	207,044	(1,553)	119,836
At fiscal year-end:				
Total assets	¥ 3,727,060	¥ 3,673,605	¥ 3,732,111	¥ 3,889,358
Owners' equity*4	1,785,189	1,721,967	1,702,514	1,765,983
Per share data:				
Net income per share	¥ 100.54	¥ 49.67	¥ 126.21	¥ 146.96
Net assets*4	1,975.95	1,905.97	1,927.09	1,998.84
Cash dividends	56.00	56.00	57.00	62.00
Financial ratios:				
Owners' equity ratio*4	47.9%	46.9%	45.6%	45.4%
Debt/equity ratio (times)*4	0.44	0.41	0.43	0.40
Return on equity (ROE)*4	4.9%	2.6%	6.5%	7.5%
Return on total assets (ROA)	2.4%	1.2%	3.0%	3.4%
Dividend payout ratio	55.7%	112.7%	45.2%	42.2%

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate rate of exchange prevailing on February 28, 2018.
2. In the fiscal year ended December 31, 2011, 7-Eleven, Inc. changed its accounting method for revenues from operations related to franchise agreements from "gross amount" to "net amount."
3. ROE and ROA are calculated based on the average of owners' equity and total assets at the beginning and end of each fiscal year.

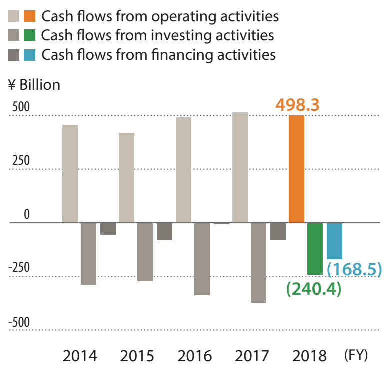
Revenues from Operations/Operating Income



Net Income Attributable to Owners of Parent/ROE



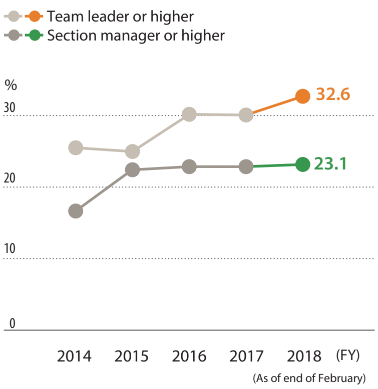
Cash Flows



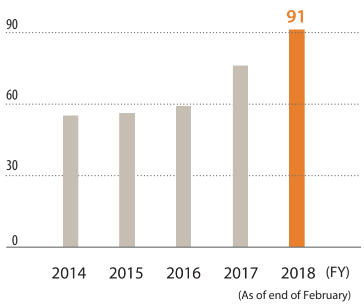
2013	2014	2015	2016	2017	2018 (Millions of yen)	2018 (Thousands of U.S. dollars)
¥ 4,991,642	¥ 5,631,820	¥ 6,038,948	¥ 6,045,704	¥ 5,835,689	¥ 6,037,815	$ 56,428,177
295,685	339,659	343,331	352,320	364,573	391,657	3,660,345
138,064	175,691	172,979	160,930	96,750	181,150	1,692,990
334,216	336,758	341,075	399,204	384,119	347,374	3,246,485
155,666	147,379	172,237	195,511	207,483	213,167	1,992,214
391,406	454,335	416,690	488,973	512,523	498,306	4,657,065
(340,922)	(286,686)	(270,235)	(335,949)	(371,602)	(240,418)	(2,246,897)
10,032	(55,227)	(79,482)	(2,312)	(78,190)	(168,510)	(1,574,859)
50,484	167,648	146,454	153,023	140,921	257,888	2,410,168
¥ 4,262,397	¥ 4,811,380	¥ 5,234,705	¥ 5,441,691	¥ 5,508,888	¥ 5,494,950	$ 51,354,672
1,891,163	2,095,746	2,299,662	2,372,274	2,336,057	2,427,264	22,684,710
					yen	U.S. dollars
¥ 156.26	¥ 198.84	¥ 195.66	¥ 182.02	¥ 109.42	¥ 204.80	$ 1.91
2,140.45	2,371.92	2,601.23	2,683.11	2,641.40	2,744.08	25.65
64.00	68.00	73.00	85.00	90.00	90.00	0.84
44.4%	43.6%	43.9%	43.6%	42.4%	44.2%	
0.45	0.45	0.41	0.44	0.45	0.41	
7.6%	8.8%	7.9%	6.9%	4.1%	7.6%	
3.4%	3.9%	3.4%	3.0%	1.8%	3.3%	
41.0%	34.2%	37.3%	46.7%	82.3%	43.9%	

*1. Capital expenditures include long-term leasehold deposits and advances for store construction.
*2. In the fiscal year ended February 28, 2014, the Company and its domestic consolidated subsidiaries (except for certain operating companies) changed the depreciation method for property and equipment from the declining-balance method to the straight-line method.
*3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
*4. Owners' equity = Net assets - Non-controlling interests - Subscription rights to shares

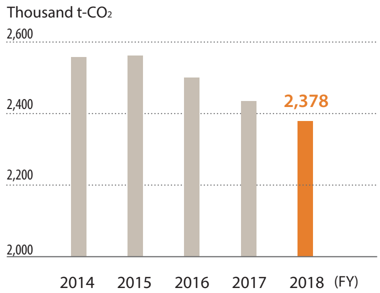
Percentage of Female Managers*5



Number of Municipalities with Which Comprehensive Alliance Agreements Have Been Concluded



CO_2 Emissions Resulting from Store Operations*6



*5. Total for eight companies: Seven & i Holdings, Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, Akachan Honpo, Seven Bank
*6. Total for nine companies (Seven-Eleven Japan, Ito-Yokado, Sogo & Seibu, York-Benimaru, Seven & i Food Systems, York Mart, SHELL GARDEN, THE LOFT, Akachan Honpo). Figures for the fiscal year ended February 28, 2018, are preliminary.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues from Operations and Operating Income

In the fiscal year ended February 28, 2018, Seven & i Holdings ("the Company") recorded consolidated revenues from operations of ¥6,037.8 billion, an increase of ¥202.1 billion, or 3.5%, year on year. Operating income increased ¥27.0 billion, or 7.4%, to ¥391.6 billion.

Domestic Convenience Store Operations

Revenues from domestic convenience store operations were ¥928.6 billion, up 3.0% year on year, while operating income was ¥245.2 billion, up 0.6%.

SEVEN-ELEVEN JAPAN (SEJ) had 20,260 stores as of February 28, 2018, an increase of 838 stores from the end of the previous fiscal year. Japan's employment environment is becoming increasingly challenging due to a higher minimum wage, a rising jobs-to-applicants ratio and expanded enrollment in the social security and health insurance systems. Under these circumstances, Seven & i Holdings and its operating companies ("the Group") implemented a special discount of 1% on "Seven-Eleven Charge" royalties starting in September 2017 to establish an environment in which franchisees can concentrate on strategic store management and to encourage franchise ownership in the future.

As for store operations, in addition to opening new stores in existing areas with the aim of strengthening its market dominance, SEJ aggressively relocated stores to revitalize them, and the number of stores in the domestic retail sector topped 20,000 for the first time, as of January 31, 2018. SEJ also introduced a new store layout tailored to the current sales composition to respond to customer needs that are changing with the changing social environment. In an effort to increase work efficiency, commercial dishwashers were installed to improve the quality of store employees' customer service. On the product front, SEJ continued to vigorously revamp basic products such as rice balls and noodle dishes, and worked to boost product quality, leading to a favorable shift in sales. In addition, while sales of the self-serve drip coffee *SEVEN CAFÉ* continue to grow, SEJ installed new coffee machines with new café latte options. As a result, the growth rate of sales in existing stores rose year on year, and total store sales—the combination of sales from directly operated stores and franchised stores—reached ¥4,678.0 billion, an increase of 3.6% from the previous fiscal year.

By product category, sales of processed foods, which include soft drinks and confectionery, were up 4.0%, to ¥1,230.3 billion, and sales of fast food products, which include boxed lunches, rice balls and other rice-based products as well as noodles and *sozai* prepared foods, increased 4.6%, to ¥1,412.7 billion. Sales of daily food items, which include bread, pastries and milk, were up 2.1%, to ¥626.8 billion. Sales of nonfood products, which include cigarettes and sundries, increased 2.9%, to ¥1,408.1 billion. Revenues from operations, which mainly comprise revenues from franchisees and sales at directly operated stores, were up 1.9%, to ¥849.8 billion, while operating income increased 0.3%, to ¥244.1 billion.

In China, SEJ had 247 stores in Beijing, 118 stores in Tianjin and 87 stores in Chengdu, as of December 31, 2017.

Overseas Convenience Store Operations

Revenues from overseas convenience store operations were ¥1,981.5 billion, an increase of 19.5% from the previous fiscal year, and operating income was ¥79.0 billion, an increase of 17.3% from the previous fiscal year.

7-Eleven, Inc. (SEI) in North America had a network of 8,670 stores as of December 31, 2017, down 37 from a year earlier. As for store operations, SEI promoted opening stores based on its market concentration strategy, but closed some existing and acquired stores with low profitability. On the product front, SEI continued to direct efforts into developing and selling *7-Select* private-brand products and fast food, which resulted in a positive year-on-year shift in sales at existing stores in the United States on a U.S.-dollar basis for the fiscal year under review. Total store sales—that is, sales from directly operated stores and franchised stores—were ¥3,134.4 billion, an increase of 14.6% compared to those of the previous fiscal year, because of growth in product sales and growth in gasoline sales due to higher gasoline prices and an increase in sales volume.

On January 23, 2018, SEI completed acquisition of some of the business of the U.S.-based Sunoco LP.

Superstore Operations

Revenues from superstore operations were down 2.5%, to ¥1,901.1 billion, while operating income was up 5.1%, to ¥21.2 billion.

The domestic superstore Ito-Yokado (IY) had 164 stores at the end of the fiscal year under review, a decrease of seven stores from the end of the previous fiscal year. As for the promotion of business restructuring, in addition to reviewing the sales area configuration based on the store-tenant mix and renovating large-scale *Ario* shopping centers, we closed nine stores during the fiscal year under review. With 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 the launch of the new *Seven Premium Fresh* brand of safe and secure fresh food. As a result, the growth rate of sales in existing stores for the fiscal year under review fell below the level recorded in the previous fiscal year, but profitability improved, primarily due to a better gross profit margin resulting from apparel inventory optimization.

As for superstores in China, IY had eight stores as of December 31, 2017.

With respect to domestic food supermarkets, as of the end of the fiscal year under review, York-Benimaru operated 220 stores, centered on the southern Tohoku region, an increase of seven stores from the end of the previous fiscal year, and York Mart operated 78 stores, centered on the Tokyo metropolitan area.

York-Benimaru made efforts to differentiate its products with a focus on safety, reliability, taste and quality by stepping up sales of fresh food while enriching its lineup of *sozai* prepared dishes to respond to demand for ready-to-serve and convenient meals through its subsidiary Life Foods. However, the growth rate of sales in existing stores for the fiscal year under review was down from that of the previous fiscal year.

Department Store Operations

Revenues from department store operations decreased 9.8%, to ¥657.8 billion, while operating income was up 87.2%, to ¥5.3 billion.

Sogo & Seibu operated 15 stores at the end of the fiscal year under review, a decrease of four stores from the end of the previous fiscal year. With regard to progress in business structural reforms, as part of our strategy of concentrating management resources in large stores in the Tokyo metropolitan area, in November 2017, we implemented the second stage of the renewal opening of Sogo Chiba JUNNU as a specialty store for experiencing the concept of "ideas over things."

In addition, Sogo Kobe and SEIBU Takatsuki were transferred to H2O Retailing Corporation on October 1, 2017, and SEIBU Funabashi and SEIBU Odawara were closed on February 28, 2018. The growth rate of sales at existing stores was up in the fiscal year under review compared to that of the previous fiscal year, due to favorable sales mainly for women's accessories and food.

Financial Services

In financial services, revenues from operations were ¥202.9 billion, up 0.5% year on year, while operating income was ¥49.7 billion, down 0.8% year on year.

As of the end of the fiscal year under review, the number of installed Seven Bank ATMs increased to 24,338, up 985 from the end of the previous fiscal year, due primarily to aggressive opening of stores by SEJ. In addition, although the daily average number of transactions per ATM during the fiscal year under review was 94.2 transactions, down 1.4 transactions year on year, mainly due to diversification of payment methods and changes in fee structures by some partner financial institutions, the total number of transactions during the fiscal year under review increased from the previous year due to an increase in the number of installed ATMs.

Specialty Store Operations

Revenues from specialty store operations amounted to ¥416.6 billion, a decrease of 7.5% from those of the previous fiscal year, and operating income rose ¥11.7 billion year on year, to ¥0.4 billion.

As of February 28, 2018, Akachan Honpo, which sells baby and maternity products, operated 110 stores, an increase of four from the end of the previous fiscal year; THE LOFT, which sells miscellaneous specialty goods, operated 110 stores, an increase of one; and Seven & i Food Systems operated 377 Denny's restaurants, a decrease of nine.

Meanwhile, Nissen Holdings continued to focus efforts on promoting structural reforms.

Others

Revenues from other operations were ¥23.5 billion, a decrease of 1.3% from the previous fiscal year. Operating income was ¥3.6 billion, a decrease of 8.4%.

Eliminations/Corporate

Adjusted amounts are recorded for such costs as operating and maintenance expenses and depreciation and amortization related to *omni7*, the Group's integrated EC site. Operating loss under Eliminations/Corporate for the fiscal year under review increased ¥0.4 billion from that of the previous fiscal year, to ¥13.1 billion.

Income before Income Taxes

In other income (expenses), net other expenses were ¥115.3 billion, compared with net other expenses of ¥147.0 billion in the previous fiscal year. This was primarily due to an increase in restructuring expenses and a decrease in amortization of goodwill. Consequently, income before income taxes increased ¥58.7 billion year on year, to ¥276.3 billion.

Net Income Attributable to Owners of Parent

With the enactment of the Tax Cuts and Jobs Act in the United States on December 22, 2017, the U.S. federal income tax rate was lowered from 35% to 21% beginning January 1, 2018. The Company's income taxes decreased ¥27.3 billion compared to those of the previous fiscal year, to ¥79.4 billion, mainly due to reduction of the Company's deferred income taxes by ¥18.0 billion as a result of the changes in the tax rate. After the application of tax effect accounting, the effective tax rate was 28.7%.

As a result, net income attributable to owners of parent rose ¥84.3 billion year on year, to ¥181.1 billion. Net income per share was ¥204.80, up ¥95.38 per share, from ¥109.42 in the previous fiscal year.

ANALYSIS OF FINANCIAL POSITION

Assets, Liabilities and Net Assets

Total assets on February 28, 2018 stood at ¥5,494.9 billion, down ¥13.9 billion from the end of the previous fiscal year. In current assets, cash and cash equivalents rose ¥90.8 billion, while merchandise and finished goods decreased ¥15.1 billion, and notes and accounts receivable, trade decreased ¥9.9 billion. As a result, total current assets were ¥2,340.2 billion, up ¥65.8 billion from the end of the previous fiscal year. Property and equipment decreased ¥18.3 billion, primarily due to closure of stores of Sogo & Seibu and Ito-Yokado. Intangible assets decreased ¥33.9 billion, mainly due to recording of impairment loss associated with *omni7* software. Furthermore, investments and other assets decreased ¥27.4 billion, primarily due to a decrease in municipal bonds and corporate bonds acquired by Seven Bank. As a result, non-current assets were down ¥79.7 billion from the end of the previous fiscal year, to ¥3,154.7 billion.

Total liabilities decreased ¥113.4 billion, to ¥2,919.6 billion. Current liabilities decreased ¥3.6 billion compared to those of the end of the previous fiscal year, to ¥1,944.0 billion. This was due primarily to increases of ¥24.9 billion in the current portion of bonds and ¥18.3 billion in the current portion of long-term loans, and decreases of ¥23.1 billion in short-term loans and ¥20.0 billion in call money. In non-current liabilities, bonds decreased ¥44.9 billion due to transfer of current portion, and long-term debt decreased ¥40.6 billion. Consequently, non-current liabilities declined ¥109.8 billion, to ¥975.6 billion.

Total net assets were up ¥99.5 billion, to ¥2,575.3 billion. Retained earnings increased ¥101.4 billion, primarily due to an increase of ¥181.1 billion owing to the recording of net income attributable to owners of parent and a decrease of ¥79.6 billion due to cash dividend payments. Foreign currency translation adjustments, principally the translation of the financial statements of SEI, decreased ¥9.7 billion. As a result, owners' equity per share was up ¥102.68 per share from a year earlier, to ¥2,744.08 per share, and the owners' equity ratio was 44.2%, compared with 42.4% a year earlier.

Cash Flows

Cash and cash equivalents (hereafter "cash") were ¥1,300.3 billion, up ¥90.8 billion from a year earlier. Cash was used to open new stores and remodel existing stores, but cash flow was provided by businesses with a high capacity for the generation of revenues from operations, centered on domestic and overseas convenience store operations.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥498.3 billion, down ¥14.2 billion from the previous fiscal year. This mainly reflected an increase of ¥58.7 billion in income before income taxes, a decrease of ¥38.8 billion in amortization of goodwill and a decrease of ¥45.2 billion in increase (decrease) in deposits received.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥240.4 billion, a decrease of ¥131.1 billion from the previous fiscal year. This was primarily due to decreases of ¥43.1 billion in acquisition of property and equipment and ¥66.7 billion in payment for acquisition of business.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥168.5 billion, an increase of ¥90.3 billion from the previous fiscal year. This was due primarily to a decrease of ¥83.0 billion in proceeds from long-term debts.

The Group has established a framework under which it implements a Groupwide risk assessment survey to recognize potential risks by identifying and evaluating risks in an integrated and comprehensive manner on a regular basis. Based on that recognition, it prioritizes these risks, takes countermeasures that correspond to the materiality and urgency of each risk and seeks continuous improvements by monitoring the progress of such countermeasures.

The Group is exposed to a variety of risks and uncertainties in conducting its business, which may have a significant influence on the judgment of investors, including, but not limited to, the following. Many of these risks are interdependent and the occurrence of one risk may lead to an increase in other risks in quality and quantity.

Any of these risks may affect its business performance, operating results and financial condition. Recognizing the potential for these risks, the Group strives to take measures to prevent risks from materializing while taking other effective measures to promptly and adequately respond to risks when they materialize.

