NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Seven & i Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared based on the basis of 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, and are compiled from the Consolidated Financial Statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying Consolidated Financial Statements also include the accounts of the Company's foreign consolidated subsidiaries, which have been prepared in accordance with accounting principles generally accepted in their own countries.

The accompanying Consolidated Financial Statements have been restructured and translated into English with some expanded disclosure and the inclusion of the Consolidated Statement of Changes in Net Assets for 2006 from the Consolidated Financial Statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

On September 1, 2005, Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd. established the Company and became wholly owned subsidiaries of the Company by means of a stock transfer. Upon the stock transfer, the Company paid ¥21.50, ¥16.00 and ¥15.50 per share to the shareholders of Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd. and Denny's Japan Co., Ltd., respectively, recorded in the registers of shareholders as of August 31, 2005, instead of paying interim dividends for the fiscal year ended February 28, 2006.

The consolidation procedures in connection with the stock transfer were accounted for in a manner similar to the pooling-of-interest method. The accompanying Consolidated Financial Statements were prepared assuming that the above three subsidiaries were combined on March 1, 2005, and capital surplus and retained earnings in the Consolidated Financial Statements of Ito-Yokado Co., Ltd. as of February 28, 2005 were carried forward and recorded as the beginning balances of capital surplus and retained earnings in the Consolidated Financial Statements of the Company.

The accompanying Consolidated Financial Statements include the accounts of the Company and 80 subsidiaries which, with an exception due to materiality, include Seven-Eleven Japan Co., Ltd., Ito-Yokado Co., Ltd., Millennium Retailing, Inc., Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, LTD., Denny's Japan Co., Ltd., York-Benimaru Co., Ltd. and 7-Eleven, Inc.

On September 1, 2006, the Company made York-Benimaru Co., Ltd., previously an affiliate applying the equity method, a wholly owned subsidiary by means of a stock-for-stock exchange. Consequently, York-Benimaru Co., Ltd. and its two subsidiaries are now included as consolidated subsidiaries of the Company. In addition, consolidated subsidiaries increased due to the establishment of Seven & i Food Systems Co., Ltd. and the acquisition of the shares of WHP Holdings Corporation by 7-Eleven, Inc. in 2007.

On the other hand, consolidated subsidiaries decreased by three due to the sale of a part of owned shares of TOWER BAKERY CO., LTD. and the liquidation of one overseas consolidated subsidiary in 2007.

The fiscal year-end of some subsidiaries, including 7-Eleven, Inc. and its 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 of the Company. All material transactions during the period from January 1 to February 28 are adjusted for in the consolidation process. The fiscal year-end of Seven Bank, Ltd. is March 31. Pro forma financial statements as of February 28 prepared in a manner that is substantially identical to the preparation of the official financial statements were prepared for Seven Bank, Ltd. in order to facilitate its consolidation.

Twelve affiliates, which include THE LOFT CO., LTD., are accounted for using the equity method. Affiliates to which the equity method is applied increased by two in connection with the acquisition of investment in I ing Co., Ltd. and the sale of a part of owned shares of TOWER BAKERY CO., LTD. in 2007. Due to the stock-for-stock exchange, York-Benimaru Co., Ltd., previously an affiliate, has become a consolidated subsidiary. The affiliates which have a different fiscal year-end are included in the Consolidated Financial Statements based on their respective fiscal year-end. The advance to an affiliate that has negative net assets was reduced.

All material intercompany transactions and account balances have been eliminated.

The Company's interest portion in the assets and liabilities of subsidiaries and affiliates was revalued on acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is recognized as goodwill.

(2) Inventories

Inventories are valued principally at the lower of cost or market. Cost is determined principally by the average retail method for domestic consolidated subsidiaries and by the LIFO method for foreign consolidated subsidiaries.

Supplies are carried at cost. Cost is determined by the last purchase price method.

(3) Securities

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

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 sales is determined using the moving-average method.

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

(4) Derivatives

Derivative financial instruments are valued at fair value.

(5) Property and equipment

Depreciation of property and equipment is computed generally using the declining-balance method for the Company and its domestic consolidated subsidiaries except for the domestic consolidated subsidiaries in the department store business and using the straight-line method for the domestic consolidated subsidiaries in the department store business and foreign consolidated subsidiaries.

(6) Intangible assets
Intangible assets are amortized using the straight-line method for domestic consolidated subsidiaries.

Software for internal use is amortized using the straight-line method over an estimated useful life of 5 years.

Goodwill arising from domestic consolidated subsidiaries is amortized over a period of 20 years on a straight-line basis, or charged to income if immaterial. The goodwill recognized in applying the equity method was treated in the same manner.

The consolidated subsidiaries in the United States carry out an impairment test for goodwill and other intangible assets with indefinite lives in accordance with the provisions of the Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets", and decrease the book value if required.

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

Deferred tax accounting is applied.

(8) 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 on the balance sheet date in accordance with the sales promotion point card program. In the department store business, estimated costs of sales for goods to be purchased by coupon tickets issued through the point system are provided for.
(c) Allowance for bonuses to employees
Allowance for bonuses to employees is provided at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.
(d) Allowance for accrued pension and severance costs (Prepaid pension cost)
Allowance for accrued pension and severance costs is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation less the estimated fair value of plan assets at the end of the fiscal year. The excess amount of the estimated fair value of the plan assets over the estimated present value of projected benefit obligation adjusted by unrecognized actuarial differences at February 28, 2007 is recorded as prepaid pension cost. Also, certain domestic consolidated subsidiaries and consolidated subsidiaries in the United States provide allowance for accrued pension and severance costs. Unrecognized actuarial differences are amortized on a straight-line basis over the period of mainly 10 years from the next year in which they arise which is shorter than the average remaining years of service of the eligible employees. Unrecognized prior service costs are amortized on a straight-line basis over the period of mainly 5 years.
(e) Allowance for retirement benefits to directors and corporate auditors
Directors and corporate auditors of the Company and certain subsidiaries receive lump-sum payments upon termination of their services under unfunded termination plans. The full amount of such retirement benefits for directors and corporate auditors is accrued in accordance with their internal rules. The payments to directors and corporate auditors are subject to approval of the shareholders' meeting.

(9) Leases
Finance leases, except those for which ownership of the leased assets is considered to be transferred to the lessee, are accounted for as operating leases in Japan.

U.S. subsidiaries account for finance leases as assets and obligations at an amount equal to the present value of future minimum lease payments, during the lease term.

(10) Hedge accounting
Interest rate swap contracts are utilized as hedging instruments and the related hedged items are loans payable. The Company and its subsidiaries 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. The Company and its subsidiaries 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. However, certain interest rate swap contracts which 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 income or expenses as incurred. The hedge effectiveness for interest rate swap contracts is assessed quarterly except for those that meet specific hedging criteria.

