

CORPORATE GOVERNANCE

FUNDAMENTAL APPROACH TO CORPORATE GOVERNANCE

The mission of Seven & i Holdings, as a holding company that oversees and controls its operating companies, is to strengthen corporate governance, and maximize the enterprise value of the Group. In corporate governance, the Company takes a logical approach to four issues: (1) operational effectiveness and efficiency, (2) reliability of financial reports, (3) strict compliance with laws and regulations in operating activities, and (4) appropriate preservation of assets. The ultimate objective is long-term growth in enterprise value.

In taking steps to achieve this objective, the Company seeks to achieve Group synergies and implements careful monitoring to ensure 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.

BASIC STRUCTURES AND SYSTEMS

As of May 24, 2007, the Company's Board of Directors comprised 15 members, of whom 2 were outside directors. To facilitate prompt decision making and execution in a rapidly changing management environment, we have introduced the executive officer system. Under this system, the supervisory functions of the Board of Directors are separate from the execution functions of the executive officers. The Board of Directors is able to focus on the formulation of management strategies and the supervision of business execution while the executive officers can focus on business execution. To ensure prompt reflection of the wishes of shareholders, the term of directors has been set at one year.

The Company monitors management through a system of corporate auditors. As of May 24, 2007, the Board of Corporate Auditors comprised five members, including three outside corporate auditors. Each corporate auditor takes steps to audit the work of the directors, such as attending meetings of the Board of Directors and other important meetings, exchanging opinions with the Representative Directors, periodically receiving reports from directors and others regarding business execution, and actively exchanging information with the Auditing Office.

The Company has assigned employees to assist the outside directors and outside corporate auditors and established a support system that facilitates smooth information exchange and close interaction with the inside directors and standing corporate auditors. To ensure that the responsibilities of the

two outside directors and the three outside corporate auditors are clear, we have concluded contracts limiting their responsibility in accordance with the Corporate Law and the *Articles of Incorporation*.

Furthermore, the Company has established the Auditing Office as an independent office to conduct internal audits. The Auditing Office has general responsibility for verifying the internal auditing of each of the core operating companies and providing guidance to them. The Auditing Office also has internal auditing responsibility for the Company itself. In addition, the Auditing Office actively exchanges information with the corporate auditors and works closely with them while strengthening its general and internal auditing responsibilities. Moreover, an independent auditing office has been established in each core operating company to ensure that internal auditing responsibilities are handled in a thorough manner.

The Company has concluded an auditing contract with KPMG AZSA & Co., which serves as the independent auditors of the Company's accounts. From their viewpoint as accounting specialists, the independent auditors advise the Company about the account auditing operations of the corporate auditors, and the Company actively exchanges information with the independent auditors. In addition, we have established a system to receive advice and guidance from multiple legal offices as needed.

CHANGE IN INDEPENDENT AUDITORS

The Financial Services Agency ordered ChuoAoyama Audit Corporation (currently MISUZU Audit Corporation), which had been the Company's independent auditors, to suspend operations for the two-month period from July 1, 2006, to August 31, 2006. Consequently on July 1, ChuoAoyama Audit Corporation lost its independent auditors' qualifications and withdrew as the Company's independent auditors. Accompanying this development, the Company selected KPMG AZSA & Co. as temporary independent auditors on July 1, 2006, and MISUZU Audit Corporation as temporary independent auditors on September 5, 2006. In this way, the Company conducted its business under a joint audit system. However, at the general shareholders' meeting held on May 24, 2007, KPMG AZSA & Co. was selected as the Company's independent auditors.

COMMITTEES TO STRENGTHEN THE COMPANY'S SYSTEMS

To strengthen its corporate governance and maximize Group enterprise value, the Company established the Group Synergy

Committee, the Risk Management Committee, and the CSR Promotion Committee in September 2005.

The Group Synergy Committee seeks to facilitate the mutual use of the operating companies' resources and business infrastructure in order to improve the overall competitiveness of the Group. The Risk Management Committee monitors risk information and risk countermeasures for the entire Group and works to bolster control systems. The CSR Promotion Committee determines the CSR policies for the entire Group and, through its specialized five sub-committees, controls and monitors the CSR efforts of each operating company.