This section includes forward-looking statements and future expectations as of the submission date of the Securities Report *(Yuho)*.

1. RISKS RELATED TO ECONOMIC CONDITIONS

Japanese and Global Economies

The Group carries on its core operations in Japan and also operates around the world. As a result, economic conditions such as business climate and trends in consumer spending in Japan as well as in other countries and regions where the Group does business may affect the Group's operating results and financial condition. To cater appropriately to the needs of consumers, the Group is actively selling and developing products in accordance with sales strategies. However, unexpected changes in consumer behavior due to external factors such as economic policies or unseasonable weather may affect its business performance and financial condition.

Interest Rate Fluctuations

The Group is exposed to interest rate fluctuation risks that may affect interest expenses, interest income and the value of financial assets and liabilities. Accordingly, interest rate fluctuations may affect its business performance and financial condition.

Foreign Exchange Rate Fluctuations

Foreign exchange rate changes can affect the Japanese yen value of assets and liabilities of the Group's overseas companies because Seven & i Holdings' consolidated financial statements are presented in Japanese yen. In addition, products sold by the Group include products that are sourced overseas and affected by changes in foreign exchange rates. Accordingly, foreign exchange rate fluctuations may affect its business performance and financial condition.

2. RISKS RELATED TO THE GROUP'S BUSINESS

GROUPWIDE RISKS

Procurement of Products, Raw Materials, etc., and Fluctuations in Purchase Prices

The Group's operations depend on obtaining products, raw materials and other supplies in adequate quality and quantity in a timely manner. The Group strives to decentralize its operations to avoid significant dependence on specific producing areas, suppliers, products, technologies, etc. In particular, there is a risk that areas suitable for crop cultivation or fishing grounds may change in the medium to long term due to changes in climate such as rising temperatures or shifting weather patterns. The Group is making efforts to address such risks through decentralized procurement and cooperation with primary producers to increase harvests, among other measures. However, the disruption of procurement routes may affect its operations.

In addition, there are products in the Group's lineup whose purchase prices change due to external factors, including products affected by changes in supply and demand caused by the weather, and products affected by fluctuations in the price of raw materials such as crude oil. Purchase prices may also be affected in the future if the price of energy, including the electricity used in the product manufacturing stage, rises significantly due to regulations or policies associated with climate change. Accordingly, fluctuations in purchase prices may affect the Group's business performance and financial condition.

Product Safety and Labeling

The Group endeavors to provide customers with safe products and accurate information by enhancing food hygiene-related equipment and facilities based on relevant laws and regulations, by implementing a stringent integrated product management system that includes suppliers and by establishing a system of checks. However, the occurrence of a problem beyond the scope of the Group's measures could reduce public trust in its products and incur costs stemming from countermeasures. If such is the case, the Group's business performance and financial condition could be affected. Further, the Group is striving to provide customers with new value-added and high-quality products and services through the aggressive introduction of *Seven Premium* private-brand products and original products developed by respective Group companies. Therefore, the occurrence of a major incident that involves its products and leads to product recalls or product liability claims could affect its business performance and financial condition.

Product Development upon Due Consideration of Regional Characteristics

To respond to customers' diversified preferences, the Group is enhancing capabilities to develop and assort products upon due consideration of regional characteristics. However, if the support of customers fell below its expectations, its business performance and financial condition could be affected.

Store-Opening Strategy

The Group's opening of stores is subject to various laws and regulations, such as the Large-Scale Retail Store Location Law, the City Planning Law and the Building Standards Law. In the event that those laws are amended or local authorities change related regulations, it may become difficult to open stores in accordance with initially prepared store-opening plans or remodel existing stores; there may be a decline in potential candidate areas for future store openings; or costs related to legal or regulatory compliance may be incurred. If such is the case, the Group's business performance and financial condition may be affected.

M&As, Alliances and Strategic Investments

The Group develops new businesses and reorganizes its operations with M&As by forming alliances or joint ventures with other companies, etc. However, the Group may not be able to achieve expected results or the strategic objectives of these investments. If such is the case, its business performance and financial condition may be affected.

Credit Management

The Group, in leasing stores, has paid deposits and/or guarantee deposits to store lessors. Deterioration in the economic condition of the store lessors or a drop in the value of the collateral properties received as a pledge for the deposits and/or guarantee deposits may affect its business performance and financial condition.

Impairment of Fixed Assets

The Group has many non-current assets, including property and equipment and goodwill. The Group has already adopted asset impairment accounting. However, further recognition of asset impairment may become necessary due to deterioration in profitability of stores or a drop in market value of the assets. If such is the case, its business performance and financial condition may be affected.

Digital Strategy

The Group is promoting its digital strategy to cope with changes in customers' purchasing behavior due to changes in the social structure. The Group aims to create a new retail environment where every product and service can be available to customers anytime and anywhere by taking advantage of the Group's nationwide networks of stores, logistics and other infrastructures.

The Group is trying to stimulate latent customer demand through *omni7*, the Group's integrated EC site, while developing high-quality products and enhancing service quality. However, the Group may not attain its objectives completely because of some internal and/or external factors. If such is the case, its business performance and financial condition may be affected.

Human Resource Management

It is indispensable for the Group's business operations to secure human resources with the capability of good communication with stakeholders, especially customers. If fiercer competition for human resources in various business fields or regions in the future leads to difficulty in securing appropriate staff and/or the loss of existing staff, the Group's business performance and financial condition may be affected.

Ryuichi Isaka, the president of Seven & i Holdings, and the Group's top management are strengthening cooperation with each other coherently and implementing the Group's business strategies. However, the Group may not attain its objectives completely because of certain factors. If such is the case, its business performance and financial condition could be affected.

RISKS BY SEGMENT

Domestic Convenience Store Operations

The Group's convenience store operations in Japan are primarily organized under a franchise system, centered on SEVEN-ELEVEN JAPAN and chain operations are conducted under the same name, 7-Eleven. The franchise system is a joint enterprise in which franchised stores and the Group fulfill their respective roles based on an equal partnership and a relationship of trust. In the event that agreements with numerous franchised stores become unsustainable because either the Group or the franchised stores did not fulfill their respective roles, its business performance could be affected.

The Group has sought to cater to constantly changing customer needs by working with business partners to innovate production, distribution, sales and their supporting information systems to realize differentiated, high-quality products and to create convenient services that support everyday life. The unique operational infrastructure of convenience store operations is built in collaboration with business partners that have a shared commitment to the franchise system. Consequently, if the Group could no longer maintain operational relationships with business partners in its convenience store operations or if business partners' technical capabilities declined conspicuously, its business performance and financial condition could be affected.

Overseas Convenience Store Operations

The Group's overseas convenience store operations primarily consist of 7-Eleven, Inc. (SEI), which has been proactively increasing stores, mainly those with a gas station, in the United States and Canada. Sales of gasoline have accounted for about half of total sales. SEI has focused on strategies such as vertically integrating fuel supply operations so that it can offset the risk of profit margin decline resulting from retail fuel price fluctuations. However, unexpected changes in the business environment such as a drastic fluctuation of the price of fuel may affect the Group's business performance and financial condition.

A reduction in royalties or sales resulting from misconduct by area licensees who do not belong to the Group or by stores operated by area licensees could affect its business performance and financial condition.

Superstore Operations

The Group's superstore operations comprise superstores and food supermarkets, mainly Ito-Yokado, York-Benimaru and York Mart. To respond appropriately to changes in consumer needs, the Group is striving to implement a business structural reform of superstores. On the one hand, the Group is advancing the store-first policy under which an individual store plays a leading role in assorting products that can meet regional market needs and continuously promoting merchandising innovation and communication with customers by enhancing customer service levels and sales techniques. On the other hand, the Group is embarking on closing underperforming stores. For food supermarkets, the Group endeavors to establish the new model of lifestyle-proposal supermarkets by promoting differentiation strategies on products and improving operational efficiency. However, the Group may not attain its objectives completely because of unforeseen factors such as changes in the operating environment. If such is the case, its business performance and financial condition may be affected.

Department Store Operations

The Group is striving to implement structural reform to create a new type of department store in its department store operations, which primarily consist of Sogo & Seibu. On the one hand, the Group is advancing the reform of stores to realize a desirable store structure and the reform of regional stores in response to characteristics of respective regions. On the other hand, the Group is embarking on the closure of underperforming stores. However, the Group may not attain its objectives completely because of unforeseen factors such as changes in business environments. If such is the case, its business performance and financial condition may be affected.

Financial Services

The Group provides financial services, including banking, credit card and electronic money operations.

Seven Bank owes its revenues mainly to ATM operations. Therefore, the occurrence of circumstances such as the growing use of alternatives to cash for settlement, intensifying competition for ATM services and/or the peaking out of ATM network expansion may affect the Group's business performance and financial condition.

In its credit card operations, the Group is striving to provide customers with highly convenient financial services integrated with retail services by issuing and promoting the use of the Seven Card Plus/Seven Card credit card, CLUB ON/ Millennium CARD SAISON credit cards and *nanaco* electronic money. However, regarding credit card operations, an increase in the default rate, unexpected default losses or restriction on the total volume of lending pursuant to the Money Lending Business Act, etc., may affect the Group's business performance and financial condition. Regarding electronic money operations, the Group has built an original system and worked to achieve differentiation, but the rapid spread of electronic money in Japan has been accompanied by qualitative changes such as increased versatility, etc. In the event that the Group fails to maintain its competitiveness, its business performance and financial condition may be affected.

Specialty Store Operations

The Group operates specialty stores that provide characteristic products and services. Akachan Honpo, a specialty store for maternity, baby and kids' products; THE LOFT, a specialty store for miscellaneous goods; and Seven & i Food Systems, which operates restaurants and manages meal provision and fast food services, are implementing growth strategies by strengthening the development of products in response to changes in customer segments based on shifts in demographics, lifestyles and customer needs and by enhancing productivity. However, the Group may not attain its objectives completely because of unforeseen factors such as changes in business environments. If such is the case, its business performance and financial condition may be affected.

In addition, Nissen Holdings, which operates mail order services, faces negative changes in its business environment such as a deterioration of product competitiveness, lowered catalog sales efficiency due to evolving Internet businesses, rising shipping costs and others, and is striving to implement structural reform and improve profitability primarily by enhancing product competitiveness and the efficiency of sales promotion. However, the Group may not attain its objectives completely because of unforeseen factors such as changes in business environments. If such is the case, its business performance and financial condition may be affected.

3. LEGAL RESTRICTIONS AND LITIGATIONS

Changes in Accounting Standards and Tax Systems

The introduction of new accounting standards or tax systems or changes thereof, which the Group cannot predict, could affect its business performance and financial condition.

Environmental Regulations or Issues

The Group is subject to a variety of environment-related laws and regulations such as those relating to food recycling, containers and packaging recycling, waste management and climate change countermeasures. In the future, such laws and regulations, for example, climate change countermeasures such as restrictions on greenhouse gas emissions, may become more stringent, or new laws and regulations or policies such as carbon taxes may be adopted, which may cause the Group to incur additional compliance costs or restrict its operating activities.

In addition, tighter regulations could lead to changes in the cost of energy such as electricity, water or gas, resulting in higher expenses for store operations, which could affect the Group's financial condition.

Leaks of Confidential Information

In the normal course of business, such as in financial services, the Group holds confidential information about customers regarding privacy, creditworthiness and other information, including personal information, as well as confidential information about companies and other third parties. Such information could be leaked inadvertently or deliberately, and any material leakage of confidential information could produce damage liability claims and/or damage society's trust in the Group. Moreover, there is a risk that the Group's trade secrets could be leaked by misappropriation or negligence. If such is the case, the Group's business performance and financial condition could be affected.

Litigation and Regulatory Actions

The Group is exposed to the risk that it will be subject to various legal procedures stemming from lawsuits, etc., or regulatory authorities in regard to the execution of its business activities.

Currently, no lawsuits that significantly affect the Group's performance have been filed against the Group. However, if decisions unfavorable to the Group result from lawsuits with a potentially significant effect on business results or social standing, its operating results and financial condition may be affected.

Also, a substantial legal liability or adverse regulatory outcome, and the substantial cost to defend the litigation or regulatory proceedings due to the implementation of stricter laws and regulations or stricter interpretations, may affect the Group's business performance, financial condition and reputation.

4. RISKS RELATED TO DISASTERS OR UNPREDICTABLE EVENTS

Influence of Climate Change, Disasters or Other Unpredictable Events

The Group's Head Office, stores and facilities for core operations are located in Japan. The Group also operates businesses around the world. Major natural disasters such as earthquakes, typhoons, floods, tsunamis and more frequent extreme weather caused by climate change; fires; power outages; nuclear power plant disasters; wars; unlawful activities such as terrorist attacks; or other contingencies could lead to a halt in business activities or the incurring of considerable expenses related to such damages, which could have a serious impact on the business operations of the Group. If such is the case, its business performance and financial condition could be affected. In particular, the occurrence of a large natural disaster or other event in the Tokyo metropolitan area—where stores for core operations, including convenience store operations and superstore operations are concentrated—could likely have a serious effect.

In addition, as network and information systems have become increasingly important to the Group's operating activities, network and information system shutdowns caused by such unpredictable events as power outages, disasters, terrorist attacks, hardware or software defects or computer viruses and computer hacking could impede business operations, which could affect the Group's business performance and financial condition.

Pandemic of Infectious Diseases, Such as New Strain of Influenza

The Group operates retail businesses as its core operations, which play a role as a lifeline. While it places top priority on the security and safety of customers and employees, in order to fulfill its social responsibilities, the Group has come up with business continuity plans that respond to a pandemic of infectious diseases such as a new strain of influenza. However, depending on the development of a pandemic phase, the Group could take appropriate measures such as shortening operating hours or limiting the number of stores it operates, etc. If such is the case, its business performance and financial condition could be affected.

5. OTHER RISKS

Retirement Benefit Obligations and Retirement Benefit Expenses

The Group calculates retirement benefit obligations and retirement benefit expenses based on assumptions such as discount rates and expected rates of return on plan assets. However, unexpected changes in underlying factors such as domestic and international share prices, foreign exchange rates or interest rates; deterioration in the return on plan assets due to such changes; or changes in the general pension system may affect its business performance and financial condition.

Deferred Tax Assets

Some Group companies record deferred tax assets based on estimates of future taxable income or the time within which the underlying temporary differences become taxable or deductible. However, if estimates of taxable income are lowered due to a worsening business climate or other significant changes, the Group may be required to reduce the amount of its deferred tax assets, resulting in an effect on its business performance and financial condition. Seven & i Holdings and its eligible consolidated subsidiaries introduced a consolidated taxation system in the fiscal year ended February 28, 2013.

Brand Image

An occurrence of the risk events itemized in this section, misconduct on the part of subsidiaries, affiliates or franchised stores, or human rights or environmental problems in the supply chain could damage the Group's overall brand image. As a result, consumers' trust in the Group could diminish, the Group could lose personnel or face difficulty securing needed personnel, which could affect the Group's business performance and financial condition.

Consolidated Balance Sheets

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries at February 28, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2018	2017	2018
Current assets:			
Cash and cash equivalents (Note 4)	¥ 1,300,383	¥ 1,209,497	$ 12,153,112
Notes and accounts receivable:			
Trade (Note 4)	337,938	347,838	3,158,299
Financial services	95,482	91,052	892,355
Franchisees and other	149,728	149,451	1,399,327
Allowance for doubtful accounts (Note 4)	(5,441)	(4,983)	(50,850)
	577,708	583,359	5,399,140
Inventories	176,988	192,463	1,654,093
ATM-related temporary payments	96,826	98,710	904,915
Deferred income taxes (Note 10)	27,981	30,239	261,504
Prepaid expenses and other current assets (Note 4)	160,319	160,131	1,498,308
Total current assets	2,340,207	2,274,403	21,871,093
Property and equipment, at cost (Notes 7, 8, 13 and 18)	3,884,211	3,869,243	36,301,037
Less: Accumulated depreciation	(1,894,756)	(1,861,414)	(17,708,000)
	1,989,455	2,007,829	18,593,037
Intangible assets:			
Goodwill	251,233	270,055	2,347,971
Software and other (Notes 8 and 13)	210,733	225,880	1,969,467
	461,966	495,935	4,317,439
Investments and other assets:			
Investments in securities (Notes 4, 5 and 18)	175,856	188,162	1,643,514
Long-term loans receivable	14,794	15,315	138,261
Long-term leasehold deposits (Notes 4 and 18)	383,276	396,707	3,582,018
Net defined benefit asset (Note 11)	45,620	44,628	426,355
Deferred income taxes (Note 10)	28,375	25,261	265,186
Other	58,891	64,454	550,383
Allowance for doubtful accounts (Note 4)	(3,493)	(3,808)	(32,644)
	703,320	730,720	6,573,084
Total assets	¥ 5,494,950	¥ 5,508,888	$ 51,354,672

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
LIABILITIES AND NET ASSETS	2018	2017	2018
Current liabilities:			
Short-term loans (Notes 12 and 18)	¥ 127,255	¥ 150,376	$ 1,189,299
Current portion of long-term debt (Notes 4, 12 and 18)	173,816	130,758	1,624,448
Notes and accounts payable:			
Trade (Notes 4 and 6)	244,696	247,515	2,286,878
Trade for franchised stores (Notes 4 and 19)	175,315	167,833	1,638,457
Other	197,888	177,326	1,849,420
	617,900	592,675	5,774,766
Accrued expenses	117,362	131,871	1,096,841
Income taxes payable	32,211	34,462	301,037
Deposits received	174,382	188,798	1,629,738
ATM-related temporary advances	45,165	46,072	422,102
Deposits received in banking business (Note 4)	553,522	538,815	5,173,102
Allowance for bonuses to employees	14,662	14,159	137,028
Allowance for sales promotion expenses	19,793	21,409	184,981
Allowance for loss on future collection of gift certificates	1,590	1,807	14,859
Provision for sales returns	89	77	831
Call money	–	20,000	–
Other (Notes 4,10 and 14)	66,253	76,333	619,186
Total current liabilities	1,944,007	1,947,618	18,168,289
Long-term debt (Notes 4, 6, 12 and 18)	720,683	812,176	6,735,355
Allowance for retirement benefits to Directors and Audit & Supervisory Board Members	988	939	9,233
Allowance for stock payments	95	–	887
Net defined benefit liability (Note 11)	9,185	9,163	85,841
Deferred income taxes (Note 10)	35,416	49,080	330,990
Deposits received from tenants and franchised stores (Notes 4 and 18)	54,806	55,327	512,205
Asset retirement obligations (Note 14)	79,412	77,640	742,168
Other liabilities	75,012	81,136	701,046
Total liabilities	2,919,607	3,033,082	27,286,046
Commitments and contingent liabilities (Note 18)			
Net assets (Note 16):			
Shareholders' equity:			
Common stock, authorized 4,500,000,000 shares, issued 886,441,983 shares in 2018 and 2017	50,000	50,000	467,289
Capital surplus	409,128	409,095	3,823,626
Retained earnings	1,894,444	1,793,035	17,705,084
Treasury stock, at cost, 1,897,782 shares in 2018 and 2,039,799 shares in 2017	(4,731)	(5,074)	(44,214)
	2,348,841	2,247,056	21,951,785
Accumulated other comprehensive income (loss):			
Unrealized gains on available-for-sale securities, net of taxes (Note 5)	27,897	28,467	260,719
Unrealized (losses) gains on hedging derivatives, net of taxes	(92)	23	(859)
Foreign currency translation adjustments	46,638	56,391	435,869
Remeasurements of defined benefit plans	3,979	4,117	37,186
Total accumulated other comprehensive income (loss)	78,423	89,000	732,925
Subscription rights to shares (Note 17)	2,623	2,594	24,514
Non-controlling interests	145,454	137,154	1,359,383
Total net assets	2,575,342	2,475,806	24,068,616
Total liabilities and net assets	¥ 5,494,950	¥ 5,508,888	$ 51,354,672