(11) Per share information
Net assets (excluding minority interests in consolidated subsidiaries) and net income per share as of and for the year ended February 28, 2007 are ¥1,999.77 ($16.95) and ¥142.90 ($1.21), respectively. Net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is not presented because the Company does not have any dilutive shares.

Basis for the calculation of net income per share for the years ended February 28, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Net income	¥133,419	¥87,931	$1,130,669
Less components not pertaining to common shareholders:			
Bonuses to directors and corporate auditors	—	(198)	—
Net income pertaining to common shareholders	¥133,419	¥87,733	$1,130,669
Weighted average number of shares of common stock outstanding (shares)	933,675,491	870,127,116	

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

(12) 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 the Japanese GAAP on the presentation of treasury stock.

(13) 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 U.S. and Canada is included in the accompanying Consolidated Statements of Income.

(14) 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 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 except for shareholders' equity, which is translated at the historical rates. All income and expense accounts are translated at the average exchange rate for the period. The resulting translation adjustments are included in the accompanying Consolidated Balance Sheets under "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries".

(15) Cash and cash equivalents
In preparing the Consolidated Statements of Cash Flows, cash and cash equivalents in the accompanying 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.

(16) Accounting for franchised stores in convenience store operations
7-Eleven, Inc. includes the assets, liabilities, net assets and results of operations of its franchised stores in its consolidated financial statements. Seven-Eleven Japan Co., Ltd. recognizes franchise commission from its franchised stores as revenues and includes it in "Other operating revenues".

(17) Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective for the year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005) (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and shareholders' equity sections.

Due to the adoption of the New Accounting Standards, the following items are presented differently compared to the previous presentation rules. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests between the liabilities and shareholders' equity sections.

The consolidated balance sheet as of February 28, 2006 has been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥114,197 million are included in the net assets section as of February 28, 2006. But there were no effects on the total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of February 28, 2006.

If the New Accounting Standards had not been adopted and the previous presentation method for shareholders' equity had been applied, shareholders' equity at February 28, 2007, which comprised common stock, capital surplus, retained earnings, unrealized gains (losses) on available-for-sale securities, foreign currency translation adjustments and treasury stock, would have been ¥1,907,169 million ($16,162,449 thousand).

The adoption of the New Accounting Standards had no impact on the Consolidated Statements of Income for the years ended February 28, 2007 and 2006.

(18) Accounting Standard for Statement of Changes in Net Assets
Effective for the year ended February 28, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005) (collectively, the "New Accounting Standards").

Accordingly, the Company prepared the Consolidated Statement of Changes in Net Assets for the year ended February 28, 2007 in accordance with the New Accounting Standards. The Company also voluntarily prepared the Consolidated Statement of Changes in Net Assets for the year ended February 28, 2006 in accordance with the New Accounting Standards for the convenience of the reader. Previously, Consolidated Statements of Shareholders' Equity were prepared for the purpose of inclusion in the Consolidated Financial Statements although such statements were not required under Japanese GAAP.

(19) Reclassification
Certain prior year amounts have been reclassified to conform to the current year presentation.

3. UNITED STATES 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 ¥118=US$1, the approximate rate of exchange prevailing at February 28, 2007. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or at any other rate.

4. SECURITIES INFORMATION

(1) The following tables summarize the book value and fair value of held-to-maturity debt securities whose fair value is available as of February 28, 2007 and 2006:

	Millions of yen		
	2007		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	¥ —	¥ —	¥ —
Debt securities with fair value not exceeding book value	615	613	(2)
Total	¥615	¥613	¥(2)

	Millions of yen		
	2006		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	¥310	¥310	¥ 0
Debt securities with fair value not exceeding book value	435	433	(2)
Total	¥745	¥743	¥(2)

	Thousands of U.S. dollars (Note 3)		
	2007		
TYPE	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	$ —	$ —	$ —
Debt securities with fair value not exceeding book value	5,212	5,195	(17)
Total	$5,212	$5,195	$(17)

(2) The following tables summarize the acquisition cost and book value of available-for-sale securities whose fair value is available as of February 28, 2007 and 2006:

	Millions of yen		
	2007		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 12,522	¥ 27,011	¥ 14,489
Debt securities	5,536	5,536	0
Sub-total	18,058	32,547	14,489
Securities with book value not exceeding acquisition cost:			
Equity securities	65,102	46,204	(18,898)
Debt securities	64,516	64,490	(26)
Sub-total	129,618	110,694	(18,924)
Total	¥147,676	¥143,241	¥ (4,435)

	Millions of yen		
	2006		
TYPE	Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	¥ 75,688	¥ 89,004	¥13,316
Debt securities	5,999	6,004	5
Sub-total	81,687	95,008	13,321
Securities with book value not exceeding acquisition cost:			
Equity securities	277	227	(50)
Debt securities	47,542	47,538	(4)
Sub-total	47,819	47,765	(54)
Total	¥129,506	¥142,773	¥13,267

TYPE	Thousands of U.S. dollars (Note 3) 2007 Acquisition cost	Book value	Net unrealized gains (losses)
Securities with book value exceeding acquisition cost:			
Equity securities	$ 106,119	$ 228,907	$ 122,788
Debt securities	46,915	46,915	0
Sub-total	153,034	275,822	122,788
Securities with book value not exceeding acquisition cost:			
Equity securities	551,712	391,559	(160,153)
Debt securities	546,746	546,526	(220)
Sub-total	1,098,458	938,085	(160,373)
Total	$1,251,492	$1,213,907	$ (37,585)

(3) Available-for-sale securities sold during the fiscal years ended February 28, 2007 and 2006 have not been disclosed since they are considered to be immaterial.

(4) The following table summarizes the book value of major securities with no available fair value as of February 28, 2007 and 2006:

TYPE	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 3) 2007
Held-to-maturity debt securities:			
Bonds	¥ 204	¥ 204	$ 1,729
Available-for-sale securities:			
Non-listed securities	16,749	18,229	141,940
Non-listed foreign securities	5,042	5,052	42,729
Total	¥21,995	¥23,485	$186,398

(5) Redemption schedules of available-for-sale securities with fixed maturities and held-to-maturity debt securities as of February 28, 2007 and 2006 are as follows:

TYPE	Millions of yen 2007 Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	¥70,017	¥625	¥ —	¥ —	¥70,642
Corporate bonds	—	204	—	—	204
Total	¥70,017	¥829	¥ —	¥ —	¥70,846

TYPE	Millions of yen 2006 Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	¥53,532	¥455	¥ —	¥ —	¥53,987
Corporate bonds	—	204	300	—	504
Total	¥53,532	¥659	¥300	¥ —	¥54,491

TYPE	Thousands of U.S. dollars (Note 3) 2007 Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
Governmental and municipal bonds, etc.	$593,364	$5,297	$ —	$ —	$598,661
Corporate bonds	—	1,729	—	—	1,729
Total	$593,364	$7,026	$ —	$ —	$600,390

(6) Investments in affiliates included in “Investments in securities” in the accompanying Consolidated Balance Sheets as of February 28, 2007 and 2006 are ¥7,032 million ($59,593 thousand) and ¥47,564 million, respectively.