INTERNAL CONTROL SYSTEMS

In accordance with the resolution of its Board of Directors, the Company, in regard to the "systems for ensuring that the duties of the directors comply with all laws and articles of incorporation and systems required by the Ministry of Justice Ordinance for ensuring the compliance of other work performed by a corporation," as stipulated by the Corporate Law, is developing the systems described in 1. to 10. below.

Through an amendment to the Securities and Exchange Law and related laws, the Financial Instruments and Exchange Law was enacted in 2006. Under the new law, publicly listed companies will be required to file reports evaluating internal controls.

As a result, from the fiscal year ending February 2010, the Company will be required to submit internal control reports

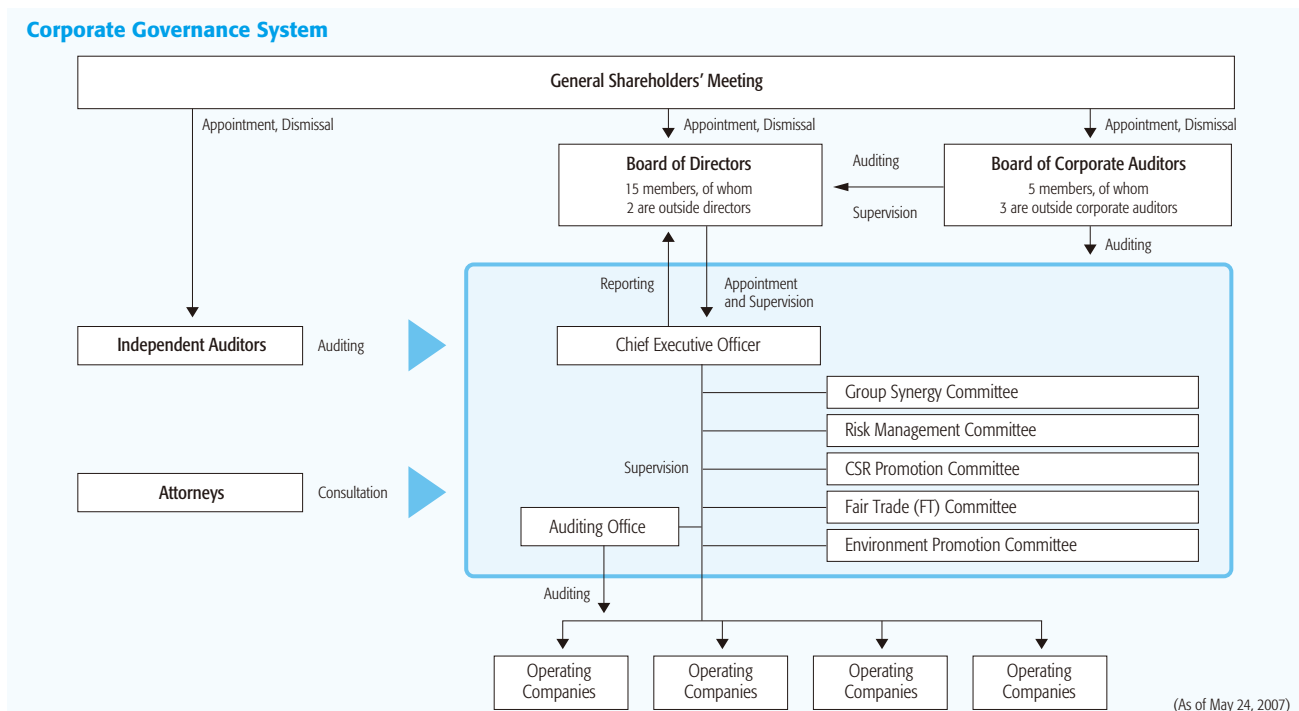
evaluating its system for ensuring the accuracy of documents regarding its financial accounts and other information. Accordingly, the Company is taking steps to prepare for meeting these requirements and to establish the appropriate systems.