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Revenues from operations:			
Net sales	¥ 4,807,748	¥ 4,646,370	$ 44,932,224
Operating revenues (Note 20)	1,230,067	1,189,318	11,495,953
	6,037,815	5,835,689	56,428,177
Costs and expenses:			
Cost of sales	3,773,220	3,602,038	35,263,738
Selling, general and administrative expenses (Notes 11, 13, 17 and 20)	1,872,936	1,869,077	17,504,074
	5,646,157	5,471,116	52,767,822
Operating income	391,657	364,573	3,660,345
Other income (expenses):			
Interest and dividend income	6,994	6,446	65,364
Interest expenses and interest on bonds	(8,826)	(8,759)	(82,485)
Equity in earnings of affiliates	1,496	2,062	13,981
Impairment loss (Note 8)	(57,070)	(49,108)	(533,364)
Gain on sales of property and equipment (Note 20)	8,375	3,110	78,271
Gain on sales of property and equipment related to restructuring (Note 20)	2,663	376	24,887
Loss on disposals of property and equipment (Note 20)	(20,635)	(18,369)	(192,850)
Restructuring expenses (Notes 8, 20 and 21)	(42,680)	(25,637)	(398,878)
Amortization of goodwill (Note 22)	–	(39,300)	–
Other, net (Note 5)	(5,654)	(17,824)	(52,841)
	(115,337)	(147,003)	(1,077,915)
Income before income taxes	276,320	217,569	2,582,429
Income taxes (Note 10):			
Current	94,421	117,686	882,439
Deferred	(14,997)	(10,939)	(140,158)
	79,423	106,746	742,271
Net income	196,896	110,822	1,840,149
Net income attributable to non-controlling interests	15,746	14,072	147,158
Net income attributable to owners of parent	¥ 181,150	¥ 96,750	$ 1,692,990

	Yen		U.S. dollars (Note 3)
	2018	2017	2018
Per share information:			
Net income per share (Basic)	¥ 204.80	¥ 109.42	$ 1.91
Net income per share (Diluted)	204.63	109.31	1.91
Cash dividends	90.00	90.00	0.84

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Net income	¥ 196,896	¥ 110,822	$ 1,840,149
Other comprehensive income (loss) (Note 15):			
Unrealized (losses) gains on available-for-sale securities, net of taxes	(563)	7,738	(5,261)
Unrealized losses on hedging derivatives, net of taxes	(108)	(563)	(1,009)
Foreign currency translation adjustments	(10,008)	(14,915)	(93,532)
Remeasurements of defined benefit plans	(106)	13,118	(990)
Share of other comprehensive income (loss) of entities accounted for using equity method	(36)	(25)	(336)
Total other comprehensive income (loss)	(10,823)	5,352	(101,149)
Comprehensive income	¥ 186,072	¥ 116,175	$ 1,738,990
Comprehensive income attributable to:			
Owners of parent	¥ 170,573	¥ 103,034	$ 1,594,140
Non-controlling interests	15,499	13,140	144,850

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2018 and 2017

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Balance at March 1, 2016	¥ 50,000	¥ 527,474	¥ 1,717,771	¥ (5,688)	¥ 20,655	¥ 33	¥ 70,927	¥ (8,900)	¥ 2,995	¥ 129,912	¥ 2,505,182
Cumulative effects of changes in accounting policies		(116,446)	59,221				5,900				(51,324)
Restated balance	¥ 50,000	¥ 411,028	¥ 1,776,993	¥ (5,688)	¥ 20,655	¥ 33	¥ 76,827	¥ (8,900)	¥ 2,995	¥ 129,912	¥ 2,453,857
Net income attributable to owners of parent			96,750								96,750
Cash dividends			(80,890)								(80,890)
Purchase of treasury stock				(2,276)							(2,276)
Disposal of treasury stock		132		857							989
Change in the Company's ownership interest of the subsidiary in connection with the transactions with non-controlling shareholders		(2,033)		2,033							–
Other		(31)	182	(0)							150
Net changes of items other than shareholders' equity					7,812	(10)	(20,436)	13,018	(400)	7,241	7,224
Net increase (decrease) for the year	–	(1,933)	16,042	614	7,812	(10)	(20,436)	13,018	(400)	7,241	21,948
Balance at March 1, 2017	¥ 50,000	¥ 409,095	¥ 1,793,035	¥ (5,074)	¥ 28,467	¥ 23	¥ 56,391	¥ 4,117	¥ 2,594	¥ 137,154	¥ 2,475,806
Net income attributable to owners of parent			181,150								181,150
Cash dividends			(79,604)								(79,604)
Purchase of treasury stock				(25)							(25)
Disposal of treasury stock		81		368							450
Other		(49)	(136)	(0)							(185)
Net changes of items other than shareholders' equity					(570)	(115)	(9,753)	(138)	28	8,300	(2,247)
Net increase (decrease) for the year	–	32	101,409	342	(570)	(115)	(9,753)	(138)	28	8,300	99,536
Balance at February 28, 2018	¥ 50,000	¥ 409,128	¥ 1,894,444	¥ (4,731)	¥ 27,897	¥ (92)	¥ 46,638	¥ 3,979	¥ 2,623	¥ 145,454	¥ 2,575,342

Thousands of U.S. dollars (Note 3)

	Shareholders' equity				Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
Balance at March 1, 2017	$ 467,289	$ 3,823,317	$ 16,757,336	$ (47,420)	$ 266,046	$ 214	$ 527,018	$ 38,476	$ 24,242	$ 1,281,813	$ 23,138,373
Net income attributable to owners of parent			1,692,990								1,692,990
Cash dividends			(743,962)								(743,962)
Purchase of treasury stock				(233)							(233)
Disposal of treasury stock		757		3,439							4,205
Other		(457)	(1,271)	(0)							(1,728)
Net changes of items other than shareholders' equity					(5,327)	(1,074)	(91,149)	(1,289)	261	77,570	(21,000)
Net increase (decrease) for the year		299	947,747	3,196	(5,327)	(1,074)	(91,149)	(1,289)	261	77,570	930,242
Balance at February 28, 2018	$ 467,289	$ 3,823,626	$ 17,705,084	$ (44,214)	$ 260,719	$ (859)	$ 435,869	$ 37,186	$ 24,514	$ 1,359,383	$ 24,068,616

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 28, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 276,320	¥ 217,569	$ 2,582,429
Depreciation and amortization	213,167	207,483	1,992,214
Impairment loss	88,879	59,719	830,644
Amortization of goodwill	16,620	55,458	155,327
Increase in allowance for bonuses to employees	707	728	6,607
(Increase) decrease in net defined benefit asset	(938)	554	(8,766)
Interest and dividend income	(6,994)	(6,446)	(65,364)
Interest expenses and interest on bonds	8,826	8,759	82,485
Equity in earnings of affiliates	(1,496)	(2,062)	(13,981)
Gain on sales of property and equipment	(11,038)	(3,487)	(103,158)
Loss on disposals of property and equipment	20,860	18,516	194,953
Gain on transfer from business divestitures	(1,090)	–	(10,186)
Decrease in notes and accounts receivable, trade	7,590	6,525	70,934
Increase in notes and accounts receivable, financial services	(4,429)	(4,175)	(41,392)
Decrease in inventories	11,186	18,438	104,542
Increase in notes and accounts payable, trade	8,501	3,632	79,448
(Decrease) increase in deposits received	(14,168)	31,094	(132,411)
Net decrease in loans in banking business	–	(5,000)	–
Net increase in deposits received in banking business	14,706	20,688	137,439
Net decrease in call loans in banking business	–	10,000	–
Net (decrease) increase in call money in banking business	(20,000)	20,000	(186,915)
Net decrease (increase) in ATM-related temporary accounts	974	(9,276)	9,102
Other	(26,580)	8,171	(248,411)
Subtotal	581,606	656,892	5,435,570
Interest and dividends received	4,468	3,712	41,757
Interest paid	(8,877)	(7,452)	(82,962)
Income taxes paid	(95,827)	(140,629)	(895,579)
Income taxes refund	16,936	–	158,280
Net cash provided by operating activities	498,306	512,523	4,657,065
Cash flows from investing activities:			
Acquisition of property and equipment (Note 9)	(277,913)	(321,089)	(2,597,317)
Proceeds from sales of property and equipment	40,174	66,359	375,457
Acquisition of intangible assets	(33,375)	(27,347)	(311,915)
Payment for purchase of investments in securities	(20,353)	(55,010)	(190,214)
Proceeds from sales of investments in securities	32,435	18,806	303,130
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	108	326	1,009
Payment for long-term leasehold deposits	(16,199)	(29,116)	(151,392)
Refund of long-term leasehold deposits	37,689	33,352	352,233
Proceeds from deposits from tenants	5,321	3,542	49,728
Refund of deposits from tenants	(5,654)	(3,269)	(52,841)
Proceeds from business divestitures	12,937	–	120,906
Payment for acquisition of business (Note 9)	(4,717)	(71,471)	(44,084)
Payment for time deposits	(16,294)	(10,850)	(152,280)
Proceeds from withdrawal of time deposits	12,751	28,233	119,168
Other	(7,329)	(4,067)	(68,495)
Net cash used in investing activities	(240,418)	(371,602)	(2,246,897)
Cash flows from financing activities:			
Net (decrease) increase in short-term loans	(23,150)	19,341	(216,355)
Proceeds from long-term debts	56,408	139,451	527,177
Repayment of long-term debts	(73,656)	(98,739)	(688,373)
Proceeds from commercial paper	–	75,161	–
Payment for redemption of commercial paper	–	(75,161)	–
Payment for redemption of bonds	(20,000)	(40,000)	(186,915)
Capital contribution from non-controlling interests	432	0	4,037
Dividends paid	(79,558)	(80,834)	(743,532)
Dividends paid to non-controlling interests	(7,017)	(6,142)	(65,579)
Purchase of treasury stock	(25)	(2,276)	(233)
Other	(21,941)	(8,991)	(205,056)
Net cash used in financing activities	(168,510)	(78,190)	(1,574,859)
Effect of exchange rate changes on cash and cash equivalents	1,508	(154)	14,093
Net increase in cash and cash equivalents	90,886	62,576	849,401
Cash and cash equivalents at beginning of year	1,209,497	1,147,086	11,303,710
Decrease in cash and cash equivalents resulting from exclusion of the subsidiary from consolidation	–	(164)	–
Cash and cash equivalents at end of year	¥ 1,300,383	¥ 1,209,497	$ 12,153,112

The accompanying notes are an integral part of these financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Seven & i Holdings Co., Ltd. and its consolidated subsidiaries (the "Companies") have been prepared in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS"), and are compiled from the Consolidated Financial Statements prepared by Seven & i Holdings Co., Ltd. (the "Company") as required by the Financial Instruments and Exchange Act of Japan.

The accompanying Consolidated Financial Statements also include the accounts of the Company's foreign consolidated subsidiaries. The accounts of the Company's foreign consolidated subsidiaries are prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"), with adjustments for the specific five items as applicable.

The accompanying Consolidated Financial Statements have been restructured and translated into English from the Consolidated Financial Statements prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan. Certain supplementary information included in the statutory Japanese language Consolidated Financial Statements, but not required for fair presentation, is not presented in the accompanying Consolidated Financial Statements.

As permitted under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been truncated. As a result, the totals shown in the accompanying Consolidated Financial Statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and 145 consolidated subsidiaries as of February 28, 2018 (149 as of February 28, 2017) which include Seven-Eleven Japan Co., Ltd., 7-Eleven, Inc., Ito-Yokado Co., Ltd., York-Benimaru Co., Ltd., Sogo & Seibu Co., Ltd., Seven Bank, Ltd., and Seven Financial Service Co. Ltd.

Five entities have been included in the scope of consolidation for the fiscal year ended February 28, 2018 with the establishment of Seven-Eleven Okinawa Co., Ltd. and Seven Payment Service Co., Ltd.

On the other hand, nine entities were excluded from the scope of consolidation for the fiscal year ended February 28, 2018 due to the dissolution of Seven Bi no Garden Co., Ltd. and IY Real Estate Co. Ltd.; the sale of three companies; and the liquidation of four companies.

The fiscal year-end of some consolidated subsidiaries is December 31. The financial statements of such subsidiaries as of and for the year ended December 31 are used in preparing the Consolidated Financial Statements. All material transactions that occur during the period from the closing date to February 28, 2018 are adjusted in the consolidation process.

The fiscal year-end of Seven Bank, Ltd., etc. is March 31. Pro forma financial statements as of the end of February, prepared in a manner that is substantially identical to the preparation of the official financial statements, are prepared in order to facilitate its consolidation.

All material intercompany transactions and account balances have been eliminated.

24 affiliates as of February 28, 2018 (26 affiliates as of February 28, 2017), which include PRIME DELICA CO., LTD. and PIA CORPORATION, are accounted for using the equity method.

The number of affiliates to which the equity method is applied decreased by two in connection with the transfer of shares.

When an affiliate has a deficit net worth, the Company's share of such deficit is reduced from its loan receivable from that affiliate. For the affiliates that have a balance sheet date other than February 28, 2018, their individual financial statements are used in preparing the Consolidated Financial Statements.

(2) Inventories

Inventories are stated mainly at cost determined by the following method. Cost is determined principally by the retail method with book value written down to the net realizable value for domestic consolidated subsidiaries and by the first-in, first-out (FIFO) method (except for gasoline inventory that is determined mainly by the weighted-average cost method) for foreign consolidated subsidiaries. Some domestic consolidated subsidiaries applied the FIFO method and the moving-average method.

Supplies are carried at cost which is mainly determined by the last purchase price method with book value written down to the net realizable value.

(3) Securities

Held-to-maturity debt securities are carried at amortized cost.

Other available-for-sale securities are classified into two categories, where: (a) the fair value is available and (b) the fair value is not available.

(a) Securities whose fair value is available are valued at the quoted market price prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of securities sold is determined using the moving-average method.

(b) Securities whose fair value is not available are mainly valued at cost, determined using the moving-average method.

(4) Derivatives

Derivative financial instruments are valued at fair value.

(5) Property and equipment (excluding lease assets)

Depreciation of property and equipment is computed using the straight-line method.

(6) Intangible assets (excluding lease assets)

Intangible assets are amortized using the straight-line method.

Internal use software is amortized using the straight-line method over an estimated useful life, generally 5 years.

Goodwill and negative goodwill which generated before March 1, 2011 are amortized mainly over a period of 20 years on a straight-line basis, or recognized as income or expenses immediately if immaterial. Negative goodwill arising on or after March 1, 2011 is recognized as income when it occurs.

The goodwill recognized in applying the equity method is accounted for in the same manner.

(7) Lease assets

For the assets leased under finance lease contracts that do not transfer ownership of leased property to the lessee, useful life is determined based on the duration of the lease period and straight-line depreciation method is applied with an assumed residual value at nil.

Finance leases, commenced prior to March 1, 2009, which do not transfer ownership of leased property to the lessee, are accounted for in the same manner as operating leases.

(8) Income taxes

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, inhabitant taxes and enterprise taxes.

From the fiscal year ended February 28, 2013, the Company and part of wholly owned domestic subsidiaries have applied the Consolidated Taxation System.

Deferred tax accounting is applied.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for income tax purposes.

(9) Accounting for deferred assets

Business commencement expenses are amortized using the straight-line method over five years, or expensed as incurred if immaterial.

(10) Allowances

(a) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historical rate of losses.

(b) Allowance for sales promotion expenses

Allowance for sales promotion expenses is provided for the use of points given to customers at the amount expected to be used in the future as at the balance sheet date in accordance with the sales promotion point card program.

(c) Allowance for bonuses to employees

Allowance for bonuses to employees is provided at the amount calculated based on the estimation of payment.

(d) Allowance for loss on future collection of gift certificates

Allowance for loss on future collection of gift certificates issued by certain domestic consolidated subsidiaries is provided for future collection of gift certificates for income to be recognized after certain periods. The amount is calculated using the historical results of collection.

(e) Provision for sales returns

Provision for sales returns is provided at the amount of estimated future loss due to sales returns. The amount is calculated using the historical results of sales returns.

(f) Allowance for retirement benefits to Directors and Audit & Supervisory Board Members

Allowance for retirement benefits to Directors and Audit & Supervisory Board Members is provided at the amount required to be paid in accordance with internal rules.

The Company and some of its consolidated subsidiaries abolished the retirement benefits policy for Directors and Audit & Supervisory Board Members, for which some consolidated subsidiaries have determined to pay the balance at the time of retirement.

(g) Allowance for stock payments

Allowance for stock payments is provided to prepare for payments of stock benefits to directors and executive officers of some consolidated subsidiaries. The amount is based on the expected stock benefit payable as at the balance sheet date.

(11) Accounting method for retirement benefits

(a) Allocation method of estimated total retirement benefits

Benefit formula basis

(b) Amortization method of the actuarial difference and the prior service costs

Actuarial differences are amortized on a straight-line basis over the period of 10 years from the year following the year in which they arise, which is within the average remaining years of service of the eligible employees.

Prior service costs are amortized on a straight-line basis over the period of 5 years or 10 years, which are within the average remaining years of service of the eligible employees.