5. DERIVATIVE TRANSACTIONS

The Company and its subsidiaries have policies to use interest rate swap contracts, forward currency 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. The Company and its subsidiaries 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 nonperformance is considered to be low as the contracts are entered into with prestigious financial institutions. The responsible departments in the Company and its subsidiaries 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, 2007 and 2006 are summarized in the following tables. The estimated fair values of these contracts are based on values prepared by financial institutions.

Derivative transactions to which hedge accounting has been applied are excluded from this disclosure.

(1) Currency-related transactions

	Millions of yen			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	¥ 3,978	¥ —	¥3,976	¥ (2)
Buy Euro	79	—	81	2
Currency swap contracts:				
U.S. dollar	¥35,454	¥23,636	¥ 601	¥601

	Millions of yen			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	¥ 3,256	¥ —	¥3,254	¥ (2)
Buy Euro	11	—	11	(0)
Currency swap contracts:				
U.S. dollar	¥47,472	¥35,454	¥2,436	¥2,436

	Thousands of U.S. dollars (Note 3)			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Forward exchange contracts:				
Buy U.S. dollar	$ 33,712	$ —	$33,695	$ (17)
Buy Euro	669	—	686	17
Currency swap contracts:				
U.S. dollar	$300,458	$200,305	$ 5,093	$5,093

(2) Interest-rate-related transactions

	Millions of yen			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	¥35,000	¥35,000	¥ 26	¥ 26
Receive fixed / Pay float	20,000	10,000	(77)	(77)

	Millions of yen			
	As of February 28, 2006			
	Contract amount		Estimated fair value	Unrealized losses
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	¥35,000	¥35,000	¥(71)	¥(71)

	Thousands of U.S. dollars (Note 3)			
	As of February 28, 2007			
	Contract amount		Estimated fair value	Unrealized gains (losses)
	Total	Over one year		
Interest rate swap contracts:				
Receive float / Pay fixed	$296,610	$296,610	$ 220	$ 220
Receive fixed / Pay float	169,492	84,746	(653)	(653)

6. PROPERTY AND EQUIPMENT

Property and equipment at February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings and structures	¥ 1,348,332	¥1,200,569	$11,426,542
Furniture, fixtures and other	436,429	469,227	3,698,551
	1,784,761	1,669,796	15,125,093
Less: Accumulated depreciation	(1,052,751)	(981,030)	(8,921,618)
	732,010	688,766	6,203,475
Land	564,224	488,152	4,781,559
Construction in progress	36,923	23,574	312,907
Total	¥ 1,333,157	¥1,200,492	$ 11,297,941

7. IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT

For the years ended February 28, 2007 and 2006, the Company and its consolidated subsidiaries recognized ¥14,199 million ($120,331 thousand) and ¥31,040 million of impairment loss, respectively, on the following groups of assets.

Fiscal year ended February 28, 2007:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars (Note 3)
Stores (Convenience stores)	Land and buildings, etc.	Tokyo 46 stores Kanagawa Pref. 22 stores		
Stores (Superstores)	Land and buildings, etc.	Saitama Pref. 4 stores Tokyo 2 stores Other 12 stores	¥13,801	$116,958
Stores (Department stores)	Land and buildings, etc.	Hokkaido 1 store Saitama Pref. 1 store		
Stores (Restaurants)	Buildings and structures, etc.	Tokyo & other 51 stores		
Other facilities, etc.	Land and buildings, etc.	Ibaraki Pref. 1 store	398	3,373
Total			¥14,199	$120,331

Fiscal year ended February 28, 2006:

Description	Classification	Location	Millions of yen
Stores (Convenience stores)	Land and buildings, etc.	Tokyo 34 stores Kanagawa Pref. 34 stores	
Stores (Superstores)	Land and buildings, etc.	Hokkaido 7 stores Chiba Pref. 5 stores Other 23 stores	¥30,976
Stores (Restaurants)	Buildings and structures, etc.	Tokyo & other 51 stores	
Other facilities, etc.	Land, etc.	Saitama Pref. & other 2 stores	64
Total			¥31,040

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, and such deducted amount was recorded as impairment loss.

A breakdown of impairment loss for the years ended February 28, 2007 and 2006 is as follows:

Fiscal year ended February 28, 2007:

	Millions of yen			Thousands of U.S. dollars (Note 3)
Classification	Stores	Other facilities, etc.	Total	
Buildings and structures	¥ 7,512	¥ 5	¥ 7,517	$ 63,703
Land	4,402	393	4,795	40,636
Other	1,887	—	1,887	15,992
Total	¥13,801	¥398	¥14,199	$120,331

Fiscal year ended February 28, 2006:

Classification	Millions of yen		
	Stores	Other facilities, etc.	Total
Buildings and structures	¥14,810	¥ —	¥14,810
Land	13,196	34	13,230
Other	2,970	30	3,000
Total	¥30,976	¥64	¥31,040

In the case where net selling prices were used as recoverable amounts, relevant assets were evaluated based on real estate appraisal standards, 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 3.1%–6.2% discount rates in 2007 and the 3.1%–6.0% in 2006 were applied.

8. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Summary of net assets (assets and liabilities) and net payment for (net receipt from) the acquisition of shares of companies newly included is as follows:

Fiscal year ended February 28, 2007:

A. White Hen Pantry, Inc. ("White Hen Pantry")	Millions of yen	Thousands of U.S. dollars (Note 3)
	2007	2007
Current assets	¥ 1,696	$ 14,373
Non-current assets	4,879	41,347
Goodwill	2,926	24,797
Current liabilities	(2,668)	(22,610)
Non-current liabilities	(575)	(4,873)
Acquisition cost of shares	6,258	53,034
Cash and cash equivalents of White Hen Pantry	(63)	(534)
Net payment for the acquisition of shares	¥ 6,195	$ 52,500

B. York-Benimaru Co., Ltd. ("York-Benimaru") (a)	Millions of yen	Thousands of U.S. dollars (Note 3)
	2007	2007
Current assets	¥ 49,521	$ 419,670
Non-current assets	105,380	893,051
Goodwill	62,037	525,737
Current liabilities	(32,416)	(274,712)
Minority interests	(2,014)	(17,068)
Sub-total	182,508	1,546,678
Carrying value of investment in York-Benimaru under the equity method at the time that the Company acquired the majority of voting rights	(39,667)	(336,161)
Acquisition cost of shares	142,841	1,210,517
Stock-for-stock exchange	(142,841)	(1,210,517)
Cash and cash equivalents of York-Benimaru	(20,687)	(175,314)
Net receipt from the acquisition of shares	¥ (20,687)	$ (175,314)

(a) The amounts of assets and liabilities include the amounts recorded in its subsidiaries.