1. Systems for ensuring that the work of directors and employees is compliant with laws, regulations, and the Corporate Creed

Each Group company shall comply with the *Corporate Creed* and the *Corporate Action Guidelines*. In order to be trusted and known for integrity, all Group companies shall implement ethical corporate activities; strictly observe laws, regulations, and social norms; and announce their fulfillment of corporate social responsibilities. All Group companies shall establish Corporate Action Committees, which shall operate help lines, and Fair Trade (FT) Committees, which shall promote fair trade. The Corporate Ethics and Compliance Sub-Committee of the CSR Promotion Committee shall maintain this spirit as it reevaluates the *Corporate Action Guidelines* and each company's guidelines in order to further advance compliance.

2. Systems for the storage and control of information related to the execution of duties by directors

The Company is making efforts, mainly through the Information Management Sub-Committee of the CSR Promotion Committee, to study the current situation, make appropriate improvements, and establish document control regulations for the appropriate storage and management of information and



documents (including digital records) related to the execution of business.

We confirm existing Groupwide document control regulations and study the standardization and application situation.

3. Regulations and system for loss risk management

The Internal Control Promotion Project has been established under the auspices of the Risk Management Committee, which is chaired by the President and Representative Director. The project has established a risk management policy for the recognition of risk areas and the formulation of countermeasures for the work conducted by the Company and its operating companies. Risk management will be verified in accordance with this policy

4. System for ensuring the efficiency of duties executed by directors

Duties are to be properly executed according to the appropriate regulations, including those concerning the right to make final decisions, administrative authority, organizational regulations, etc. In addition, through the Internal Control Promotion Project mentioned above, work execution efficiency shall be verified and appropriate corrective measures implemented.

5. Systems for ensuring the appropriateness of the work performed by the Group

As noted in 1. to 4. above, the Company will establish control systems for the Group as a whole covering all items such as work efficiency, compliance, etc.; notify its operating companies of the general outlines of these systems; and require concrete policy formulations. In addition, the Company shall provide support and guidance for the internal control activities of operating companies.

Each operating company shall maintain contact with each business division, mainly through the Corporate Action Committee, and will share information with Seven & i Holdings' Internal Control Promotion Project.

6. Matters related to the provision of support staff for corporate auditors

The Company shall provide support staff for corporate auditors when so requested.

7. Matters related to the independence from directors of the staff described in the previous item

The selection of support staff (including subsequent replacements) to work exclusively for the corporate auditors

shall be subject to the approval of the corporate auditors.

8. System for reporting by directors or employees to corporate auditors and other systems for reporting to corporate auditors

A system shall be established for the prompt reporting by directors or employees to the corporate auditors of situations that have the possibility of causing significant damage to the Company as well as of malfeasance or unlawful/improper activity on the part of directors or employees. No director or employee providing such reports shall suffer any adverse consequences.

In addition, the Corporate Ethics and Compliance Subcommittee shall provide regular reports to the Representative Directors and to the corporate auditors concerning the operation of the help lines, which should function as a public interest report mechanism.

9. Other systems for ensuring that corporate auditors can conduct their activities effectively

The corporate auditors shall meet regularly with the President and Representative Director and exchange opinions concerning important audit matters.

The corporate auditors shall maintain close contact with the Auditing Office and may request examinations by the Auditing Office when necessary.

The corporate auditors may consult with the independent auditors of the Company's accounts and with attorneys as needed, and the Company shall bear all of the costs of such consultation.

10. The General Affairs Department shall maintain jurisdiction over internal control systems.

TAKEOVER COUNTERMEASURES

At this point, the Company has not concretely finalized its basic policy on persons who control the Company's decisions on financial matters and business policies (Article 127 of the enforcement regulations of the Corporate Law). However, we aim to maximize enterprise value through such means as further improving performance and bolstering corporate governance, and we believe that appropriate measures are needed for dealing with large-scale acquisitions of the Company's stock that could damage the enterprise value of the Company and the Group. We will carefully consider our basic policy on this issue while paying attention to developments in legal systems, court decisions, and social trends.