(12) Hedge accounting

Forward exchange contracts are utilized as hedging instruments and the related hedged items are foreign currency-denominated monetary claims and liabilities. Interest rate swap contracts are utilized as hedging instruments and the related hedged items are loans payable. The Companies have policies to utilize derivative instruments for the purposes of hedging their exposure to fluctuations in foreign currency rates and interest rates and reducing finance costs as well as optimizing future cash flow.

The Companies do not hold or issue derivative instruments for trading or speculative purposes. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the recognition of gains and losses resulting from the changes in fair value of interest rate swap contracts is deferred until the related gains and losses on the hedged items are recognized. The forward exchange contracts are accounted for by the short-cut method when they meet certain criteria. Certain interest rate swap contracts that meet specific hedging criteria are not measured at market value but the differences between the paid and received amount under the swap contracts are recognized and included in interest expenses as incurred. The hedge effectiveness is assessed by comparing the fluctuation quarterly except for those that meet specific hedging criteria.

(13) Per share information

Owners' equity (excluding non-controlling interests and subscription rights to shares) per share as of February 28, 2018 and 2017 is ¥2,744.08 ($25.64) and ¥2,641.40, respectively. Net income per share for the fiscal years ended February 28, 2018 and 2017 is ¥204.80 ($1.91) and ¥109.42, respectively. Diluted net income per share for the fiscal years ended February 28, 2018 and 2017 is ¥204.63 ($1.91) and ¥109.31, respectively.

Net income per share of common stock is computed based on the weighted-average number of shares of common stock outstanding and diluted net income per share is computed based on the weighted-average number of shares of common stock outstanding during each year after incorporating the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

The basis for the calculation of net income per share for the fiscal years ended February 28, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Net income attributable to owners of parent	¥ 181,150	¥ 96,750	$ 1,692,990
Less components not pertaining to common shareholders	–	–	–
Net income pertaining to common shareholders	181,150	96,750	1,692,990
Weighted-average number of shares of common stock outstanding (shares)	884,531,496	884,214,252	884,531,496

Cash dividends per share shown in the accompanying Consolidated Statements of Income represent dividends declared as applicable to the respective fiscal year.

(14) Treasury stock

Treasury stock shown in the accompanying Consolidated Balance Sheets includes the portion of the Company's interests in its treasury stock held by affiliates accounted for using the equity method according to Japanese GAAP on the presentation of treasury stock.

(15) Accounting for consumption taxes and excise tax

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying Consolidated Statements of Income. The excise tax levied in the United States and Canada is included in the accompanying Consolidated Statements of Income.

(16) Foreign currency translation

All assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect as at the respective balance sheet dates. Translation gains or losses are included in the accompanying Consolidated Statements of Income.

All balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates. All income and expense accounts are translated at the average exchange rate for the period. The resulting translation adjustments are allocated to "Non-controlling interests" and "Foreign currency translation adjustments."

(17) Cash and cash equivalents

Cash and cash equivalents in the accompanying Consolidated Balance Sheets and Consolidated Statements of Cash Flows are comprised of cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition, that are liquid, readily convertible into cash, and are subject to minimum risk of price fluctuation.

(18) Accounting for franchised stores in domestic and overseas convenience store operations

Seven-Eleven Japan Co., Ltd. and 7-Eleven, Inc. recognize franchise commission from their franchised stores as "Operating revenues."

(19) Accounting standards issued but not yet applied

(Accounting standards on tax effect accounting)

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, revised on February 16, 2018)

(a) Overview

The treatment of future deductible temporary differences pertaining to investment in subsidiaries in the non-consolidated financial statements has been revised, and the treatment of recoverability related to deferred tax assets in companies that fall under Category 1 has been clarified.

(b) Effective date

The above revisions are scheduled to be applied from the beginning of the fiscal year ending February 29, 2020.

(c) Effects of application of the guidance

The effects of the application are under assessment at the time of preparing the accompanying Consolidated Financial Statements.

(20) Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

(21) Supplementary information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 dated March 28, 2016) from the fiscal year ended February 28, 2018.

There is no impact on the Consolidated Financial Statements from the application of the implementation guidance.

3. U.S. DOLLAR AMOUNTS

The accounts of the Consolidated Financial Statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥107=US$1, the approximate rate of exchange prevailing as of February 28, 2018. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized, or settled in U.S. dollars at this rate or at any other rate.

4. FINANCIAL INSTRUMENTS

Qualitative information on financial instruments

(1) Policies relating to financial instruments

For the management of surplus funds, the Companies' basic policy is to give priority to safety, liquidity, and efficiency, investing only in instruments such as deposits at banks. The Companies mainly raise funds through bank loans and bond issuance.

Also, the Companies use derivative instruments to mitigate the risk of currency exchange rates fluctuations for receivables and payables denominated in foreign currencies and the risk of fluctuations in the interest rates of interest-bearing debt as well as to optimize cash flows for future interest payments. The Companies do not hold or issue derivative instruments for trading or speculative purposes.

(2) Details of financial instruments, associated risk, and risk management systems

The Companies' risk management policy is incorporated in the "Fundamental Risk Management Policy," which designated the divisions that are responsible for each type of risk and overall risk management. Further, in relation to financial instruments the Companies recognize and manage risk as follows.

Notes and accounts receivable, trade are exposed to individual customer's credit risk. The Companies regularly monitor due dates and outstanding balances, as well as customer creditworthiness, to identify any concerns and mitigate losses associated with their collectability.

Long-term leasehold deposits, mainly arising from store rental agreements, are also exposed to individual lessor's credit risk. As with notes and accounts receivable, trade, the Companies monitor lessor creditworthiness to identify any concerns and mitigate losses associated with their collectability.

Marketable securities mainly consist of negotiable certificates of deposit used for the management of surplus funds. Investments in securities mainly consist of shares of companies with which the Companies have operational relationships and Japanese government bonds held by Seven Bank, Ltd., which is a subsidiary of the Company. These investments are exposed to market risk. The Companies regularly reconsider the holding status of these securities by monitoring market prices and the issuers' financial position, in light of the Companies' business partnerships.

Among notes and accounts payable, trade, debts denominated in foreign currencies are exposed to the risk of currency exchange rate fluctuations.

In order to mitigate the risk, the Companies enter into forward exchange contracts that cover a portion of the settlement amount. With regards to the forward exchange contracts, the Companies regularly monitor their valuation.

Among loans, short-term loans and commercial paper are used mainly to raise operating funds, while long-term loans and bonds are used mainly for capital investments. These debts are managed comprehensively based on the asset-liability management ("ALM") model. Among these debts, long-term loans with variable interest rates are exposed to the risk of interest rate fluctuations, which is partially mitigated by interest rate swap contracts. The detailed explanation as to the specific hedge methods are set out in Note 2, "Summary of Significant Accounting Policies."

In relation to the derivative instruments (i.e. forward exchange contracts, interest rate swap contracts) discussed above, the Companies mitigate credit risk by restricting counterparties to financial institutions that have high creditworthiness.

Trade payables, loans and bonds are exposed to liquidity risk, which is the risk of failing to settle as scheduled. The Companies manage the risk through adequately maintaining fund management plans, as well as by the Company conducting entity-wide cash management.

(3) Supplementary information on fair values

Fair values of financial instruments are measured through quoted market prices when available. When quoted market prices are not available, fair values are estimated by using reasonable valuation methods. The assumptions of such estimations include variable factors and, accordingly, if different assumptions are adopted, estimated fair values may change. The contract amounts of the derivatives discussed in Note 6, "Derivative Transactions," below are not an indicator of the market risk associated with derivative transactions.

Fair values of financial instruments

Book values and fair values of the financial instruments on the Consolidated Balance Sheets as of February 28, 2018 and 2017 are as follows.

Certain items that are deemed to be immaterial are not included in the table. Financial instruments whose fair value is deemed highly difficult to measure are also excluded from the table (refer to Note 2 below).

Millions of yen

	2018		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 1,300,383	¥ 1,300,383	¥ –
Notes and accounts receivable, trade	337,938		
Allowance for doubtful accounts[a]	(3,133)		
	334,805	338,403	3,598
Investments in securities	131,957	144,699	12,741
Long-term leasehold deposits[b]	288,395		
Allowance for doubtful accounts[c]	(358)		
	288,036	300,694	12,658
Total assets	¥ 2,055,183	¥ 2,084,181	¥ 28,998
Notes and accounts payable, trade[d]	¥ 420,012	¥ 420,012	¥ –
Deposits received in banking business	553,522	553,872	350
Bonds[e]	379,999	386,121	6,121
Long-term loans[f]	475,806	473,001	(2,804)
Deposits received from tenants and franchised stores[g]	28,381	28,002	(379)
Total liabilities	¥ 1,857,722	¥ 1,861,010	¥ 3,288
Derivative instruments[h]	¥ (150)	¥ (150)	¥ –

Millions of yen

	2017		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 1,209,497	¥ 1,209,497	¥ –
Notes and accounts receivable, trade	347,838		
Allowance for doubtful accounts[a]	(2,993)		
	344,845	348,385	3,539
Investments in securities	145,458	148,292	2,833
Long-term leasehold deposits[b]	302,134		
Allowance for doubtful accounts[c]	(443)		
	301,691	316,473	14,781
Total assets	¥ 2,001,493	¥ 2,022,648	¥ 21,155
Notes and accounts payable, trade[d]	¥ 415,349	¥ 415,349	¥ –
Deposits received in banking business	538,815	539,337	522
Bonds[e]	399,996	408,000	8,003
Long-term loans[f]	498,116	495,895	(2,220)
Deposits received from tenants and franchised stores[g]	28,453	28,037	(415)
Total liabilities	¥ 1,880,731	¥ 1,886,620	¥ 5,889
Derivative instruments[h]	¥ 164	¥ 164	¥ –

Thousands of U.S. dollars (Note 3)

	2018		
	Book value	Fair value	Difference
Cash and cash equivalents	$ 12,153,112	$ 12,153,112	$ –
Notes and accounts receivable, trade	3,158,299		
Allowance for doubtful accounts[a]	(29,280)		
	3,129,018	3,162,644	33,626
Investments in securities	1,233,242	1,352,327	119,074
Long-term leasehold deposits[b]	2,695,280		
Allowance for doubtful accounts[c]	(3,345)		
	2,691,925	2,810,224	118,299
Total assets	$ 19,207,317	$ 19,478,327	$ 271,009
Notes and accounts payable, trade[d]	$ 3,925,345	$ 3,925,345	$ –
Deposits received in banking business	5,173,102	5,176,373	3,271
Bonds[e]	3,551,392	3,608,607	57,205
Long-term loans[f]	4,446,785	4,420,570	(26,205)
Deposits received from tenants and franchised stores[g]	265,242	261,700	(3,542)
Total liabilities	$ 17,361,887	$ 17,392,616	$ 30,728
Derivative instruments[h]	$ (1,401)	$ (1,401)	$ –

Notes:
(a) The amount of allowance for doubtful accounts relates only to notes and accounts receivable, trade.
(b) The amount of long-term leasehold deposits includes a portion of leasehold deposits maturing within one year.
(c) The amount of allowance for doubtful accounts relates only to long-term leasehold deposits.
(d) The amount of notes and accounts payable, trade includes trade for franchised stores.
(e) The amount of bonds includes bonds due within one year.
(f) The amount of long-term loans includes long-term loans due within one year.
(g) The amount of deposits received from tenants and franchised stores includes a portion of the deposits received maturing within one year.
(h) The value of assets and liabilities arising from derivative instruments is shown by net value. Net liabilities are shown in parentheses.

Note 1: Items relating to the calculation of the fair value of financial instruments and derivative instruments

Assets

(1) Cash and cash equivalents

The relevant book values are used as they are due in a short period; hence market prices are equivalent to book values.

(2) Notes and accounts receivable, trade

For notes and accounts receivable, trade the relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values. The fair value of items with long settlement periods is the present value, which is obtained by discounting the total sum of the capital and interest that reflects credit risk according to the corresponding interest rate of government bonds over the remaining period.

(3) Investments in securities

For the fair value of equity securities, market prices are used. For debt securities, market prices or the prices indicated by correspondent financial institutions are used.

(4) Long-term leasehold deposits

The fair value of items with long settlement periods is the present value, which is calculated by discounting the future cash flows that reflect credit risks according to the corresponding interest rate of government bonds over the remaining period.

Liabilities

(1) Notes and accounts payable, trade

The relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values.

(2) Deposits received in banking business

The fair value of deposit on demand is measured at the amount payable on demand at the balance sheet date (book value). The fair value of time deposits is measured at their present value, which is obtained by categorizing the balance in accordance with their maturity and discounting the relevant future cash flows by each category. The discount rate is the interest rate that would be applied to newly accepted deposits. For time deposits that are due within one year, the relevant book values are used, as they are due in a short period; hence market prices are equivalent to book values.

(3) Bonds

The fair value of bonds that have market prices is based on those prices. The fair value of bonds that do not have market prices is based on the present value, which is obtained by discounting the total principal and interest over the remaining period according to the interest rate that reflects credit risk.

(4) Long-term loans

The fair value of long-term loans is based on the present value, which is obtained by discounting the total of principal and interest according to the interest rate that would be applied if similar new borrowings were entered into.

(5) Deposits received from tenants and franchised stores

The fair value of deposits received from tenants is the present value, which is obtained by discounting future cash flows according to the corresponding interest rate of government bonds over the remaining period.

Derivative instruments

Refer to Note 6, "Derivative Transactions."

Note 2: Items for which fair value is deemed highly difficult to measure

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
			Book value
Investments in securities[a]:			
Unlisted securities	¥ 11,000	¥ 13,496	$ 102,803
Shares of affiliates	28,469	27,362	266,065
Other	4,428	1,844	41,383
Long-term leasehold deposits[b]	103,440	108,605	966,728
Deposits received from tenants and franchised stores[b]	28,760	29,822	268,785

Notes:
(a) They are not included in Assets (3) Marketable securities and investments in securities since determining their estimated fair values was deemed to be highly difficult, due to the fact that they do not have market prices and the future cash flows cannot be estimated.
(b) They are not included in Assets (4) Long-term leasehold deposits and Liabilities (5) Deposits received from tenants and franchised stores since determining their fair values was deemed to be highly difficult, due to the fact that the amount to be repaid cannot be reasonably estimated.

Note 3: Redemption schedule for receivables and marketable securities with maturities

	Millions of yen			
	2018			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	¥ 1,300,383	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	323,993	12,438	1,303	202
Investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	6,700	16,820	–	–
Bonds	13,230	24,600	–	–
Other	–	–	–	–
Long-term leasehold deposits	29,131	81,748	72,570	104,944
Total	¥ 1,673,438	¥ 135,607	¥ 73,874	¥ 105,147

	Millions of yen			
	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	¥ 1,209,497	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	334,623	11,893	1,150	171
Marketable securities and investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	6,700	21,820	–	–
Bonds	25,200	23,040	10	–
Other	–	–	–	–
Long-term leasehold deposits	28,371	88,351	76,854	108,557
Total	¥ 1,604,392	¥ 145,105	¥ 78,004	¥ 108,728

Thousands of U.S. dollars (Note 3)

	2018			
	Within one year	After one year within five years	After five years within ten years	After ten years
Cash and cash equivalents	$ 12,153,112	$ –	$ –	$ –
Notes and accounts receivable, trade	3,027,971	116,242	12,177	1,887
Investments in securities:				
Held-to-maturity debt securities				
Governmental and municipal bonds	–	–	–	–
Available-for-sale securities with maturities				
Governmental and municipal bonds	62,616	157,196	–	–
Bonds	123,644	229,906	–	–
Other	–	–	–	–
Long-term leasehold deposits	272,252	764,000	678,224	980,785
Total	$ 15,639,607	$ 1,267,355	$ 690,411	$ 982,682

Note 4: Redemption schedule for deposits received in banking business with maturities

Millions of yen

	2018			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	¥ 449,668	¥ 103,853	¥ –	¥ –

Millions of yen

	2017			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	¥ 433,497	¥ 105,318	¥ –	¥ –

Thousands of U.S. dollars (Note 3)

	2018			
	Within one year	After one year within five years	After five years within ten years	After ten years
Deposits received in banking business	$ 4,202,504	$ 970,588	$ –	$ –

Note: Deposits received in banking business due within one year include deposits on demand.

Note 5: Redemption schedule for long-term debt with maturities

Millions of yen

	2018					
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	¥ 74,999	¥ 50,000	¥ 80,000	¥ –	¥ 60,000	¥ 115,000
Long-term loans	82,656	94,314	46,675	114,698	44,043	93,419
Total	¥ 157,655	¥ 144,314	¥ 126,675	¥ 114,698	¥ 104,043	¥ 208,419

Millions of yen

	2017					
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	¥ 50,000	¥ 74,996	¥ 50,000	¥ 80,000	¥ –	¥ 145,000
Long-term loans	64,301	72,496	85,875	28,665	114,135	132,641
Total	¥ 114,301	¥ 147,493	¥ 135,875	¥ 108,665	¥ 114,135	¥ 277,641

Thousands of U.S. dollars (Note 3)

	2018					
	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years
Bonds	$ 700,925	$ 467,289	$ 747,663	$ –	$ 560,747	$ 1,074,766
Long-term loans	772,485	881,439	436,214	1,071,943	411,616	873,074
Total	$ 1,473,411	$ 1,348,728	$ 1,183,878	$ 1,071,943	$ 972,364	$ 1,947,841

5. SECURITIES INFORMATION

(1) The following tables summarize the acquisition cost and book value of available-for-sale securities whose fair value was available as of February 28, 2018 and 2017 (excluding non-marketable securities of ¥11,000 million ($102,803 thousand) and ¥13,496 million as of February 28, 2018 and 2017, respectively):

	Millions of yen		
	2018		
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 61,055	¥ 23,194	¥ 37,860
Debt securities			
Governmental and municipal bonds, etc.	10,956	10,955	0
Corporate bonds	6,229	6,228	1
Subtotal	78,241	40,378	37,863
Securities with book value not exceeding acquisition cost:			
Equity securities	794	974	(179)
Debt securities			
Governmental and municipal bonds, etc.	12,846	12,847	(1)
Corporate bonds	31,817	31,827	(10)
Subtotal	45,458	45,649	(191)
Total	¥ 123,699	¥ 86,027	¥ 37,671

	Millions of yen		
	2017		
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 58,996	¥ 20,786	¥ 38,209
Debt securities			
Governmental and municipal bonds, etc.	27,537	27,523	13
Corporate bonds	38,196	38,180	15
Subtotal	124,730	86,491	38,239
Securities with book value not exceeding acquisition cost:			
Equity securities	1,020	1,154	(134)
Debt securities			
Governmental and municipal bonds, etc.	1,505	1,505	(0)
Corporate bonds	10,276	10,280	(3)
Subtotal	12,802	12,940	(138)
Total	¥ 137,533	¥ 99,431	¥ 38,101

Thousands of U.S. dollars (Note 3)

	2018		
	Book value	Acquisition cost	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	$ 570,607	$ 216,766	$ 353,831
Debt securities			
Governmental and municipal bonds, etc.	102,392	102,383	0
Corporate bonds	58,214	58,205	9
Subtotal	731,224	377,364	353,859
Securities with book value not exceeding acquisition cost:			
Equity securities	7,420	9,102	(1,672)
Debt securities			
Governmental and municipal bonds, etc.	120,056	120,065	(9)
Corporate bonds	297,355	297,448	(93)
Subtotal	424,841	426,626	(1,785)
Total	$ 1,156,065	$ 803,990	$ 352,065

(2) Sales amounts and gain (loss) on sales of available-for-sale securities during the fiscal years ended February 28, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Sales amounts	¥ 31	¥ 193	$ 289
Gain on sales of available-for-sale securities	10	57	93
Loss on sales of available-for-sale securities	0	11	0

(3) Impairment loss on securities

For the fiscal years ended February 28, 2018 and 2017, the Companies recognized ¥nil and ¥10 million as impairment loss on securities, respectively.