Fiscal year ended February 28, 2006:

A. Hua Tang Yokado Commercial Co., Ltd. ("Hua Tang")

	Millions of yen
	2006
Current assets	¥ 5,447
Non-current assets	1,216
Goodwill	1,946
Current liabilities	(2,469)
Minority interests	(2,023)
Sub-total	4,117
Carrying value of investment in Hua Tang under the equity method at the time that the Company acquired the majority of voting rights	(1,541)
Acquisition cost of shares	2,576
Cash and cash equivalents of Hua Tang	(2,101)
Net payment for the acquisition of shares	¥ 475

B. TOWER BAKERY CO., LTD. ("TOWER BAKERY") (a)

	Millions of yen
	2006
Current assets	¥ 761
Non-current assets	3,754
Goodwill	809
Current liabilities	(2,906)
Non-current liabilities	(742)
Minority interests	(276)
Acquisition cost of shares	1,400
Cash and cash equivalents of TOWER BAKERY	(0)
Net payment for the acquisition of shares	¥ 1,400

C. Millennium Retailing, Inc. ("Millennium") (a)

	Millions of yen
	2006
Current assets	¥ 148,978
Non-current assets	486,842
Goodwill	105,716
Current liabilities	(268,292)
Non-current liabilities	(273,564)
Minority interests (b)	(64,205)
Acquisition cost of shares	135,475
Cash and cash equivalents of Millennium	(62,678)
Net payment for the acquisition of shares	¥ 72,797

D. Seven and Y Corp. ("Seven and Y") (a)

	Millions of yen
	2006
Current assets	¥ 975
Non-current assets	300
Goodwill	461
Current liabilities	(1,082)
Minority interests	(95)
Sub-total	559
Carrying value of investment in Seven and Y under the equity method at the time that the Company acquired the majority of voting rights	(59)
Acquisition cost of shares	500
Cash and cash equivalents of Seven and Y	(462)
Net payment for the acquisition of shares	¥ 38

(a) The amounts of assets and liabilities represent the amounts of their consolidated financial statements.
(b) ¥40,000 million of preferred stock held by a third party is included.

(2) Major non-cash transaction

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Finance lease obligations for property and equipment recorded for the year	¥1,281	¥1,098	$10,856

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate statutory rates of approximately 40.7% for the years ended February 28, 2007 and 2006.

The significant components of deferred tax assets and liabilities as of February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Deferred tax assets:			
Inventory reserve	¥ 3,754	¥ 3,123	$ 31,814
Allowance for bonuses to employees	6,010	5,754	50,932
Allowance for sales promotion expenses	7,424	6,740	62,915
Accrued payroll	4,035	3,089	34,195
Allowance for retirement benefits to directors and corporate auditors	1,708	1,333	14,474
Allowance for accrued pension and severance costs	501	1,392	4,246
Depreciation and amortization	8,479	7,238	71,856
Tax loss carried forward	46,582	51,587	394,763
Valuation loss on available-for-sale securities	1,683	1,540	14,263
Allowance for doubtful accounts	1,834	2,646	15,542
Unrealized loss on property and equipment	9,193	12,537	77,907
Impairment loss on property and equipment and valuation loss on land	33,426	30,700	283,271
Accrued enterprise taxes and business office taxes	4,770	8,068	40,424
Non-deductible accrued expenses	8,874	12,338	75,203
Other	11,631	11,697	98,568
Sub-total	149,904	159,782	1,270,373
Less: Valuation allowance	(76,839)	(79,334)	(651,178)
Total	73,065	80,448	619,195
Deferred tax liabilities:			
Unrealized gains on property and equipment	(51,022)	(56,291)	(432,390)
Royalties, etc.	(17,321)	(17,154)	(146,788)
Deferred gains on sales of property and equipment	(1,308)	(1,130)	(11,085)
Unrealized gains on available-for-sale securities	(16,019)	(23,589)	(135,754)
Other	(3,433)	(1,757)	(29,093)
Total	(89,103)	(99,921)	(755,110)
Net deferred tax liabilities (a)	¥(16,038)	¥(19,473)	$ (135,915)

(a) Net deferred tax liabilities are included in the following assets and liabilities:

Current assets–Deferred income taxes	¥ 36,701	¥ 31,725	$ 311,025
Other assets–Deferred income taxes	21,655	26,978	183,517
Current liabilities–Other	(227)	(963)	(1,923)
Non-current liabilities–Deferred income taxes	(74,167)	(77,213)	(628,534)

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended February 28, 2007 and 2006 is as follows:

	2007	2006
Statutory tax rate	40.7%	40.7%
Adjustments:		
Equity in earnings of affiliates	(0.2)	(0.4)
Amortization of goodwill	1.5	0.2
Non-deductible items such as entertainment expenses	0.3	0.3
(Decrease) increase in valuation allowance	(1.3)	5.0
Inhabitant taxes per capita	0.7	0.8
Other	(0.3)	(1.0)
Effective tax rate	41.4%	45.6%

10. RETIREMENT BENEFITS

(1) Summary of retirement benefit plans

The Company and its domestic consolidated subsidiaries provide two types of defined benefit plans: the employees' pension fund plan and the lump-sum severance payment plan.

A premium on employees' retirement benefit may be added upon retirement of the employee.

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

"IY Group Employees' Pension Fund", which the Company and its domestic consolidated subsidiaries participate in, changed its name to "Seven & i Holdings Employees' Pension Fund" on September 1, 2005.

(2) Projected retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Projected benefit obligations (a)	¥(171,278)	¥(161,132)	$(1,451,509)
Fair value of plan assets (including employee retirement benefit trust)	190,336	171,780	1,613,017
Unrecognized actuarial differences	(14,155)	(10,870)	(119,957)
Unrecognized prior service cost	(2,294)	(2,570)	(19,441)
Others	—	(641)	—
Prepaid pension cost, net of allowance for accrued pension and severance costs	2,609	—	22,110
Prepaid pension cost	5,966	—	50,559
Allowance for accrued pension and severance costs	¥ (3,357)	¥ (3,433)	$ (28,449)

(a) For some of the consolidated subsidiaries, the simplified method is used for computing retirement benefit obligations.

