FINANCIAL REVIEW

SEVEN & i HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEAR ENDED FEBRUARY 28, 2006

Figures for Ito-Yokado Co., Ltd. and its consolidated subsidiaries for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 are presented for the convenience of the reader.

Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd. became wholly owned subsidiaries of Seven & i Holdings in the fiscal year ended February 28, 2006. The associated decrease in minority interests contributed to the increase in net income.

	Millions of yen	Thousands of U.S. dollars (Note)	Millions of yen		
	Seven & i Holdings		Ito-Yokado		
	2006	2006	2005	2004	2003
Revenues from operations:					
Convenience store operations:					
Merchandise	¥1,069,684	$ 9,221,414	¥ 986,435	¥ 989,787	¥1,015,255
Gasoline	575,726	4,963,155	462,538	395,993	358,098
Franchise commission from franchised stores	356,907	3,076,784	343,617	324,187	306,059
Other	12,919	111,371	13,579	11,491	9,787
Total	2,015,236	17,372,724	1,806,169	1,721,458	1,689,199
Superstore operations	1,687,735	14,549,439	1,642,265	1,669,330	1,709,044
Department store operations	—	—	—	—	—
Restaurant operations	124,025	1,069,181	126,181	126,189	127,447
Financial services	82,289	709,388	61,236	37,219	15,390
Others	19,781	170,526	17,196	14,738	13,149
Eliminations	(33,294)	(287,017)	(29,492)	(26,788)	(23,912)
Consolidated total	¥3,895,772	$33,584,241	¥3,623,555	¥3,542,146	¥3,530,317

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥116=US$1, the approximate rate of exchange on February 28, 2006.

ANALYSIS OF RESULTS

(1) Revenues from Operations and Operating Income

In the fiscal year ended February 28, 2006, Seven & i Holdings recorded revenues from operations of ¥3,895.8 billion and operating income of ¥244.9 billion.

Due to the maintenance of a rapid pace of store openings by Seven-Eleven Japan (SEJ), the core operating company in convenience store operations, the number of SEJ stores at the end of February 2006 was 11,310, an increase of 484 from a year earlier. To meet changing customer needs, SEJ has developed and enhanced original items, including limited regional products, and as a result, the share of sales contributed by original items is increasing each year. Sales of fast food, which include boxed lunches, rice balls and other rice-based products, and noodles, rose 2.4%, to ¥732.1 billion. Sales of daily food items, which include bread, pastries, and milk and other dairy products, were up 3.2%, to ¥327.3 billion. Sales of nonfood products, which include cigarettes and sundries, were up 5.0%, to ¥687.2 billion. In Japan, total store sales, which comprise corporate and franchised store sales, rose 2.4%, to ¥2,498.8 billion. Revenues from operations, which mainly comprise revenues from franchisees and sales at corporate stores, were up 5.5%, to ¥492.8 billion, and operating income increased 1.7%, to ¥177.4 billion.

Overseas, 7-Eleven, Inc., had 5,829 stores in the United States and Canada as of the end of December 2005. In addition to favorable sales of fast food, beverages, and other merchandise, gasoline sales rose due to higher retail prices for gasoline. As a result, 7-Eleven, Inc.'s sales increased on a U.S. dollar basis. The yen-dollar exchange rate used in the consolidation of 7-Eleven, Inc.'s accounts for the fiscal year was ¥110.26, reflecting the depreciation of the yen. As a result, 7-Eleven, Inc.'s net sales increased 13.7% on a yen basis, to ¥1,485.4 billion. In China, SEVEN-ELEVEN (BEIJING) had 30 stores at the end of December 2005, a rise of 20 from the previous year-end, and the company recorded a favorable increase in sales.

As a result, in convenience store operations, revenues from operations were ¥2,015.2 billion, and operating income was ¥209.8 billion.

Ito-Yokado is the core operating company in our superstore operations. In apparel, Ito-Yokado focused on consolidating products and creating sales areas that are clearly arranged according to gender and age while taking steps to improve the product lineup, such as developing and introducing new brands. In food, in consideration of local market characteristics, Ito-Yokado worked aggressively to expand offerings of fresh local products. As a result of these types of initiatives, Ito-Yokado's net sales rose 1.0%, to ¥1,470.5 billion. By product category, apparel sales in the year under review were down 2.3%, to ¥307.3 billion; sales of household goods rose 2.2%, to ¥257.5 billion; and sales of food increased 0.9%, to ¥669.4 billion. In store openings, Ito-Yokado focused on mall-type shopping centers in urban areas. In addition to core tenant Ito-Yokado, many popular shops and restaurants are also tenants, and as a result these centers are garnering support from a broad range of customer age groups. Ito-Yokado opened 5 stores, including 3 stores in mall-type shopping centers, and closed 8, for a total of 178 at the end of the year.

In this way, Ito-Yokado implemented new initiatives in superstore operations, targeting the creation of stores that receive a higher level of support from customers, in a range of areas, including product and store development.

As a result, in superstore operations, revenues from operations totaled ¥1,687.7 billion, and operating income was ¥15.4 billion.