The Companies consider securities to be irrecoverable where market prices decline by more than or equal to 50% of their acquisition cost. Where market prices decline by between 30% and 50% of their acquisition cost, the Companies assess the recoverability and, to the extent necessary, recognize impairment losses on such securities.

(4) Investments in affiliates included in investments in securities in the accompanying Consolidated Balance Sheets as of February 28, 2018 and 2017 were ¥36,727 million ($343,242 thousand) and ¥35,288 million, respectively.

6. DERIVATIVE TRANSACTIONS

The Companies have policies to use interest rate swap contracts, forward exchange contracts and currency swap contracts only for the purposes of mitigating the risk of fluctuations in interest rates and foreign currency exchange rates and reducing finance costs as well as optimizing future cash flow. The Companies do not hold or issue derivative instruments for trading or speculative purposes. Currency-related transactions and interest rate swap contracts include the market risk of fluctuations in foreign currency exchange rates and interest rates, respectively. The risk of non-performance is considered to be low as the contracts are entered into with prestigious financial institutions. The responsible divisions in the Companies enter into and control these contracts in accordance with the respective internal policies. The estimated unrealized gains and losses from these contracts as of February 28, 2018 and 2017 are summarized in the following tables. The estimated fair values of these contracts are based on values prepared by financial institutions.

Derivatives not designated as hedging instruments

Currency-related transactions

Millions of yen

	2018			
	Contract amount			
	Total	After one year	Estimated fair value	Unrealized gains (losses)
Forward exchange contracts:				
Buy U.S. dollar	¥ 2,683	¥ –	¥ (102)	¥ (102)
Buy euro	261	–	(2)	(2)
Buy Chinese yuan	116	–	(1)	(1)
Buy Hong Kong dollar	20	–	(1)	(1)
Sell U.S. dollar	1,105	–	11	11

Millions of yen

	2017			
	Contract amount			
	Total	After one year	Estimated fair value	Unrealized gains (losses)
Forward exchange contracts:				
Buy U.S. dollar	¥ 2,432	¥ –	¥ 73	¥ 73
Buy euro	228	–	1	1
Buy Chinese yuan	128	–	(0)	(0)
Buy Hong Kong dollar	105	–	(3)	(3)
Sell U.S. dollar	49	–	(6)	(6)

Thousands of U.S. dollars (Note 3)

	2018			
	Contract amount			
	Total	After one year	Estimated fair value	Unrealized gains (losses)
Forward exchange contracts:				
Buy U.S. dollar	$ 25,074	$ –	$ (953)	$ (953)
Buy euro	2,439	–	(18)	(18)
Buy Chinese yuan	1,084	–	(9)	(9)
Buy Hong Kong dollar	186	–	(9)	(9)
Sell U.S. dollar	10,327	–	102	102

Note: The estimated fair values of derivative contracts are measured by reference to prices or indices indicated by financial institutions.

Derivatives designated as hedging instruments

(1) Currency-related transactions

Millions of yen

	2018		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	¥ 1,464	¥ –	¥ (55)[a]
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	¥ 5	¥ –	¥ –[b]

Millions of yen

	2017		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	¥ 1,500	¥ –	¥ 101[a]
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	¥ 251	¥ –	¥ –[b]

Thousands of U.S. dollars (Note 3)

	2018		
	Contract amount		
	Total	After one year	Estimated fair value
Forward exchange contracts, accounted for by deferral hedge accounting			
Buy U.S. dollar	$ 13,682	$ –	$ (514)[a]
Forward exchange contracts, accounted for by designation method			
Buy U.S. dollar	$ 46	$ –	$ –[b]

Notes:
(a) The estimated fair values of derivative contracts are measured by reference to prices or indices indicated by financial institutions.
(b) Forward exchange contracts, accounted for by designation method are accounted for as part of notes and accounts payable, trade. Therefore, the estimated fair value of the contracts is included in the fair value of the underlying notes and accounts payable, trade.

(2) Interest rate related transactions

	Millions of yen		
	2018		
	Contract amount		
	Total	After one year	Estimated fair value
Interest rate swap contracts, where certain criteria are met[b]			
Receive float / Pay fixed	¥ 10,000	¥ 10,000	¥ –[a]

	Millions of yen		
	2017		
	Contract amount		
	Total	After one year	Estimated fair value
Interest rate swap contracts, where certain criteria are met[b]			
Receive float / Pay fixed	¥ 10,550	¥ 10,000	¥ –[a]

	Thousands of U.S. dollars (Note 3)		
	2018		
	Contract amount		
	Total	After one year	Estimated fair value
Interest rate swap contracts, where certain criteria are met[b]			
Receive float / Pay fixed	$ 93,457	$ 93,457	$ –[a]

Notes:
(a) Interest rate swap contracts are accounted for as part of long-term debt. Therefore, the estimated fair value of the contracts is included in the fair value of the underlying long-term debt.
(b) The estimated fair value of these interest rate swaps is, in effect, included in and presented with that of the hedged item. For details, refer to Note 2 (12), "Hedge accounting."

7. PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Buildings and structures	¥ 2,139,523	¥ 2,138,622	¥ 19,995,542
Furniture, fixtures and other	965,830	913,016	9,026,448
	3,105,353	3,051,639	29,021,990
Less: Accumulated depreciation	(1,894,756)	(1,861,414)	(17,708,000)
	1,210,597	1,190,225	11,313,990
Land	725,180	768,926	6,777,383
Construction in progress	53,677	48,677	501,654
Total	¥ 1,989,455	¥ 2,007,829	$ 18,593,037

8. IMPAIRMENT LOSS

For the fiscal years ended February 28, 2018 and 2017, the Companies recognized ¥88,879 million ($830,644 thousand) and ¥59,719 million of impairment loss, respectively, on the following groups of assets.

Effective from the fiscal year ended February 28, 2018, changes have been made to the classification of reportable segments. Accordingly, the figures for the fiscal year ended February 28, 2017 have been restated to reflect the segment classification that now exists after the change.

Fiscal year ended February 28, 2018:

Description	Classification	Location			Millions of yen	Thousands of U.S. dollars (Note 3)
Stores	Land and buildings, etc.	Tokyo Met.	Domestic convenience stores	78 Stores	¥ 61,809	$ 577,654
			Superstores	5 Stores		
			Specialty stores	11 Stores		
		Osaka Pref.	Domestic convenience stores	76 Stores		
			Specialty stores	2 Stores		
		Aichi Pref.	Domestic convenience stores	61 Stores		
			Specialty stores	3 Stores		
		U.S. & others	Overseas convenience stores	143 Stores		
omni7	Software and buildings, etc.	Tokyo Met., Saitama Pref., Osaka Pref. & others			23,492	219,551
Other facilities, etc.	Land and buildings, etc.	Kyoto Pref., Tokyo Met., Nagano Pref. & others			3,576	33,420
Total					¥ 88,879	$ 830,644

Note: ¥29,001 million ($271,037 thousand) (Stores) and ¥2,808 million ($26,242 thousand) (Other facilities, etc.) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 28, 2017:

Description	Classification	Location			Millions of yen
Stores	Land and buildings, etc.	Tokyo Met.	Domestic convenience stores	109 Stores	¥ 55,407
			Superstores	13 Stores	
			Specialty stores	24 Stores	
		Osaka Pref.	Domestic convenience stores	52 Stores	
			Specialty stores	4 Stores	
		Saitama Pref.	Domestic convenience stores	47 Stores	
			Superstores	3 Stores	
			Department stores	2 Stores	
			Specialty stores	4 Stores	
			Others	1 Stores	
		U.S. & others	Overseas convenience stores	62 Stores	
Other facilities, etc.	Land and buildings, etc.	Kyoto Pref., Tokyo Met., Nagano Pref. & others			4,311
Total					¥ 59,719

Note: ¥6,927 million (Stores) and ¥3,683 million (Other facilities, etc.) are included in "Restructuring expenses" in Consolidated Statements of Income.

The Company and its domestic consolidated subsidiaries group their fixed assets by store, which is the minimum cash-generating unit. The book values of stores whose land had significantly declined in market prices or which incurred consecutive operating losses were reduced to recoverable amounts when the book values exceed future cash flows before discount, and such deducted amount was recognized as impairment loss in special losses.

A breakdown of impairment loss is as follows:

Fiscal year ended February 28, 2018:

Millions of yen

Classification	Stores	omni7	Other facilities, etc.	Total
Buildings and structures	¥ 29,496	¥ 670	¥ 708	¥ 30,875
Land	20,965	–	389	21,354
Software	0	19,587	1,224	20,813
Other	11,347	3,234	1,254	15,836
Total	¥ 61,809	¥ 23,492	¥ 3,576	¥ 88,879

Note: ¥9,601 million ($89,728 thousand) (Buildings and structures), ¥18,367 million ($171,654 thousand) (Land), ¥809 million ($7,560 thousand) (Software), and ¥3,030 million ($28,317 thousand) (Other) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 28, 2017:

Millions of yen

Classification	Stores	omni7	Other facilities, etc.	Total
Buildings and structures	¥ 43,328	¥ –	¥ 994	¥ 44,322
Land	6,462	–	48	6,510
Software	74	–	1,043	1,117
Other	5,543	–	2,225	7,769
Total	¥ 55,407	–	¥ 4,311	¥ 59,719

Note: ¥6,520 million (Buildings and structures), ¥729 million (Land), ¥1,033 million (Software), and ¥2,328 million (Other) are included in "Restructuring expenses" in Consolidated Statements of Income.

Fiscal year ended February 28, 2018:

Thousands of U.S. dollars (Note 3)

Classification	Stores	omni7	Other facilities, etc.	Total
Buildings and structures	$ 275,663	$ 6,261	$ 6,616	$ 288,551
Land	195,934	–	3,635	199,570
Software	0	183,056	11,439	194,514
Other	106,046	30,224	11,719	148,000
Total	$ 577,654	$ 219,551	$ 33,420	$ 830,644

In the case where net selling prices were used as recoverable amounts, relevant assets were evaluated based on real estate appraisal standards etc., and in the case where values in use were used as recoverable amounts, relevant assets were evaluated by discounting estimated future cash flows to which the 1.7-6.0% discount rates in 2018 and 1.6-6.0% in 2017 were applied.

9. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Major non-cash transactions

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Finance lease obligation for property and equipment recorded in the Consolidated Balance Sheets for the fiscal year	¥ 5,952	¥ 6,713	$ 55,626
Asset retirement obligations recorded in the Consolidated Balance Sheets for the fiscal year	6,554	11,501	61,252

(2) Acquisition of business

During the fiscal year ended February 28, 2018, payments for acquired businesses made by 7-Eleven, Inc. consist of the following.

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2018	2018
Inventories	¥ 128	$ 1,196
Goodwill	4,692	43,850
Other	(103)	(962)
Subtotal	4,717	44,084
Property and equipment	2,589	24,196
Total	¥ 7,307	$ 68,289

The property and equipment set out above at an amount of ¥2,589 million ($24,196 thousand) are included in acquisition of property and equipment in the Consolidated Statement of Cash Flows for the fiscal year ended February 28, 2018.

During the fiscal year ended February 28, 2017, payments for acquired businesses made by 7-Eleven, Inc. consist of the following.

	Millions of yen
	2017
Inventories	¥ 2,047
Goodwill	69,412
Other	11
Subtotal	71,471
Property and equipment	53,839
Total	¥ 125,310

The property and equipment set out above at an amount of ¥53,839 million are included in acquisition of property and equipment in the Consolidated Statement of Cash Flows for the fiscal year ended February 28, 2017.

10. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of different tax rates based on income which, in aggregate, indicate statutory rates of approximately 30.9% for the fiscal year ended February 28, 2018 and 33.1% for the fiscal year ended February 28, 2017.

(1) The significant components of deferred tax assets and liabilities as of February 28, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Deferred tax assets:			
Allowance for bonuses to employees	¥ 4,642	¥ 4,408	$ 43,383
Allowance for sales promotion expenses	5,870	6,398	54,859
Accrued payroll	7,126	9,889	66,598
Allowance for retirement benefits to Directors and Audit & Supervisory Board Members	314	290	2,934
Allowance for accrued pension and severance costs	1,242	1,332	11,607
Allowance for loss on future collection of gift certificates	499	574	4,663
Depreciation and amortization	12,174	13,494	113,775
Tax loss carried forward	42,724	39,256	399,289
Valuation loss on available-for-sale securities	1,045	774	9,766
Allowance for doubtful accounts	1,776	1,810	16,598
Unrealized loss on property and equipment	7,712	9,566	72,074
Impairment loss on property and equipment valuation and loss on land	57,219	50,651	534,757
Accrued enterprise taxes and business office taxes	4,044	4,329	37,794
Accrued expenses	13,014	17,239	121,626
Asset retirement obligations	19,590	20,273	183,084
Rights of trademark	1,235	2,080	11,542
Other	21,422	24,283	200,205
Subtotal	201,657	206,655	1,884,644
Less: Valuation allowance	(83,228)	(81,445)	(777,831)
Total	118,429	125,209	1,106,813
Deferred tax liabilities:			
Unrealized gains on property and equipment	(35,271)	(52,431)	(329,635)
Royalties, etc.	(21,742)	(26,737)	(203,196)
Reserve for advanced depreciation of property and equipment	(765)	(779)	(7,149)
Unrealized gains on available-for-sale securities	(9,910)	(9,860)	(92,616)
Net defined benefit asset	(13,911)	(13,620)	(130,009)
Unrealized intercompany profit	(4,594)	(4,594)	(42,934)
Removal cost related to asset retirement obligations	(7,550)	(7,181)	(70,560)
Other	(3,777)	(3,624)	(35,299)
Total	(97,525)	(118,830)	(911,448)
Net deferred tax assets [(a)]	¥ 20,903	¥ 6,378	$ 195,355

Note:
(a) Net deferred tax assets are included in the assets and liabilities shown below.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Current assets - Deferred income taxes	¥ 27,981	¥ 30,239	$ 261,504
Other assets - Deferred income taxes	28,375	25,261	265,186
Current liabilities - Other	(36)	(41)	(336)
Non-current liabilities - Deferred income taxes	(35,416)	(49,080)	(330,990)

(2) The reconciliation of the difference between the statutory tax rate and the effective tax rate for the fiscal years ended February 28, 2018 and 2017 is as follows:

	2018	2017
Statutory tax rate	30.9%	33.1%
Adjustments:		
Equity in earnings of affiliates	(0.2)	(0.3)
Non-deductible items, such as entertainment expenses	0.3	2.1
Decrease in valuation allowance	1.9	3.3
Inhabitant taxes per capital	0.6	0.9
Amortization of goodwill	1.9	8.4
Decrease in deferred tax assets at the fiscal year end due to changes in tax rate	(6.5)	0.9
Other	(0.2)	0.7
Effective tax rate	28.7%	49.1%

(3) Effect of change in rates of income taxes

The Tax Cuts and Jobs Act was enacted in the U.S. on December 22, 2017. Due to the Act, the federal corporate income tax rate in the U.S. was reduced from 35% to 21% for fiscal years beginning on and after January 1, 2018.

As a result of the reduction of the federal corporate income tax rate, the balance of deferred tax liabilities (net of deferred tax assets) decreased by ¥18,218 million ($170,261 thousand) and income taxes–deferred decreased by ¥18,082 million ($168,990 thousand) accordingly.

11. RETIREMENT BENEFITS

(1) Summary of the retirement benefit plans

The Company and its domestic consolidated subsidiaries mainly provide the employee pension fund plan in the form of a defined benefit plan, although some of the domestic subsidiaries provide a defined contribution pension plan or a lump severance payment plan. Additional retirement benefits may be added upon the retirement of employees.

Certain consolidated subsidiaries in the United States have a defined contribution pension plan and a defined benefit plan.

(2) Defined benefit plans, including a plan applying a simplified method

(a) Change in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Balance at beginning of year	¥ 253,979	¥ 249,767	$ 2,373,635
Service cost	11,729	11,460	109,616
Interest cost	2,744	2,694	25,644
Actuarial differences	17,777	1,437	166,140
Benefits paid	(11,603)	(11,039)	(108,439)
Prior service cost	2	–	18
Other	18	(340)	168
Balance at end of year	¥ 274,648	¥ 253,979	$ 2,566,803

(b) Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Balance at beginning of year	¥ 289,444	¥ 267,262	$ 2,705,084
Expected return on plan assets	7,210	6,657	67,383
Actuarial differences	13,375	14,490	125,000
Employer contribution	11,788	11,636	110,168
Benefits paid	(10,737)	(10,601)	(100,345)
Balance at end of year	¥ 311,083	¥ 289,444	$ 2,907,317

(c) Reconciliation from retirement benefit obligations and plan assets to liabilities and assets for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Funded retirement benefit obligations	¥ 265,463	¥ 244,816	$ 2,480,962
Plan assets	(311,083)	(289,444)	(2,907,317)
	(45,620)	(44,628)	(426,355)
Unfunded retirement benefit obligations	9,185	9,163	85,841
	¥ (36,435)	¥ (35,465)	$ (340,514)
Net defined benefit liability	¥ 9,185	¥ 9,163	$ 85,841
Net defined benefit asset	(45,620)	(44,628)	(426,355)
	¥ (36,435)	¥ (35,465)	$ (340,514)

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Service cost	¥ 11,729	¥ 11,460	$ 109,616
Interest cost	2,744	2,694	25,644
Expected return on plan assets	(7,210)	(6,657)	(67,383)
Amortization of actuarial differences	4,180	5,406	39,065
Amortization of prior service cost	(28)	(30)	(261)
Additional retirement benefits	610	556	5,700
Total retirement benefit costs	¥ 12,025	¥ 13,429	$ 112,383

(e) Remeasurements of defined benefit plans (pretax) recognized in other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Prior service cost	¥ (31)	¥ (30)	$ (289)
Actuarial differences	(144)	18,526	(1,345)
Total	¥ (175)	¥ 18,495	$ (1,635)

(f) Remeasurements of defined benefit plans (pretax) recognized in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Unrecognized prior service cost	¥ (243)	¥ (274)	$ (2,271)
Unrecognized actuarial differences	(5,409)	(5,554)	(50,551)
Total	¥ (5,652)	¥ (5,828)	$ (52,822)

(g) Plan assets

(i) The asset allocation for the plans

	2018	2017
Bonds	45%	43%
Equity	38%	40%
Other	17%	17%
Total	100%	100%

(ii) Method for setting long-term expected rate of return

To set the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets and the expected present and future long-term rate of return on the diverse range of assets that make up plan assets.