(3) Net periodic benefit cost

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Service cost (a)	¥10,631	¥ 8,601	$ 90,093
Interest cost	4,294	4,080	36,390
Expected return on plan assets	(6,273)	(5,792)	(53,161)
Amortization of actuarial differences	(647)	634	(5,483)
Amortization of prior year service cost	(705)	474	(5,975)
Premium on employees' retirement benefit	1,738	6,295	14,729
Gain from amendment of pension plan (b)	—	(3,011)	—
Net periodic benefit cost (c)	¥ 9,038	¥11,281	$ 76,593

(a) Net periodic benefit cost of subsidiaries using the simplified method is included.
(b) Gain from amendment of pension plan was recorded in certain subsidiaries in the United States for the year ended February 28, 2006.
(c) Besides the above net periodic benefit cost, ¥1,385 million ($11,737 thousand) and ¥1,775 million of benefit cost related to the defined contribution pension plan employed by subsidiaries in the United States were recorded for the years ended February 28, 2007 and 2006, respectively.

(4) Assumptions used in accounting for retirement benefit obligations

	2007	2006
Allocation method of estimated total retirement benefits: Mainly	Point basis	Point basis
Discount rate: Mainly	2.5%	2.5%
Consolidated subsidiaries in the United States	6.0%	6.0%
Expected rate of return on plan assets: Mainly	3.5%	3.5%
Periods over which the prior service cost is amortized	5 years or 10 years	5 years or 10 years
Periods over which the actuarial differences are amortized (a): Mainly	10 years	10 years

(a) Actuarial differences are amortized in the year following the year in which the differences are recognized primarily using the straight-line method over the period (mainly 10 years) which is shorter than the average remaining years of service of the eligible employees. Consolidated subsidiaries in the United States have adopted the corridor approach for the amortization of actuarial differences.

11. 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)
	2007	2006	2007
Outstanding balance at fiscal year-end:			
Short-term bank loans (a)	¥176,913	¥114,462	$1,499,263
Weighted-average interest rate at year-end:			
Short-term bank loans	0.8%	1.3%	0.8%

(a) The total amounts of short-term loans with collateral as of February 28, 2007 and 2006 are ¥613 million ($5,195 thousand) and ¥64,678 million, respectively (Note 14).

Long-term debt at February 28, 2007 and 2006 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Outstanding balance at fiscal year-end:			
Loans, principally from banks and insurance companies, due fiscal 2008 to 2023 with interest rates ranging from 0.5% to 7.2% (b)	¥ 431,856	¥416,147	$3,659,797
Ito-Yokado Co., Ltd.:			
1.72% unsecured straight bonds, due March 29, 2007	30,000	30,000	254,237
1.96% unsecured straight bonds, due March 29, 2010	20,000	20,000	169,491
0.65% unsecured straight bonds, due September 18, 2009	50,000	50,000	423,729
Seven Bank, Ltd.:			
0.88% unsecured straight bonds, due December 10, 2008	15,000	15,000	127,119
1.45% unsecured straight bonds, due December 20, 2011	36,000	—	305,085
1.67% unsecured straight bonds, due December 20, 2013	24,000	—	203,390
7-Eleven, Inc.:			
Commercial paper	38,338	41,765	324,898
Capital lease obligations, due fiscal 2008 to 2029	21,596	24,920	183,017
	666,790	597,832	5,650,763
Current portion of long-term debt	(101,118)	(50,395)	(856,932)
	¥ 565,672	¥547,437	$4,793,831

(b) The total amounts of long-term debt with collateral as of February 28, 2007 and 2006 are ¥240,258 million ($2,036,085 thousand) and ¥268,061 million, respectively (Note 14).

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

Fiscal years ending February 28 or 29:	Millions of yen	Thousands of U.S. dollars (Note 3)
2008	¥101,118	$ 856,932
2009	128,060	1,085,254
2010	136,174	1,154,017
2011	72,644	615,627
2012	132,446	1,122,424
Thereafter	96,348	816,509
	¥666,790	$5,650,763

12. LEASES

(1) Finance leases

Finance lease charges to the Company and its consolidated subsidiaries for the years ended February 28, 2007 and 2006 are ¥12,763 million ($110,026 thousand) and ¥8,396 million, respectively. The Company and its domestic consolidated subsidiaries' finance lease contracts that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases with appropriate footnote disclosures. "As if Capitalized" information for significant leased assets under the finance lease contracts of the Company and its domestic consolidated subsidiaries as of and for the years ended February 28, 2007 and 2006 is as follows:

As lessee:

A summary of assumed amounts of acquisition cost, accumulated depreciation, impairment loss and net book value, including the interest portion, as of February 28, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Furniture, fixtures and equipment:			
Acquisition cost	¥ 82,083	¥ 53,561	$ 695,619
Accumulated depreciation	(25,230)	(30,184)	(213,814)
Impairment loss	(25)	–	(212)
Net book value	¥ 56,828	¥ 23,377	$ 481,593
Software:			
Acquisition cost	¥ 1,094	¥ 1,371	$ 9,271
Accumulated depreciation	(393)	(707)	(3,330)
Net book value	¥ 701	¥ 664	$ 5,941
Lease payments	¥ 12,763	¥ 8,396	$ 108,161
Depreciation expense (a) and (b)	¥ 12,763	¥ 8,396	$ 108,161
Impairment loss	¥ 25	¥ –	$ 212

(a) Depreciation expense included the interest portion.
(b) Depreciation expense is computed using the straight-line method over the lease term assuming no residual value.

The future lease payments of the Company and its consolidated subsidiaries' finance leases, including the interest portion, as of February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year	¥15,172	¥ 8,942	$128,576
Due over one year	42,381	15,099	359,161
Total	¥57,553	¥24,041	$487,737
Balance of impairment loss account on leased assets included in the outstanding future lease payments	¥ 25	¥ –	$ 212

As lessor:

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value as of February 28, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Furniture, fixtures and equipment:			
Acquisition cost	¥ 24,076	¥21,536	$204,034
Accumulated depreciation	(10,438)	(8,851)	(88,458)
Net book value	¥ 13,638	¥12,685	$115,576
Lease income	¥ 4,390	¥ 3,819	$ 37,203
Depreciation expense	¥ 4,048	¥ 3,550	$ 34,305
Interest income (c)	¥ 423	¥ 374	$ 3,585

(c) Allocation of interest income to each period is computed using the interest method.

The future lease income of the Company and its consolidated subsidiaries' finance leases as of February 28, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year	¥ 4,054	¥ 3,578	$ 34,356
Due over one year	9,923	9,380	84,093
Total	¥13,977	¥12,958	$118,449

(2) Operating leases

The amounts of outstanding future lease payments under lease agreements other than finance leases, including the interest portion, as of February 28, 2007 and 2006 are as follows:

As lessee:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Due within one year	¥ 66,989	¥ 67,685	$ 567,703
Due over one year	405,825	419,364	3,439,195
Total	¥ 472,814	¥487,049	$4,006,898

13. NET ASSETS

As described in Note 2 (17), net assets comprise three subsections, which are shareholders' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for the fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the 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 Law, 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.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by a resolution of the shareholders' meeting. Under the Law, 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 Law.