In restaurant operations, business conditions remained difficult. There were concerns about food safety, such as BSE and avian influenza, and there was cold weather throughout the country.

In this setting, Denny's Japan, the core operating company in restaurant operations, worked to implement a focus on unconditional taste, healthy and safe meals, and prompt and sincere service and to provide clean restaurants and atmospheres that are aligned with customer motivations. Denny's Japan undertook sales promotions and worked to provide menu items with value that meet customer needs. Nonetheless, the number of customers declined, and, in the restaurant segment, revenues from operations were ¥124.0 billion and operating income was ¥2.6 billion.

Seven Bank, the core operating company in financial services operations, expanded the range of regions where it has ATMs and boosted the density of ATMs in regions where it already offered service. As a result, the number of ATMs installed at the end of the year was 11,188. Due to aggressive expansion of tie-up financial institutions and advertising and promotion activities, the convenience of ATM services increased, and the average daily number of transactions per ATM was 88. Due to the growth in the number of ATMs installed and in the number of transactions, revenues from operations and operating income recorded substantial growth. Also, IY Card Service, which handles card operations, expanded the number of its cardholders, the scope of its business activities, and the scale of its operations, and as a result its profitability improved. Due to higher customer awareness of these two companies, revenues from operations in financial services were ¥82.3 billion, and operating income was ¥17.3 billion.

(2) Other Income (Expenses) and Income before Income Taxes and Minority Interests

Other expenses, net, totaled ¥66.4 billion.

Equity in earnings of affiliates was ¥2.0 billion, and, in regard to overseas consolidated subsidiaries, foreign currency exchange gains were ¥3.2 billion. Impairment loss on property and equipment, principally in superstore operations, was ¥31.0 billion. Costs in relation to tender offer to make 7-Eleven, Inc., a wholly owned subsidiary were ¥20.8 billion.

As a result, income before income taxes and minority interests was ¥178.5 billion.

(3) Income Taxes (Including Deferred Income Taxes)

Income taxes were ¥81.5 billion. After the application of tax effect accounting, the effective tax rate was 45.6%, 4.9 percentage points higher than the statutory tax rate of 40.7%. This was principally attributable to a valuation allowance related to impairment losses.

(4) Net Income

Net income was ¥87.9 billion, and net income per share was ¥100.83.

ANALYSIS OF FINANCIAL POSITION

(1) Assets, Liabilities, and Shareholders' Equity

In January 2006, the Company acquired 65.45% of the common stock of Millennium Retailing and at the end of February 2006 only the balance sheets of Millennium Retailing and its subsidiaries were consolidated.

Total assets at the end of February 2006 were ¥3,424.9 billion. Principal components included cash and cash equivalents of ¥610.9 billion, property and equipment, net, of ¥1,200.5 billion, and long-term leasehold deposits of ¥463.2 billion. With 7-Eleven, Inc., becoming a wholly owned subsidiary and the acquisition of the stock of Millennium Retailing, goodwill was ¥272.0 billion.

Total liabilities were ¥1,707.0 billion. Principal components included accounts and notes payable–trade of ¥182.1 billion, short-term loans of ¥114.5 billion, current portion of long-term debt of ¥50.4 billion, and long-term debt of ¥547.4 billion.

Minority interests in consolidated subsidiaries totaled ¥114.2 billion, of which ¥64.2 billion was attributable to the consolidation of Millennium Retailing and its subsidiaries.

Total shareholders' equity was ¥1,603.7 billion. Shareholders' equity per share was ¥1,772.25, and the shareholders' equity ratio was 46.8%.

(2) Cash Flows

Cash was provided by operations with high revenue generating capacity, centered on convenience store operations. In addition, SEJ and Ito-Yokado recorded gains on the sale of Seven & i Holdings stock. However, the Company used funds to acquire the stock of Millennium Retailing as a means of expanding and strengthening operations in fields with new opportunities and growth potential and to make 7-Eleven, Inc., a wholly owned subsidiary as a means of further reinforcing the Group's convenience store operations. SEJ and Ito-Yokado also made acquisitions of their own shares prior to the establishment of the holding company. As a result, cash and cash equivalents declined ¥72.2 billion, to ¥610.9 billion at year-end.

Net cash provided by operating activities was ¥217.3 billion. Income before income taxes and minority interests was ¥178.5 billion. Depreciation and amortization and impairment loss, both non-cash items, were ¥97.8 billion and ¥31.0 billion, respectively, and the balance of deposits held by Seven Bank increased.

Net cash used in investing activities was ¥388.1 billion. Acquisitions of property and equipment, principally for new store openings and store renovations, totaled ¥146.2 billion. Acquisition of Millennium Retailing stock required ¥72.8 billion, and, with 7-Eleven, Inc., becoming a wholly owned subsidiary, acquisition of investments in subsidiaries was ¥133.5 billion.

Net cash provided by financing activities was ¥103.1 billion. Proceeds from sale of treasury stock, principally from the sale of the Company's shares by SEJ and Ito-Yokado, was ¥238.2 billion. Due to the acquisition of their own shares by SEJ and Ito-Yokado prior to the establishment of Seven & i Holdings, purchase of treasury stock was ¥127.1 billion.