(h) Actuarial assumptions

	2018	2017
Discount rate	mainly 0.5%	mainly 1.0%
Discount rate (consolidated subsidiaries in the United States)	3.8%	4.3%
Long-term expected rate of return on plan assets	mainly 2.5%	mainly 2.5%
Expected rate of salary increase	mainly 2.9%	mainly 2.9%

(3) Defined contribution plans

Contribution made to the defined contribution plans by some of the Company's domestic consolidated subsidiaries and consolidated subsidiaries in the United States. amounted to ¥3,125 million ($29,205 thousand) and ¥8,060 million for the fiscal years ended February 28, 2018 and 2017, respectively.

12. SHORT-TERM LOANS AND LONG-TERM DEBT

The following summarizes information concerning short-term loans:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Outstanding balance at fiscal year-end:			
Short-term bank loans [a]	¥ 127,255	¥ 150,376	$ 1,189,299
Weighted-average interest rate at year-end:			
Short-term bank loans	0.23%	0.27%	0.23%

Note :
(a) The total amounts of short-term loans with collateral as of February 28, 2018 and 2017 were ¥3,795 million ($35,467 thousand) and ¥5,200 million, respectively (Note 18).

Long-term debt as of February 28, 2018 and 2017 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Outstanding balance as of fiscal year-end:			
Loans, principally from banks and insurance companies, due fiscal 2017 to 2030 with interest rates ranging from 0.0697% to 6.0% [b]	¥ 475,806	¥ 498,116	$ 4,446,785
Lease obligations	38,694	44,821	361,626
Seven & i Holdings Co., Ltd.:			
1.940% unsecured straight bonds, due June 20, 2018	29,999	29,996	280,364
0.852% unsecured straight bonds, due June 20, 2017	–	20,000	–
1.399% unsecured straight bonds, due June 19, 2020	60,000	60,000	560,747
0.383% unsecured straight bonds, due June 20, 2019	40,000	40,000	373,831
0.671% unsecured straight bonds, due March 20, 2023	20,000	20,000	186,915
0.150% unsecured straight bonds, due June 20, 2018	30,000	30,000	280,373
0.514% unsecured straight bonds, due June 20, 2022	60,000	60,000	560,747
0.781% unsecured straight bonds, due June 20, 2025	30,000	30,000	280,373
Seven Bank, Ltd.:			
0.398% unsecured straight bonds, due June 20, 2017	–	30,000	–
0.613% unsecured straight bonds, due June 20, 2019	10,000	10,000	93,457
0.243% unsecured straight bonds, due March 20, 2018	15,000	15,000	140,186
0.460% unsecured straight bonds, due March 19, 2020	20,000	20,000	186,915
0.803% unsecured straight bonds, due March 20, 2023	20,000	20,000	186,915
0.536% unsecured straight bonds, due December 20, 2024	15,000	15,000	140,186
0.390% unsecured straight bonds, due December 20, 2027	30,000	–	280,373
	894,500	942,934	8,359,813
Current portion of long-term debt	(173,816)	(130,758)	(1,624,448)
	¥ 720,683	¥ 812,176	$ 6,735,355

Note :
(b) The total amounts of long-term debt with collateral as of February 28, 2018 and 2017 were ¥8,739 million ($81,672 thousand) and ¥9,811 million, respectively (Note 18).

The aggregate annual maturities of long-term debt are as follows:

Fiscal year ending February 28 or 29:	Millions of yen	Thousands of U.S. dollars (Note 3)
2019	¥ 173,816	$ 1,624,448
2020	149,039	1,392,887
2021	130,492	1,219,551
2022	117,331	1,096,551
2023	106,345	993,878
Thereafter	217,475	2,032,476
	¥ 894,500	$ 8,359,813

13. LEASES

Operating leases

The amounts of outstanding future lease payments under lease agreements other than finance leases, which are non-cancelable, including the interest portion, as of February 28, 2018 and 2017 are as follows:

As lessee:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Due within one year	¥ 91,193	¥ 95,704	$ 852,271
Due after one year	517,601	543,277	4,837,392
Total	¥ 608,795	¥ 638,981	$ 5,689,672

As lessor:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Due within one year	¥ 4,070	¥ 2,037	$ 38,037
Due after one year	12,677	5,539	118,476
Total	¥ 16,747	¥ 7,576	$ 156,514

14. ASSET RETIREMENT OBLIGATIONS

Fiscal years ended February 28, 2018 and 2017:

(1) Summary of asset retirement obligations

Asset retirement obligations recorded by the Companies are mainly related to the obligations to restore stores to their original condition upon termination of their lease contracts.

(2) Calculation method of the asset retirement obligations

In the calculation process of asset retirement obligations, the Companies estimate terms of use between 1 and 50 years and use a discount rate between 0.0% and 8.3%.

(3) Changes in the total amounts of applicable asset retirement obligations for the fiscal years ended February 28, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Balance at beginning of year	¥ 83,672	¥ 75,140	$ 781,981
Increase due to acquisition of property and equipment	5,576	13,457	52,112
Adjustment due to passage of time	1,285	1,350	12,009
Decrease due to settlement of asset retirement obligations	(7,271)	(4,720)	(67,953)
Decrease due to release from restoration obligations	(181)	(489)	(1,691)
Decrease due to change in estimation	(263)	(251)	(2,457)
Decrease due to reconciliation of estimated cost and actual cost	(838)	(456)	(7,831)
Others	(587)	(356)	(5,485)
Balance at end of year	¥ 81,390	¥ 83,672	$ 760,654

(Change in estimation)
For the fiscal years ended February 28, 2018 and 2017, the estimated amount for restoration expenses and the expected period of use for asset retirement obligation recognized for the restoration have been revised based on the latest information about the actual restoration expenses, etc. As a result of this revision, asset retirement obligation decreased by ¥263 million ($2,457 thousand) and ¥251 million, respectively, from the balance of asset retirement obligation before revision.

15. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income (loss) including reclassification adjustments and tax effects for the fiscal years ended February 28, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
(Decrease) increase during the fiscal year	¥ (566)	¥ 10,243	$ (5,289)
Reclassification adjustments	3	10	28
Amount before tax	(563)	10,254	(5,261)
Tax effects	(0)	(2,515)	(0)
Subtotal	(563)	7,738	(5,261)
Unrealized losses on hedging derivatives, net of taxes:			
Decrease during the fiscal year	(156)	(872)	(1,457)
Reclassification adjustments	–	–	–
Amount before tax	(156)	(872)	(1,457)
Tax effects	47	308	439
Subtotal	(108)	(563)	(1,009)
Foreign currency translation adjustments:			
Decrease during the fiscal year	(10,008)	(14,915)	(93,532)
Remeasurements of defined benefit plans, net of taxes:			
(Decrease) increase during the fiscal year	(4,328)	13,268	(40,448)
Reclassification adjustments	4,152	5,227	38,803
Amount before tax	(175)	18,495	(1,635)
Tax effects	69	(5,377)	644
Subtotal	(106)	13,118	(990)
Share of other comprehensive income of entities accounted for using equity method:			
Decrease during the fiscal year	(36)	(25)	(336)
Total other comprehensive income (loss)	¥ (10,823)	¥ 5,352	$ (101,149)

16. NET ASSETS

Net assets are comprised of four subsections, which are shareholders' equity, accumulated other comprehensive income, subscription rights to shares, and non-controlling interests.

Under the Japanese Corporation Act ("the Act") and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Act, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying Consolidated Balance Sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the Non-Consolidated Financial Statements of the Company in accordance with the Act.

At the annual shareholders' meeting held on May 24, 2018, the shareholders approved cash dividends amounting to ¥39,805 million ($372,009 thousand). Such appropriations have not been accrued in the Consolidated Financial Statements as of February 28, 2018 because those are recognized in the period in which they are approved by the shareholders.

17. STOCK OPTIONS

Stock option expense that is accounted for under selling, general and administrative expenses on the Consolidated Statements of Income for the fiscal years ended February 28, 2018 and 2017 amounted to ¥478 million ($4,467 thousand) and ¥480 million, respectively.

(1) The Company

(a) Outline of stock options

	First grant	Second grant
Title and number of grantees	4 directors of the Company	92 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	15,900 ordinary shares	95,800 ordinary shares
Grant date	August 6, 2008	August 6, 2008
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From May 1, 2009 to August 6, 2028	From August 7, 2009 to August 6, 2038

	Third grant	Fourth grant
Title and number of grantees	6 directors of the Company	106 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	24,000 ordinary shares	129,700 ordinary shares
Grant date	June 15, 2009	June 15, 2009
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2010 to June 15, 2029	From February 28, 2010 to June 15, 2039

	Fifth grant	Sixth grant
Title and number of grantees	6 directors of the Company	115 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	21,100 ordinary shares	114,400 ordinary shares
Grant date	June 16, 2010	July 2, 2010
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2011 to June 16, 2030	From February 28, 2011 to July 2, 2040

	Seventh grant	Eighth grant
Title and number of grantees	6 directors of the Company	121 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	25,900 ordinary shares	128,000 ordinary shares
Grant date	June 15, 2011	June 15, 2011
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 29, 2012 to June 15, 2031	From February 29, 2012 to June 15, 2041

	Ninth grant	Tenth grant
Title and number of grantees	7 directors of the Company	118 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	27,000 ordinary shares	126,100 ordinary shares
Grant date	July 6, 2012	July 6, 2012
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2013 to July 6, 2032	From February 28, 2013 to July 6, 2042

	Eleventh grant	Twelfth grant
Title and number of grantees	7 directors of the Company	108 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	24,900 ordinary shares	110,500 ordinary shares
Grant date	August 7, 2013	August 7, 2013
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2014 to August 7, 2033	From February 28, 2014 to August 7, 2043

	Thirteenth grant	Fourteenth grant
Title and number of grantees	7 directors of the Company	113 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[a]	24,000 ordinary shares	102,800 ordinary shares
Grant date	August 6, 2014	August 6, 2014
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2015 to August 6, 2034	From February 28, 2015 to August 6, 2044

	Fifteenth grant	Sixteenth grant
Title and number of grantees	8 directors of the Company	114 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[(a)]	28,100 ordinary shares	101,800 ordinary shares
Grant date	August 5, 2015	August 5, 2015
Exercise condition	[(b)]	[(b)]
Intended service period	No provisions	No provisions
Exercise period	From February 29, 2016 to August 5, 2035	From February 29, 2016 to August 5, 2045

	Seventeenth grant	Eighteenth grant
Title and number of grantees	7 directors of the Company	107 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[(a)]	16,500 ordinary shares	86,800 ordinary shares
Grant date	August 3, 2016	August 3, 2016
Exercise condition	[(b)]	[(b)]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2017 to August 3, 2036	From February 28, 2017 to August 3, 2046

	Nineteenth grant	Twentieth grant
Title and number of grantees	6 directors of the Company	115 executive officers of the Company and directors and executive officers of subsidiaries of the Company
Number of stock options[(a)]	16,100 ordinary shares	110,700 ordinary shares
Grant date	August 4, 2017	August 4, 2017
Exercise condition	[(b)]	[(b)]
Intended service period	No provisions	No provisions
Exercise period	From February 28, 2018 to August 4, 2037	From February 28, 2018 to August 4, 2047

Notes :
(a) Number of stock options means total shares to be issued upon exercise of subscription rights to shares.
(b) Within 10 days from the day following the day that a subscription holder loses their position as a director or executive officer of the Company or of its subsidiaries.

(b) Scale and changes in stock options

The following describes the scale and changes in stock options that existed during the fiscal year ended February 28, 2018. The number of stock options is translated into the number of shares.

Fiscal year ended February 28, 2018:
Number of stock options

	First grant	Second grant	Third grant	Fourth grant
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	1,800	31,500	4,100	43,100
Vested	–	–	–	–
Exercised	–	9,400	–	12,400
Forfeited	–	–	–	–
Outstanding	1,800	22,100	4,100	30,700

	Fifth grant	Sixth grant	Seventh grant	Eighth grant
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	3,800	46,100	6,300	68,300
Vested	–	–	–	–
Exercised	–	11,200	1,600	18,100
Forfeited	–	–	–	–
Outstanding	3,800	34,900	4,700	50,200

	Ninth grant	Tenth grant	Eleventh grant	Twelfth grant
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	7,600	74,500	7,000	74,800
Vested	–	–	–	–
Exercised	3,100	19,400	2,900	18,700
Forfeited	–	–	–	–
Outstanding	4,500	55,100	4,100	56,100

	Thirteenth grant	Fourteenth grant	Fifteenth grant	Sixteenth grant
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	6,400	74,300	9,600	83,900
Vested	–	–	–	–
Exercised	2,600	13,300	2,800	13,400
Forfeited	–	–	–	–
Outstanding	3,800	61,000	6,800	70,500

	Seventeenth grant	Eighteenth grant	Nineteenth grant	Twentieth grant
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	16,100	110,700
Forfeited	–	–	–	800
Vested	–	–	16,100	109,900
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	15,100	83,800	–	–
Vested	–	–	16,100	109,900
Exercised	2,700	15,900	–	–
Forfeited	–	–	–	–
Outstanding	12,400	67,900	16,100	109,900

Price information

	First grant	Second grant	Third grant	Fourth grant
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	¥4,434 ($41.4) per subscription to share	–	¥4,434 ($41.4) per subscription to share
Fair value at the grant date[(a)]	¥307,000 ($2,869) per subscription to share	¥311,300 ($2,909) per subscription to share	¥204,500 ($1,911) per subscription to share	¥211,100 ($1,972) per subscription to share

	Fifth grant	Sixth grant	Seventh grant	Eighth grant
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	¥4,442 ($41.5) per subscription to share	¥4,718 ($44.0) per subscription to share	¥4,404 ($41.1) per subscription to share
Fair value at the grant date[(a)]	¥185,000 ($1,728) per subscription to share	¥168,900 ($1,578) per subscription to share	¥188,900 ($1,765) per subscription to share	¥185,300 ($1,731) per subscription to share

	Ninth grant	Tenth grant	Eleventh grant	Twelfth grant
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	¥4,730 ($44.2) per subscription to share	¥4,414 ($41.2) per subscription to share	¥4,730 ($44.2) per subscription to share	¥4,416 ($41.2) per subscription to share
Fair value at the grant date[(a)]	¥216,400 ($2,022) per subscription to share	¥206,400 ($1,928) per subscription to share	¥345,700 ($3,230) per subscription to share	¥330,600 ($3,089) per subscription to share

	Thirteenth grant	Fourteenth grant	Fifteenth grant	Sixteenth grant
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	¥4,731 ($44.2) per subscription to share	¥4,443 ($41.5) per subscription to share	¥4,731 ($44.2) per subscription to share	¥4,445 ($41.5) per subscription to share
Fair value at the grant date[(a)]	¥388,500 ($3,630) per subscription to share	¥383,700 ($3,585) per subscription to share	¥533,000 ($4,981) per subscription to share	¥545,500 ($5,098) per subscription to share

	Seventeenth grant	Eighteenth grant	Nineteenth grant	Twentieth grant
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	¥4,730 ($44.2) per subscription to share	¥4,466 ($41.7) per subscription to share	–	–
Fair value at the grant date[(a)]	¥361,300 ($3,376) per subscription to share	¥381,600 ($3,566) per subscription to share	¥369,800 ($3,456) per subscription to share	¥380,800 ($3,558) per subscription to share

Note :
(a) The number of shares to be issued upon exercise of one subscription right to shares shall be 100 ordinary shares of the Company.

(c) Valuation method for estimating per share fair value of stock options

The valuation method used for valuating fair value of Nineteenth grant of subscription rights to shares and Twentieth grant of subscription rights to shares during the fiscal year ended February 28, 2018 is as follows:

Valuation method used

Black-Scholes option-pricing model

Principal parameters and estimation method

	Nineteenth grant	Twentieth grant
Expected volatility of the underlying stock price[a]	28.71%	23.57%
Remaining expected life of the option[b]	9.85 years	8.38 years
Expected dividends on the stock[c]	¥90 ($0.84) per share	¥90 ($0.84) per share
Risk-free interest rate during the expected option term[d]	0.07%	0.027%

Notes :

(a) The Nineteenth grant is calculated based on the actual stock prices during the nine years and ten months from October 2, 2007 to August 4, 2017.
The Twentieth grant is calculated based on the actual stock prices during the eight years and five months from March 19, 2009 to August 4, 2017.

(b) The remaining expected life of the option was estimated assuming that the options were exercised at the weighted-average period from valuation date to each director's expected retirement date, based upon the numbers of stock options allocated to each director, plus 10 days of exercisable period.

(c) Expected dividends are determined based on the latest actual dividends on common stock for the fiscal year ended February 28, 2018.

(d) Japanese government bond yield corresponding to the remaining expected life.

(d) Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

(2) Seven Bank, Ltd.