At the annual shareholders' meeting held on May 24, 2007, the shareholders approved cash dividends amounting to ¥26,128 million ($221,424 thousand). Such appropriations have not been accrued in the Consolidated Financial Statements as of February 28, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. COMMITMENTS AND CONTINGENT LIABILITIES

(1) Guarantees

As of February 28, 2007, the Company and its consolidated subsidiaries are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥1,001 million ($8,483 thousand). The amount of guarantee in relation to the loans of a certain store lessor was ¥651 million ($5,517 thousand).

As of February 28, 2006, the Company and its consolidated subsidiaries are contingently liable as guarantors for employees' housing loans from certain financial institutions totaling ¥1,180 million. The amount of guarantee in relation to the loans of a certain store lessor and to the loans of a certain affiliate was ¥767 million and ¥218 million, respectively.

(2) Pledged assets

A. The amounts of assets pledged as collateral by the Company and its consolidated subsidiaries for their loans from certain financial institutions as of February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Bank deposits	¥ —	¥ 3,423	$ —
Notes and accounts receivable, trade	—	6,921	—
Other current assets	2,275	5,273	19,280
Buildings and structures	66,047	70,738	559,720
Furniture, fixtures and equipment	926	1,313	7,848
Land	99,461	115,917	842,890
Other intangible assets	10,355	14,207	87,754
Investments in securities	59,475	112,563	504,025
Long-term leasehold deposits	4,758	35,672	40,322
Other investments	—	775	—
Total	¥243,297	¥366,802	$2,061,839

Debts for the pledged assets above as of February 28, 2007 are as follows: short-term loans, ¥613 million ($5,195 thousand); long-term loans (including current portion), ¥240,258 million ($2,036,085 thousand); and long-term accounts payable, ¥1,776 million ($15,051 thousand).

Debts for the pledged assets above as of February 28, 2006 are as follows: short-term loans, ¥64,678 million; long-term loans (including current portion), ¥268,061 million; and long-term accounts payable, ¥1,887 million.

B. The amounts of assets pledged as collateral for the debts of affiliates and vendors as of February 28, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings	¥1,096	¥2,345	$ 9,288
Land	2,363	2,829	20,026
Total	¥3,459	¥5,174	$29,314

Debts of affiliates and vendors for the pledged assets above as of February 28, 2007 and 2006 are ¥4,025 million ($34,110 thousand) and ¥5,156 million, respectively.

C. Other

As of February 28, 2007

The amounts of assets pledged as collateral for fund transfer and for real estate business are ¥5,499 million ($46,602 thousand) and ¥60 million ($508 thousand), respectively. The amounts of assets pledged as collateral for installment sales and sales of beneficiary right of trust are ¥2,210 million ($18,729 thousand) and ¥10 million ($85 thousand), respectively. In addition, ¥794 million ($6,729 thousand) of assets was pledged as collateral to secure the amount of prepaid tickets issued.

As of February 28, 2006

The amounts of assets pledged as collateral for fund transfer and for real estate business are ¥5,501 million and ¥35 million, respectively. The amount of assets pledged as collateral for installment sales and gift tickets is ¥5,666 million. The amount of gift tickets issued by subsidiaries is ¥19,199 million. To secure approximately half of the amount of gift tickets issued, ¥3,243 million of additional assets was pledged as collateral.

(3) Litigation and securitization

As of February 28, 2007

A. Litigation

Sogo Co., Ltd. ("Sogo"), a consolidated subsidiary of the Company, reached an amicable settlement with Organization for Promoting Urban Development on November 22, 2006 and acquired the property of Kobe North Parking by ¥11,300 million ($95,763 thousand) on December 15, 2006.

B. Securitization of store properties

THE SEIBU DEPARTMENT STORES, LTD. ("SEIBU"), a consolidated subsidiary of the Company, established a real estate trust comprising of the land, land leasehold right and part of the buildings of a store and sold the beneficiary right of the trust to a Special Purpose Corporation ("SPC"). Concurrently, SEIBU has entered into a silent partnership arrangement with SPC with a certain investment. Also, SEIBU leased back such store properties from SPC who has the beneficiary right of the trust.

Under these arrangements, the above noted investment is subordinated to all liabilities to other members of the silent partnership and third parties other than members of the silent partnership.

A summary of the store name, amount of investment and SPC name is as follows:

Store name	Amount of investment	SPC name
Ikebukuro	¥5,850 million ($49,576 thousand)	Asset Ikesei Corp.

Information about SPC is as follows:

SPC name	Year-end	Total assets at the latest closing date
Asset Ikesei Corp.	July	¥124,200 million ($1,052,542 thousand)

SEIBU repurchased the beneficiary rights of trusts of Shibuya-Movita store from Asset Movita by ¥9,491 million ($80,432 thousand) and the land and buildings were delivered to SEIBU on September 29, 2006. Also, SEIBU repurchased Sapporo, Funabashi and Shibuya-LOFT stores from Global Asset Ikesei Corp. by ¥39,440 million ($334,237 thousand) and the land and buildings were delivered to SEIBU on November 27, 2006.

As of February 28, 2006
A. Litigation
Sogo, a consolidated subsidiary of the Company, has been named as a defendant in a lawsuit which has been filed in the Tokyo District Court by Organization for Promoting Urban Development on November 28, 2002, regarding the cancellation of "sales contract of properties of Kobe North Parking dated February 1996" against the notice of cancellation of the buy-back agreement by Sogo based on the Civil Rehabilitation Law. On August 29, 2005, the Tokyo District Court judged that Sogo should pay ¥13,138 million for the buy-back of such properties (land) and annually 6% of interest from the claim date. Then, Sogo appealed to the Tokyo High Court and the appeal has been pending.

It is the opinion of the management of Sogo that this lawsuit which is pending against Sogo will not have a material adverse effect on its operating results, liquidity or financial position.

B. Securitization of store properties
SEIBU, a consolidated subsidiary of the Company, established certain real estate trusts comprising of the land, land leasehold rights and part of the buildings of several stores and sold the beneficiary rights of the trusts to several Special Purpose Corporations ("SPCs"). Concurrently, SEIBU has entered into silent partnership arrangements with SPCs with certain investments. Also, SEIBU leased back such store properties from SPCs who have the beneficiary rights of the trusts.

Under these arrangements, the above noted investments are subordinated to all liabilities to other members of the silent partnerships and third parties other than members of the silent partnerships.