(a) Outline of stock options

	First grant-1	Second grant-1
Title and number of grantees	5 directors of Seven Bank, Ltd.	4 directors of Seven Bank, Ltd.
Number of stock options[a]	184,000 ordinary shares	171,000 ordinary shares
Grant date	August 12, 2008	August 3, 2009
Exercise condition	[b]	[b]
Intended service period	No provisions	No provisions
Exercise period	From August 13, 2008 to August 12, 2038	From August 4, 2009 to August 3, 2039

	Second grant-2	Third grant-1
Title and number of grantees	5 executive officers of Seven Bank, Ltd.	5 directors of Seven Bank, Ltd.
Number of stock options[a]	38,000 ordinary shares	423,000 ordinary shares
Grant date	August 3, 2009	August 9, 2010
Exercise condition	[c]	[b]
Intended service period	No provisions	No provisions
Exercise period	From August 4, 2009 to August 3, 2039	From August 10, 2010 to August 9, 2040

	Fourth grant-1	Fourth grant-2
Title and number of grantees	5 directors of Seven Bank, Ltd.	8 executive officers of Seven Bank, Ltd.
Number of stock options[a]	440,000 ordinary shares	118,000 ordinary shares
Grant date	August 8, 2011	August 8, 2011
Exercise condition	[b]	[c]
Intended service period	No provisions	No provisions
Exercise period	From August 9, 2011 to August 8, 2041	From August 9, 2011 to August 8, 2041

	Fifth grant-1	Fifth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	7 executive officers of Seven Bank, Ltd.
Number of stock options[a]	363,000 ordinary shares	77,000 ordinary shares
Grant date	August 6, 2012	August 6, 2012
Exercise condition	[b]	[c]
Intended service period	No provisions	No provisions
Exercise period	From August 7, 2012 to August 6, 2042	From August 7, 2012 to August 6, 2042

	Sixth grant-1	Sixth grant-2
Title and number of grantees	6 executive officers of Seven Bank, Ltd.	7 executive officers of Seven Bank, Ltd.
Number of stock options[a]	216,000 ordinary shares	43,000 ordinary shares
Grant date	August 5, 2013	August 5, 2013
Exercise condition	[b]	[c]
Intended service period	No provisions	No provisions
Exercise period	From August 6, 2013 to August 5, 2043	From August 6, 2013 to August 5, 2043

	Seventh grant-1	Seventh grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	8 executive officers of Seven Bank, Ltd.
Number of stock options[a]	193,000 ordinary shares	44,000 ordinary shares
Grant date	August 4, 2014	August 4, 2014
Exercise condition	(b)	(c)
Intended service period	No provisions	No provisions
Exercise period	From August 5, 2014 to August 4, 2044	From August 5, 2014 to August 4, 2044

	Eighth grant-1	Eighth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	9 executive officers of Seven Bank, Ltd.
Number of stock options[a]	138,000 ordinary shares	39,000 ordinary shares
Grant date	August 10, 2015	August 10, 2015
Exercise condition	(b)	(c)
Intended service period	No provisions	No provisions
Exercise period	From August 11, 2015 to August 10, 2045	From August 11, 2015 to August 10, 2045

	Ninth grant-1	Ninth grant-2
Title and number of grantees	6 directors of Seven Bank, Ltd.	9 executive officers of Seven Bank, Ltd.
Number of stock options[a]	278,000 ordinary shares	72,000 ordinary shares
Grant date	August 8, 2016	August 8, 2016
Exercise condition	(b)	(c)
Intended service period	No provisions	No provisions
Exercise period	From August 9, 2016 to August 8, 2046	From August 9, 2016 to August 8, 2046

Notes :
(a) Number of stock options means total shares to be issued upon exercise of subscription rights to shares.
(b) Within 10 days from the day following the day that a subscription holder loses their position as a director of Seven Bank, Ltd.
(c) Within 10 days from the day following the day that a subscription holder loses their position as an executive officer of Seven Bank, Ltd.

(b) Scale and changes in stock options

The following describes the scale and changes in stock options that existed during the fiscal year ended February 28, 2018. The number of stock options is translated into the number of shares.

Fiscal year ended February 28, 2018:
Number of stock options

	First grant-1	Second grant-1	Second grant-2	Third grant-1
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	120,000	133,000	9,000	342,000
Vested	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding	120,000	133,000	9,000	342,000

	Fourth grant-1	Fourth grant-2	Fifth grant-1	Fifth grant-2
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	356,000	55,000	299,000	40,000
Vested	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding	356,000	55,000	299,000	40,000

	Sixth grant-1	Sixth grant-2	Seventh grant-1	Seventh grant-2
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	179,000	20,000	161,000	28,000
Vested	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding	179,000	20,000	161,000	28,000

	Eighth grant-1	Eighth grant-2	Ninth grant-1	Ninth grant-2
Before vested:				
As of February 28, 2017	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding	–	–	–	–
After vested:				
As of February 28, 2017	115,000	27,000	278,000	72,000
Vested	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding	115,000	27,000	278,000	72,000

Price information

	First grant-1	Second grant-1	Second grant-2	Third grant-1
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	–	–	–
Fair value at the grant date[a]	¥236,480 ($2,210) per subscription to share	¥221,862 ($2,073) per subscription to share	¥221,862 ($2,073) per subscription to share	¥139,824 ($1,306) per subscription to share

	Fourth grant-1	Fourth grant-2	Fifth grant-1	Fifth grant-2
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) ¥per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	–	–	–
Fair value at the grant date[a]	¥127,950 ($1,195) per subscription to share	¥127,950 ($1,195) per subscription to share	¥175,000 ($1,635) per subscription to share	¥175,000 ($1,635) per subscription to share

	Sixth grant-1	Sixth grant-2	Seventh grant-1	Seventh grant-2
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	–	–	–
Fair value at the grant date[a]	¥312,000 ($2,915) per subscription to share	¥312,000 ($2,915) per subscription to share	¥370,000 ($3,457) per subscription to share	¥370,000 ($3,457) per subscription to share

	Eighth grant-1	Eighth grant-2	Ninth grant-1	Ninth grant-2
Exercise price	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share	¥1 ($0.009) per share
Average exercise price	–	–	–	–
Fair value at the grant date[a]	¥537,000 ($5,018) per subscription to share	¥537,000 ($5,018) per subscription to share	¥302,000 ($2,822) per subscription to share	¥302,000 ($2,822) per subscription to share

Note :
(a) The number of shares to be issued upon exercise of one subscription right to shares shall be 1,000 ordinary shares of Seven Bank, Ltd.

18. COMMITMENTS AND CONTINGENT LIABILITIES

(1) Guarantees

As of February 28, 2018

The Companies are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥95 million ($887 thousand).

As of February 28, 2017

The Companies are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥114 million.

(2) Pledged assets

(a) The amount of assets pledged as collateral by the Companies for their loans from certain financial institutions as of February 28, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Buildings and structures	¥ 2,854	¥ 6,420	$ 26,672
Land	3,537	4,111	33,056
Investments in securities	59,345	73,876	554,626
Long-term leasehold deposits	4,661	4,758	43,560
Total	¥ 70,398	¥ 89,167	$ 657,925

Debts for the pledged assets above as of February 28, 2018 are as follows: short-term loans,¥3,795 million ($35,467 thousand); long-term loans (including current portion), ¥8,739 million ($81,672 thousand); and long-term deposits received from tenants and franchised stores, ¥36 million ($336 thousand).

Debts for the pledged assets above as of February 28, 2017 are as follows: short-term loans, ¥5,200 million; long-term loans (including current portion), ¥9,811 million; and long-term deposits received from tenants and franchised stores, ¥37 million.

(b) The amount of assets pledged as collateral for the debts of affiliates as of February 28, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Buildings	¥ 348	¥ 370	$ 3,252
Land	1,368	1,368	12,785
Total	¥ 1,717	¥ 1,738	$ 16,046

Debts of affiliates for the pledged assets above as of February 28, 2018 and 2017 are ¥2,843 million ($26,570 thousand) and ¥2,943 million, respectively.

(c) Other

As of February 28, 2018

The amounts of assets pledged as collateral for fund transfer and real estate business are ¥2,504 million ($23,401 thousand) and ¥55 million ($514 thousand), respectively. The amount of assets pledged as collateral for installment sales is ¥1,335 million ($12,476 thousand). In addition, ¥340 million ($3,177 thousand) of assets are pledged as collateral to secure the amount of prepaid tickets issued.

As of February 28, 2017

The amount of assets pledged as collateral for fund transfer and real estate business are ¥2,512 million and ¥55 million, respectively. The amount of assets pledged as collateral for installment sales is ¥1,335 million. In addition, ¥232 million of assets are pledged as collateral to secure the amount of prepaid tickets issued.

(3) Cash loan business

Some financial subsidiaries conduct a cash loan business that is associated with their credit card business. Unused credit balance related to the cash loan business as of February 28, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Credit availability of cash loan business	¥ 856,256	¥ 870,462	$ 8,002,392
Outstanding balance	(45,041)	(42,556)	(420,943)
Unused credit balance	¥ 811,215	¥ 827,905	$ 7,581,448

Unused credit balance will not have a material impact on future cash flows because most of the unused credit balance will remain unused considering the historical record. Some financial subsidiaries will cease finance services or reduce the credit limit based on the credit situation of customers or other justifiable reasons.

(4) Others

Bonds held by Seven Bank, Ltd.
Seven Bank, Ltd., one of the Company's consolidated subsidiaries, holds bonds to serve as collateral for exchange settlement transactions and overdraft transactions with the Bank of Japan. These bonds are recorded in "Investments in securities" in the Consolidated Balance Sheets due to its nature of restriction even if they have redemption at maturity less than one year.

19. NOTES AND ACCOUNTS PAYABLE, TRADE FOR FRANCHISED STORES

The balance of notes and accounts payable, trade for franchised stores represents the amount payable to vendors for merchandise purchased by Seven-Eleven Japan Co., Ltd. and 7-Eleven, Inc. These two companies centralize all purchasing procedures for merchandise purchased by an individual franchised store and make collective payments to all vendors on behalf of the franchisees.

20. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

(1) The franchise commission from Seven-Eleven Japan Co., Ltd.'s franchised stores and 7-Eleven, Inc.'s are included in operating revenues. The franchise commission from franchised stores and net sales of franchised stores are as follows:

Seven-Eleven Japan Co., Ltd.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Franchise commission from franchised stores	¥ 743,393	¥ 723,021	$ 6,947,598
Net sales of franchised stores	4,575,931	4,409,084	42,765,710

7-Eleven, Inc.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Franchise commission from franchised stores	¥ 251,197	¥ 236,957	$ 2,347,635
Net sales of franchised stores	1,440,311	1,336,735	13,460,850

(2) Major items included in gain on sales of property and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Buildings and structures	¥ 934	¥ 1,711	$ 8,728
Land	10,002	1,591	93,476
Others	102	184	953
Total	¥ 11,038	¥ 3,487	$ 103,158

Note:
¥228 million ($2,130 thousand) (Buildings and structures), ¥2,380 million ($22,242 thousand) (Land), and ¥54 million ($504 thousand) (Others) are included in "Gain on sales of property and equipment related to restructuring" in Consolidated Statements of Income for the year ended February 28, 2018. ¥96 million (Buildings and structures), ¥279 million (Land), and ¥0 million (Others) are included in "Gain on sales of property and equipment related to restructuring" in Consolidated Statements of Income for the year ended February 28, 2017.

(3) Major items included in loss on disposals of property and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Buildings and structures	¥ 9,467	¥ 7,364	$ 88,476
Furniture, fixtures and equipment	5,395	5,025	50,420
Others	5,997	6,126	56,046
Total	¥ 20,860	¥ 18,516	$ 194,953

Note:
¥104 million ($971 thousand) (Buildings and structures), ¥11 million ($102 thousand) (Furniture, fixtures and equipment), and ¥108 million ($1,009 thousand) (Others) are included in "Restructuring expenses" in Consolidated Statements of Income for the year ended February 28, 2018. ¥1 million (Buildings and structures), ¥12 million (Furniture, fixtures and equipment), and ¥133 million (Others) are included in "Restructuring expenses" in Consolidated Statements of Income for the year ended February 28, 2017.

(4) Major items included in selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Advertising and decoration expenses	¥ 136,473	¥ 160,355	$ 1,275,448
Salaries and wages	450,662	456,239	4,211,794
Provision for allowance for bonuses to employees	14,606	14,085	136,504
Retirement benefit costs	14,471	16,009	135,242
Legal welfare expenses	61,857	61,750	578,102
Land and building rent	360,547	351,484	3,369,598
Depreciation and amortization	203,694	198,249	1,903,682
Utility expenses	112,938	111,427	1,055,495
Store maintenance and repair expenses	74,120	74,531	692,710

21. RESTRUCTURING EXPENSES

The Companies recognized restructuring expenses for the years ended February 28, 2018 and 2017 to pursue the Group Growth Strategy. A breakdown of restructuring expenses is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Impairment loss	¥ 31,809	¥ 10,611	$ 297,280
Gain on transfer from business divestitures	(1,090)	–	(10,186)
Loss on sales of property and equipment	4,200	–	39,252
Loss on inventory disposal on business closure	3,233	433	30,214
Store closing losses	2,451	7,341	22,906
Early retirement benefit	403	6,015	3,766
Others	1,671	1,235	15,616
Total	¥ 42,680	¥ 25,637	$ 398,878

22. AMORTIZATION OF GOODWILL

The Company recorded the loss on valuation of shares of subsidiaries and affiliates on its non-consolidated financial statements during the fiscal year ended February 28, 2017. In consequence, in accordance with the “Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements” Article 32 (JICPA Statement No.7, November 28, 2014), the Company recorded amortization of goodwill of ¥39,300 million (mainly ¥33,401 million and ¥5,878 million on Sogo & Seibu Co., Ltd. and Barneys Japan Co., Ltd., respectively) for the fiscal year ended February 28, 2017.

23. RELATED PARTIES TRANSACTIONS

Fiscal years ended February 28, 2018 and 2017
No items required to report.

24. SEGMENT INFORMATION

(1) Overview of reportable segments

With respect to its reportable segments, the Company is able to obtain delineated financial data from its structural units. Its segments are subject to periodical review for the purpose of making decisions on allocation of managerial resources and evaluating business performance by the Board of Directors.

Effective from the fiscal year ended February 28, 2018, changes have been made to the classification of reportable segments. Accordingly, the figures for the fiscal year ended February 28, 2017 have been restated to reflect the segment classification that now exists after the change.

Under the holding company structure, the Company has classified its consolidated subsidiaries into seven segments which are "Domestic convenience store operations," "Overseas convenience store operations," "Superstore operations," "Department store operations," "Financial services," "Specialty store operations," and "Others" according to the nature of products, services and sales operations.

"Domestic convenience store operations" operate a convenience store business comprising directly-managed corporate stores and franchised stores mainly under Seven-Eleven Japan Co., Ltd. "Overseas convenience store operations" operate a convenience store business comprising corporate stores and franchised stores mainly under 7-Eleven, Inc. "Superstore operations" operate a retail business that provides a comprehensive range of daily life necessities such as food and other daily necessities. "Department store operations" operate a retail business that provides a various and wide assortment of high-quality merchandise. "Financial services" operate a banking business, credit card business and leasing business. "Specialty store operations" operate a retail business providing highly specialized, distinctively characterized merchandise and services. "Others" operate several businesses including the real estate business.

(2) Calculation methodology for revenues from operations, income or loss, assets and liabilities and other items for each reportable segment

The accounting treatment of each reportable segment is in line with Note 1. "Basis of Presentation of Consolidated Financial Statements."

Segment income (loss) and segment liabilities as reported in this section are based on operating income and interest-bearing debt, respectively.

Intersegment revenues and transfers are calculated at prevailing market prices.

(3) Information on revenues from operations, income or loss, assets, liabilities and other monetary items for each reportable segment

Fiscal year ended February 28, 2018

Millions of yen

	Reportable segments: Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Adjustments	Consolidated total
Revenues from operations:										
Customers	¥ 927,205	¥1,980,897	¥1,891,260	¥649,353	¥ 166,664	¥414,287	¥ 8,146	¥6,037,815	¥ –	¥6,037,815
Intersegment	1,443	636	9,903	8,533	36,278	2,329	15,386	74,510	(74,510)	–
Total revenues	¥ 928,649	¥1,981,533	¥1,901,164	¥657,886	¥ 202,942	¥416,616	¥ 23,533	¥6,112,326	¥ (74,510)	¥6,037,815
Segment income	¥ 245,249	¥ 79,078	¥ 21,260	¥ 5,369	¥ 49,713	¥ 435	¥ 3,670	¥ 404,778	¥ (13,120)	¥ 391,657
Segment assets	¥1,127,623	¥1,179,292	¥ 969,194	¥343,269	¥1,434,900	¥161,091	¥156,223	¥5,371,595	¥123,354	¥5,494,950
Segment liabilities (interest-bearing debt)	¥ –	¥ 163,867	¥ 1,912	¥175,711	¥ 318,896	¥ 52,673	¥ –	¥ 713,062	¥269,999	¥ 983,061
Other items:										
Depreciation	¥ 66,500	¥ 69,582	¥ 23,893	¥ 9,727	¥ 28,926	¥ 5,588	¥ 2,257	¥ 206,476	¥ 6,691	¥ 213,167
Amortization of goodwill	¥ –	¥ 11,770	¥ 3,098	¥ 1	¥ 1,336	¥ 413	¥ –	¥ 16,620	¥ –	¥ 16,620
Investment in entities accounted for using the equity method	¥ 7,174	¥ 6,492	¥ 5,183	¥ 293	¥ –	¥ 12,911	¥ 4,671	¥ 36,727	¥ –	¥ 36,727
Impairment loss	¥ 9,197	¥ 3,393	¥ 19,186	¥ 29,674	¥ –	¥ 5,697	¥ 3	¥ 67,152	¥ 21,727	¥ 88,879
Net increase in property and equipment, and intangible assets	¥ 129,116	¥ 94,285	¥ 36,037	¥ 11,755	¥ 33,013	¥ 7,716	¥ 3,571	¥ 315,497	¥ 10,529	¥ 326,026

Fiscal year ended February 28, 2017

Millions of yen

	Reportable segments: Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Adjustments	Consolidated total
Revenues from operations:										
Customers	¥ 899,836	¥1,658,338	¥1,938,093	¥720,199	¥ 164,432	¥447,210	¥ 7,577	¥5,835,689	¥ –	¥5,835,689
Intersegment	1,470	204	11,219	9,412	37,499	3,277	16,276	79,360	(79,360)	–
Total revenues	¥ 901,306	¥1,658,542	¥1,949,313	¥729,612	¥ 201,932	¥450,488	¥ 23,854	¥5,915,050	¥ (79,360)	¥5,835,689
Segment income (loss)	¥ 243,839	¥ 67,421	¥ 20,228	¥ 2,867	¥ 50,136	¥ (11,276)	¥ 4,005	¥ 377,223	¥ (12,650)	¥ 364,573
Segment assets	¥1,063,315	¥1,063,347	¥1,017,447	¥395,702	¥1,425,537	¥167,763	¥155,291	¥5,288,405	¥220,483	¥5,508,888
Segment liabilities (interest-bearing debt)	¥ –	¥ 177,601	¥ 3,187	¥187,908	¥ 336,060	¥ 53,735	¥ –	¥ 758,493	¥289,996	¥1,048,490
Other items:										
Depreciation	¥ 61,101	¥ 64,992	¥ 24,397	¥ 11,472	¥ 29,416	¥ 7,787	¥ 2,189	¥ 201,357	¥ 6,125	¥ 207,483
Amortization of goodwill	¥ –	¥ 9,249	¥ 3,121	¥ 35,162	¥ 1,306	¥ 6,617	¥ –	¥ 55,458	¥ –	¥ 55,458
Investment in entities accounted for using the equity method	¥ 7,348	¥ 5,912	¥ 4,816	¥ 628	¥ –	¥ 12,010	¥ 4,571	¥ 35,288	¥ –	¥ 35,288
Impairment loss	¥ 8,783	¥ 1,591	¥ 23,285	¥ 17,623	¥ –	¥ 7,522	¥ 913	¥ 59,719	¥ –	¥ 59,719
Net increase in property and equipment, and intangible assets	¥ 109,826	¥ 147,226	¥ 39,671	¥ 11,221	¥ 20,796	¥ 8,136	¥ 3,259	¥ 340,139	¥ 9,629	¥ 349,768

Fiscal year ended February 28, 2018

Thousands of U.S. dollars (Note 3)

	Reportable segments									
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Adjustments	Consolidated total
Revenues from operations:										
Customers	$ 8,665,467	$18,513,056	$17,675,327	$6,068,719	$ 1,557,607	$3,871,841	$ 76,130	$56,428,177	$ –	$56,428,177
Intersegment	13,485	5,943	92,551	79,747	339,046	21,766	143,794	696,355	(696,355)	–
Total revenues	$ 8,678,962	$18,519,000	$17,767,887	$6,148,467	$ 1,896,654	$3,893,607	$ 219,934	$57,124,542	$ (696,355)	$56,428,177
Segment income	$ 2,292,046	$ $739,046	$ 198,691	$ 50,177	$ 464,607	$ 4,065	$ 34,299	$ 3,782,971	$ (122,616)	$ 3,660,345
Segment assets	$10,538,532	$11,021,420	$ 9,057,887	$3,208,121	$13,410,280	$1,505,523	$1,460,028	$50,201,822	$1,152,841	$51,354,672
Segment liabilities (interest-bearing debt)	$ –	$ 1,531,467	$ 17,869	$ –	$ 2,980,336	$ 492,271	$ –	$ 6,664,130	$2,523,355	$ 9,187,485
Other items:										
Depreciation	$ 621,495	$ 650,299	$ 223,299	$ 90,906	$ 270,336	$ 52,224	$ 21,093	$ 1,929,682	$ 62,532	$ 1,992,214
Amortization of goodwill	$ –	$ 110,000	$ 28,953	$ $9	$ 12,485	$ 3,859	$ –	$ 155,327	$ –	$ 155,327
Investment in entities accounted for using the equity method	$ 67,046	$ 60,672	$ 48,439	$ 2,738	$ –	$ 120,663	$ 43,654	$ 343,242	$ –	$ 343,242
Impairment loss	$ 85,953	$ 31,710	$ 179,308	$ 277,327	$ –	$ 53,242	$ 28	$ 627,588	$ 203,056	$ 830,644
Net increase in property and equipment, and intangible assets	$ 1,206,691	$ 881,168	$ 336,794	$ 109,859	$ 308,532	$ 72,112	$ 33,373	$ 2,948,570	$ 98,401	$ 3,046,971

Notes:
1. The adjustments of ¥(13,120) million ($(122,616) thousand) and ¥(12,650) million for segment income (loss) are eliminations of intersegment transactions and corporate expenses for the fiscal years ended February 28, 2018 and 2017, respectively.
2. The adjustments of ¥123,354 million ($1,152,841 thousand) and ¥220,483 million for segment assets are eliminations of intersegment transactions and corporate assets for the fiscal years ended February 28, 2018 and 2017, respectively.
3. The adjustments of ¥269,999 million ($2,523,355 thousand) and ¥289,996 million for segment liabilities are corporate liabilities and the Company's bonds for the fiscal years ended February 28, 2018 and 2017, respectively. The amount of each segment liability does not include intersegment transactions.
4. Segment income is reconciled with the operating income in the Consolidated Statements of Income.
5. ¥31,809 million ($297,280 thousand) and ¥10,611 million out of "Impairment loss" in the tables above are included in "Restructuring expenses" in the Consolidated Statements of Income for the years ended February 28, 2018 and 2017, respectively.
6. The main cause of the ¥21,727 million ($203,056 thousand) adjustment of impairment loss was concerning the omni7 software.

(Reference)

Revenues from operations and operating income by geographic area segments are as described below.

Millions of yen

Fiscal year ended February 28, 2018	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	¥ 3,907,066	¥ 2,016,771	¥ 113,977	¥ 6,037,815	¥ –	¥ 6,037,815
Intersegment	768	321	14	1,104	(1,104)	–
Total revenues	¥ 3,907,835	¥ 2,017,092	¥ 113,992	¥ 6,038,919	¥ (1,104)	¥ 6,037,815
Operating income	¥ 314,700	¥ 75,626	¥ 1,320	¥ 391,647	¥ 10	¥ ¥391,657

Millions of yen

Fiscal year ended February 28, 2017	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	¥ 4,032,077	¥ 1,690,509	¥ 113,102	¥ 5,835,689	¥ –	¥ 5,835,689
Intersegment	726	204	372	1,303	(1,303)	–
Total revenues	¥ 4,032,803	¥ 1,690,713	¥ 113,475	¥ 5,836,992	¥ (1,303)	¥ 5,835,689
Operating income (loss)	¥ 299,251	¥ 65,548	¥ (238)	¥ 364,561	¥ 11	¥ 364,573

Thousands of U.S. dollars (Note 3)

Fiscal year ended February 28, 2018	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
Revenues from operations:						
Customers	$36,514,635	$18,848,327	$1,065,205	$56,428,177	$ –	$56,428,177
Intersegment	7,177	3,000	130	10,317	(10,317)	–
Total revenues	$36,521,822	$18,851,327	$1,065,345	$56,438,495	$(10,317)	$56,428,177
Operating income	$ 2,941,121	$ 706,785	$ 12,336	$ 3,660,252	$ 93	$ 3,660,345

Notes:
1. The classification of geographic area segments is determined according to geographical distances.
2. Others consist of the business results in the People's Republic of China, etc.

Related Information

Fiscal years ended February 28, 2018 and 2017

1. Information on products and services

Information is omitted since it is described in the segment information.

2. Information by region

(1) Revenues from operations

Fiscal year ended February 28, 2018

Millions of yen

Japan	North America	Others	Total
¥ 3,907,066	¥ 2,016,771	¥ 113,977	¥ 6,037,815

Fiscal year ended February 28, 2017

Millions of yen

Japan	North America	Others	Total
¥ 4,032,077	¥ 1,690,509	¥ 113,102	¥ 5,835,689

Fiscal year ended February 28, 2018

Thousands of U.S. dollars (Note 3)

Japan	North America	Others	Total
$ 36,514,635	$ 18,848,327	$ 1,065,205	$ 56,428,177

(2) Property and equipment

Fiscal year ended February 28, 2018

Millions of yen

Japan	North America	Others	Total
¥ 1,400,794	¥ 585,165	¥ 3,494	¥ 1,989,455

Fiscal year ended February 28, 2017

Millions of yen

Japan	North America	Others	Total
¥ 1,433,687	¥ 571,775	¥ 2,366	¥ 2,007,829

Fiscal year ended February 28, 2018

Thousands of U.S. dollars (Note 3)

Japan	North America	Others	Total
$ 13,091,532	$ 5,468,831	$ 32,654	$ 18,593,037

3. Information about major customers

Information is omitted because there is no customer accounting for 10% or more of the net sales on the Consolidated Statements of Income.

4. Information regarding impairment loss on fixed assets by reportable segment

Information is omitted since it is described in the segment information.

5. Information on amortization and outstanding balance of goodwill by reportable segment

Millions of yen

Fiscal year ended February 28, 2018	Reportable segments									
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Eliminations / Corporate	Consolidated total
Goodwill										
Amortization	¥ –	¥ 11,770	¥ 3,098	¥ 1	¥ 1,336	¥ 413	¥ –	¥ 16,620	¥ –	¥ 16,620
Balance at the end of year	3,295	208,812	26,345	–	9,181	3,736	–	251,371	–	251,371
Negative goodwill										
Amortization	–	–	23	–	–	4	–	27	–	27
Balance at the end of year	–	–	116	–	–	21	–	137	–	137

Millions of yen

Fiscal year ended February 28, 2017	Reportable segments									
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Eliminations / Corporate	Consolidated total
Goodwill										
Amortization	¥ –	¥ 9,249	¥ 3,121	¥ 35,162	¥ 1,306	¥ 6,617	¥ –	¥ 55,458	¥ –	¥ ¥55,458
Balance at the end of year	3,447	222,434	29,444	39	10,700	4,154	–	270,220	–	270,220
Negative goodwill										
Amortization	–	–	23	–	–	4	–	27	–	27
Balance at the end of year	–	–	140	–	–	25	–	165	–	165

Thousands of U.S. dollars (Note 3)

Fiscal year ended February 28, 2018	Reportable segments									
	Domestic convenience store operations	Overseas convenience store operations	Superstore operations	Department store operations	Financial services	Specialty store operations	Others	Total	Eliminations / Corporate	Consolidated total
Goodwill										
Amortization	$ –	$ 110,000	$ 28,953	$ 9	$ 12,485	$ 3,859	$ –	$ 155,327	$ –	$ 155,327
Balance at the end of year	30,794	1,951,514	246,214	–	85,803	34,915	–	2,349,261	–	2,349,261
Negative goodwill										
Amortization	–	–	214	–	–	37	–	252	–	252
Balance at the end of year	–	–	1,084	–	–	196	–	1,280	–	1,280

6. Information regarding gain on negative goodwill by reportable segment

None

25. SUBSEQUENT EVENTS

(1) Cash dividend

Subsequent to February 28, 2018, the Company's Board of Directors declared a year-end cash dividend of ¥39,805 million ($372,009 thousand) to be payable on May 25, 2018 to shareholders on record as of February 28, 2018.

The dividend declared was approved by the shareholders at the meeting held on May 24, 2018.

(2) Significant acquisition of business

The Company's Board of Directors resolved on April 6, 2017 that the Company's consolidated subsidiary 7-Eleven, Inc. (The fiscal year-end is December 31) would acquire stores and other assets constituting most of convenience store business and gasoline retail business of U.S. company Sunoco LP. ("SUN"). In addition, 7-Eleven, Inc. has completed the acquisition of said business on January 23, 2018. 7-Eleven, Inc. and SUN concluded an agreement relating to the acquisition of said business on the same date. An outline of this business acquisition is as follows:

(a) Outline of business combination

(i) Name and main business of the acquired company

Name: Sunoco LP

Main business:Operation of fuel wholesale and retail, and convenience store business

(ii) Main reason for the business combination

In accordance with the Medium-Term Management Plan for the Group announced in October 2016, 7-Eleven, Inc. is aiming to achieve average daily merchandise sales per store of $5,000 and 10,000 stores by the fiscal year ending February 29, 2020, and is working to strengthen its merchandizing capabilities and expand its store network. SUN has a large number of stores in the State of Texas and the eastern area of the United States, where 7-Eleven, Inc., currently operates stores. By acquiring part of SUN's convenience store business and gasoline retail business, 7-Eleven, Inc. will expand its store network and offer greater convenience, while also improving profitability. Regarding the stores acquired, 7-Eleven, Inc. signed a contract to receive gasoline from SUN for the next 15 years.

(iii) Date of the business combination

January 23, 2018

(iv) Legal form of the business combination

Acquisition of business

(v) The acquired company's name after the business combination

No change

(b) Acquisition cost of acquired business and breakdown by type of consideration

	Millions of yen	Thousands of U.S. dollars
Consideration for acquisition Cash	¥ 359,566	$ 3,244,015
Acquisition cost	¥ 359,566	$ 3,244,015

(c) Details and amounts of main acquisition-related costs

Payment for financial and legal investigation: ¥3,893 million ($35,128 thousand)

(d) Amount, reason for recognition, and period and method of amortization of goodwill

(i) Amount of goodwill

¥154,116 million ($1,390,445 thousand)

The amount above is provisional since the purchase price allocation has not been finalized and fair value measurement of identifiable assets and liabilities at the acquisition date has not been finalized.

(ii) Reason for recognition of goodwill

Expected excess earning power from future business development

(iii) Period and method of amortization of goodwill

20 years using the straight-line method

(e) Total amounts and principal breakdowns of assets received and liabilities assumed on the date of the business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 14,875	$ 134,210
Non-current assets	204,229	1,842,565
Total assets	¥ 219,105	$ 1,976,775
Non-current liabilities	¥ 13,656	$ 123,204
Total liabilities	¥ 13,656	$ 123,204

Note: The yen amounts were calculated using the January 23, 2018 rate (US$1 = ¥110.84).

KPMG

Independent Auditor's Report

To the Board of Directors of Seven & i Holdings Co., Ltd.:

We have audited the accompanying consolidated financial statements of Seven & i Holdings Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2018 and February 28, 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Seven & i Holdings Co., Ltd. and its consolidated subsidiaries as at February 28, 2018 and February 28, 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 25 Subsequent events to the consolidated financial statements, Seven & i Holdings Co., Ltd.'s consolidated subsidiary 7-Eleven, Inc. has completed the acquisition of part of convenience store business and gasoline retail business of U.S. company Sunoco LP on January 23, 2018. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

May 25, 2018

Tokyo, Japan

Company Information

As of February 28, 2018

Corporate Profile

Head Office
8-8, Nibancho, Chiyoda-ku, Tokyo 102-8452, Japan
Tel: +81-3-6238-3000
URL: http://www.7andi.com/en

Date of Establishment
September 1, 2005

Number of Employees
56,606 (Consolidated)
643 (Non-consolidated)

Paid-in Capital
¥50,000 million

Auditor
KPMG AZSA LLC

Stock Information

Number of Shares of Common Stock
Issued: 886,441,983 shares

Number of Shareholders
91,443

Stock Listing
Tokyo Stock Exchange, First Section

Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency

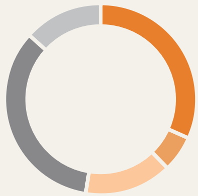
Annual Shareholders' Meeting
The annual shareholders' meeting of the Company is normally held in May each year in Tokyo, Japan.

Principal Shareholders

	Number of shares held (Thousand shares)	Percentage of shares held (%)
Ito-Kogyo Co., Ltd.	68,901	7.8
The Master Trust Bank of Japan, Ltd. (Trust account)	50,422	5.7
Japan Trustee Services Bank, Ltd. (Trust account)	42,329	4.8
Nippon Life Insurance Company	17,672	2.0
GIC PRIVATE LIMITED - C	17,035	1.9
Masatoshi Ito	16,799	1.9
MITSUI & CO., LTD.	16,222	1.8
Japan Trustee Services Bank, Ltd. (Trust account 5)	15,776	1.8
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	13,952	1.6
STATE STREET BANK WEST CLIENT - TREATY 505234	13,210	1.5

Classification of Shareholders by Percentage of Shares Held

Financial Institutions	31.7%
Securities Companies	6.1%
Other Domestic Corporations	14.7%
Foreign Corporations	34.3%
Individuals and Others	13.2%



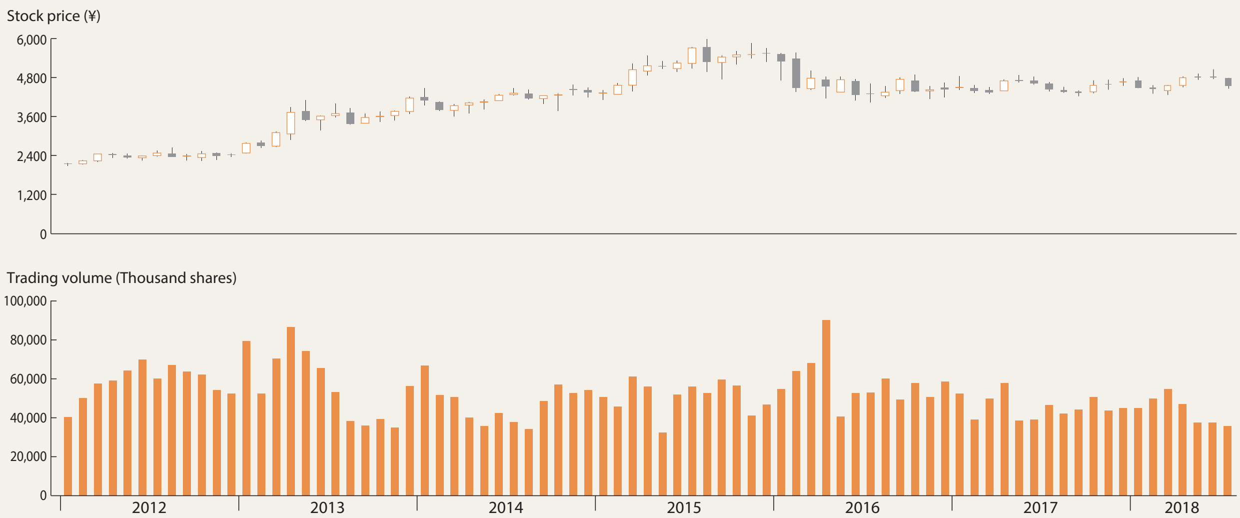
Rating Information

Ratings
As of June 30, 2018

		S&P	Moody's	R&I	JCR
Seven & i Holdings	Long-term	AA–	A1	AA	AA+
Seven-Eleven Japan	Long-term	AA–			AA+
	Short-term*	A-1+	P-1		
7-Eleven, Inc.	Long-term	AA–	Baa1		
Seven Bank	Long-term	A+		AA	
	Short-term	A-1			

* From January 2006, Seven-Eleven Japan's short-term rating is its rating as the guarantor of 7-Eleven, Inc.'s commercial paper program.

Stock Price/Trading Volume Chart (Tokyo Stock Exchange)



SEVEN&i HLDGS.

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