A summary of store names, amount of investments and SPC names is as follows:

Store name	Amount of investment	SPC name
Ikebukuro	¥5,850 million	Asset Ikesei Corp.
Sapporo, Funabashi and Shibuya-LOFT	¥2,065 million	Global Asset Ikesei Corp.
Shibuya-Movita	¥470 million	Asset Movita

Information about SPCs is as follows:

SPC name	Year-end	Total assets at the latest closing date
Asset Ikesei Corp.	July	¥124,161 million
Global Asset Ikesei Corp.	August	¥44,331 million
Asset Movita	August & February (half year-end)	¥9,877 million

15. NOTES AND ACCOUNTS PAYABLE: TRADE FOR FRANCHISED STORES

The balance of the "Notes and accounts payable: Trade for franchised stores" account represents the amount payable to vendors for merchandise purchased by Seven-Eleven Japan Co., Ltd. ("SEJ"). SEJ centralizes all purchasing procedures for merchandise purchased by an individual franchised store and makes collective payments to all vendors on behalf of the franchisees.

16. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

(1) The franchise commission from SEJ's franchised stores is included in "Other operating revenues".
The franchise commission from franchised stores and concurrent net sales of franchised stores are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Franchise commission from franchised stores	¥ 359,770	¥ 356,907	$ 3,048,898
Net sales of franchised stores	2,379,890	2,365,345	20,168,559

(2) Inventory valuation losses included in "Cost of sales" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Inventory valuation losses	¥6,911	¥ 7,181	$58,568

(3) Major items included in "Gain on sales of property and equipment" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings and structures	¥1,117	¥1,069	$ 9,466
Land	1,367	768	11,585
Others	309	6	2,618
Total	¥2,793	¥1,843	$23,669

(4) Major items included in "Loss on disposals of property and equipment" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Buildings and structures	¥ 7,457	¥4,049	$ 63,195
Furniture, fixtures and equipment	7,526	1,376	63,779
Software	1,370	1,751	11,610
Others	2,429	1,009	20,585
Total	¥18,782	¥8,185	$159,169

(5) Major items included in "Selling, general and administrative expenses" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Advertising and decoration expenses	¥111,231	¥ 87,667	$ 942,636
Salaries and wages	399,393	328,255	3,384,686
Provision for allowance for bonuses to employees	14,755	8,931	125,042
Legal welfare expenses	46,148	35,550	391,085
Land and building rent	227,783	167,182	1,930,364
Depreciation and amortization	125,795	93,615	1,066,059
Utility expenses	93,138	75,231	789,305
Store maintenance and repair	77,518	64,564	656,932

17. RELATED PARTY TRANSACTIONS

There was no related party transaction during the fiscal years ended February 28, 2007 and 2006.

18. SEGMENT INFORMATION

(1) Business segments

Fiscal year ended February 28, 2007	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Millions of yen								
Revenues:									
Customers	¥2,248,400	¥1,871,834	¥988,358	¥119,973	¥ 84,432	¥24,808	¥5,337,805	¥ 2	¥5,337,807
Intersegment	1,249	11,101	—	1,711	15,863	7,533	37,457	(37,457)	—
Total revenues	2,249,649	1,882,935	988,358	121,684	100,295	32,341	5,375,262	(37,455)	5,337,807
Operating expenses	2,043,559	1,853,765	961,585	120,752	75,747	30,719	5,086,127	(35,158)	5,050,969
Operating income	¥ 206,090	¥ 29,170	¥ 26,773	¥ 932	¥ 24,548	¥ 1,622	¥ 289,135	¥ (2,297)	¥ 286,838
Assets	¥1,221,548	¥1,118,594	¥811,465	¥ 78,639	¥896,116	¥11,831	¥4,138,193	¥(329,001)	¥3,809,192
Depreciation	¥ 71,800	¥ 24,070	¥ 19,042	¥ 3,454	¥ 14,174	¥ 134	¥ 132,674	¥ 19	¥ 132,693
Impairment loss on property and equipment	¥ 5,481	¥ 5,785	¥ 1,970	¥ 963	¥ —	¥ —	¥ 14,199	¥ —	¥ 14,199
Capital expenditures	¥ 81,557	¥ 43,516	¥ 92,531	¥ 4,117	¥ 31,823	¥ 242	¥ 253,786	¥ 77	¥ 253,863

Fiscal year ended February 28, 2006	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Millions of yen								
Revenues:									
Customers	¥2,014,335	¥1,675,204	¥ —	¥122,246	¥ 71,193	¥12,794	¥3,895,772	¥ —	¥3,895,772
Intersegment	901	12,531	—	1,779	11,096	6,987	33,294	(33,294)	—
Total revenues	2,015,236	1,687,735	—	124,025	82,289	19,781	3,929,066	(33,294)	3,895,772
Operating expenses	1,805,421	1,672,353	—	121,400	65,011	18,973	3,683,158	(32,326)	3,650,832
Operating income	¥ 209,815	¥ 15,382	¥ —	¥ 2,625	¥ 17,278	¥ 808	¥ 245,908	¥ (968)	¥ 244,940
Assets	¥1,177,401	¥1,018,184	¥741,536	¥ 83,562	¥717,402	¥18,021	¥3,756,106	¥(331,227)	¥3,424,879
Depreciation	¥ 64,428	¥ 20,796	¥ —	¥ 3,020	¥ 9,529	¥ 38	¥ 97,811	¥ 0	¥ 97,811
Impairment loss on property and equipment	¥ 6,341	¥ 23,861	¥ —	¥ 838	¥ —	¥ —	¥ 31,040	¥ —	¥ 31,040
Capital expenditures	¥ 83,788	¥ 49,532	¥ —	¥ 4,724	¥ 22,853	¥ 34	¥ 160,931	¥ 11	¥ 160,942

Fiscal year ended February 28, 2007	Convenience store operations	Superstore operations	Department store operations	Restaurant operations	Financial services	Others	Total before eliminations	Eliminations / corporate	Consolidated total
	Thousands of U.S. dollars (Note 3)								
Revenues:									
Customers	$19,054,237	$15,863,000	$8,375,915	$1,016,721	$ 715,526	$210,237	$45,235,636	$ 17	$45,235,653
Intersegment	10,585	94,076	—	14,500	134,432	63,839	317,432	(317,432)	—
Total revenues	19,064,822	15,957,076	8,375,915	1,031,221	849,958	274,076	45,553,068	(317,415)	45,235,653
Operating expenses	17,318,297	15,709,873	8,149,025	1,023,322	641,924	260,330	43,102,771	(297,949)	42,804,822
Operating income	$ 1,746,525	$ 247,203	$ 226,890	$ 7,899	$ 208,034	$ 13,746	$ 2,450,297	$ (19,466)	$ 2,430,831
Assets	$10,352,102	$ 9,479,610	$6,876,822	$ 666,432	$7,594,203	$100,263	$35,069,432	$(2,788,144)	$32,281,288
Depreciation	$ 608,474	$ 203,983	$ 161,373	$ 29,271	$ 120,119	$ 1,136	$ 1,124,356	$ 161	$ 1,124,517
Impairment loss on property and equipment	$ 46,449	$ 49,026	$ 16,695	$ 8,161	$ —	$ —	$ 120,331	$ —	$ 120,331
Capital expenditures	$ 691,161	$ 368,780	$ 784,161	$ 34,890	$ 269,686	$ 2,051	$ 2,150,729	$ 652	$ 2,151,381

Notes:
1. The classification of business segments is made by the type of products and services and the type of sales.
2. Major businesses in each segment are as follows:
   - Convenience store operations .... Convenience store business operated by corporate stores and franchised stores under the name of "7-Eleven"
   - Superstore operations .... Superstore, supermarket and specialty shop
   - Department store operations .... Sogo Co., Ltd., THE SEIBU DEPARTMENT STORES, LTD. and other companies included in the department store business
   - Restaurant operations .... Coffee shop style restaurant, family restaurant operated in shopping center and catering
   - Financial services .... Bank, credit card and lease business
   - Others .... Electronic commerce business and other services
3. Unallocable operating expenses included in "Eliminations / corporate" represent the Company's general and administrative expenses, and totaled ¥9,198 million ($77,949 thousand) for the fiscal year ended February 28, 2007 and ¥2,660 million for the fiscal year ended February 28, 2006.

(2) Geographic area segments

Fiscal year ended February 28, 2007	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Millions of yen					
Revenues:						
Customers	¥3,562,125	¥1,725,923	¥49,759	¥5,337,807	¥ —	¥5,337,807
Intersegment	248	2,559	—	2,807	(2,807)	—
Total revenues	3,562,373	1,728,482	49,759	5,340,614	(2,807)	5,337,807
Operating expenses	3,308,404	1,696,497	48,879	5,053,780	(2,811)	5,050,969
Operating income	¥ 253,969	¥ 31,985	¥ 880	¥ 286,834	¥ 4	¥ 286,838
Assets	¥3,162,320	¥ 662,673	¥21,039	¥3,846,032	¥(36,840)	¥3,809,192

Fiscal year ended February 28, 2006	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Millions of yen					
Revenues:						
Customers	¥2,342,849	¥1,514,403	¥38,520	¥3,895,772	¥ —	¥3,895,772
Intersegment	200	2,505	—	2,705	(2,705)	—
Total revenues	2,343,049	1,516,908	38,520	3,898,477	(2,705)	3,895,772
Operating expenses	2,130,172	1,484,415	38,953	3,653,540	(2,708)	3,650,832
Operating income (loss)	¥ 212,877	¥ 32,493	¥ (433)	¥ 244,937	¥ 3	¥ 244,940
Assets	¥2,795,282	¥ 657,447	¥19,061	¥3,471,790	¥(46,911)	¥3,424,879

Fiscal year ended February 28, 2007	Japan	North America	Others	Total before eliminations	Eliminations	Consolidated total
	Thousands of U.S. dollars (Note 3)					
Revenues:						
Customers	$ 30,187,500	$14,626,466	$421,687	$45,235,653	$ —	$45,235,653
Intersegment	2,102	21,686	—	23,788	(23,788)	—
Total revenues	30,189,602	14,648,152	421,687	45,259,441	(23,788)	45,235,653
Operating expenses	28,037,322	14,377,093	414,229	42,828,644	(23,822)	42,804,822
Operating income	$ 2,152,280	$ 271,059	$ 7,458	$ 2,430,797	$ 34	$ 2,430,831
Assets	$26,799,322	$ 5,615,873	$ 178,297	$32,593,492	$ (312,204)	$32,281,288

Notes:
1. The classification of geographic area segments is made according to geographical distances.
2. "Others" consists of the business results mainly in the People's Republic of China ("P.R.C.").

(3) Overseas sales

Fiscal year ended February 28, 2007	North America	Others	Total
	Millions of yen		
Overseas sales	¥1,725,923	¥49,759	¥1,775,682
Consolidated sales	—	—	5,337,807
Percentage of overseas sales to consolidated sales (%)	32.4	0.9	33.3

Fiscal year ended February 28, 2006	North America	Others	Total
	Millions of yen		
Overseas sales	¥1,514,403	¥38,520	¥1,552,923
Consolidated sales	—	—	3,895,772
Percentage of overseas sales to consolidated sales (%)	38.9	1.0	39.9

Fiscal year ended February 28, 2007	North America	Others	Total
	Thousands of U.S. dollars (Note 3)		
Overseas sales	$14,626,466	$421,687	$15,048,153
Consolidated sales	—	—	45,235,653
Percentage of overseas sales to consolidated sales (%)	32.4	0.9	33.3

Notes:
1. The classification of overseas sales area segments is made according to geographical distances.
2. "Others" consists of sales mainly in P.R.C.
3. "Overseas sales" represents net sales and other operating revenue of consolidated subsidiaries in countries and areas outside of Japan.

19. SUBSEQUENT EVENTS

1. Cash dividend

Subsequent to February 28, 2007, the Company's Board of Directors declared a year-end cash dividend of ¥26,128 million ($221,424 thousand) to be payable on May 25, 2007 to shareholders on record on February 28, 2007. The dividend declared was approved by the shareholders at the meeting held on May 24, 2007.

2. Additional acquisitions of shares of THE LOFT CO., LTD.

On March 23, 2007, Millennium Retailing, Inc., a wholly owned subsidiary of the Company, acquired additional shares of THE LOFT CO., LTD., an affiliate of the Company, from MORI TRUST CO., LTD. and AEON Co., Ltd. in accordance with the resolutions approved at the meeting of the Board of Directors held on March 22, 2007. Consequently, THE LOFT CO., LTD. became a subsidiary of the Company.

(1) Objective of share acquisitions:
Since its establishment in September 2005, the Company has worked to create the "new comprehensive life-style industry" and to maximize the group enterprise value, with the group's operating companies. As a part of those activities, the Company decided to make THE LOFT CO., LTD. a subsidiary.

(2) The companies from which shares acquired:
MORI TRUST CO., LTD. and AEON Co., Ltd.

(3) Overview of THE LOFT CO., LTD.:

1. Name	THE LOFT CO., LTD.
2. Business	Operates 36 miscellaneous-goods specialty stores as of March 22, 2007 under the "LOFT" brand, principally in the Tokyo metropolitan area.

3. Revenues from operations, operating income and net income for the year ended February 28, 2007:

Revenues from operations	¥61,176 million
	($518,441 thousand)
Operating income	¥1,783 million
	($15,110 thousand)
Net income	¥513 million
	($4,347 thousand)

4. Amounts of common stock, net assets and total assets:

Common stock	¥750 million
	($6,356 thousand)
Net assets	¥4,891 million
	($41,449 thousand)
Total assets	¥15,616 million
	($132,339 thousand)

(4) Date of acquisition of additional shares:
March 23, 2007

(5) Number of shares acquired, acquisition cost and ownership percentage after acquisition:

Number of shares acquired	5,250 shares
	(35.0 %)
Acquisition cost	¥9,975 million
	($8,263 thousand)
Ownership percentage	70.7 %