FINANCIAL REVIEW

Seven & i Holdings Co., Ltd. and its consolidated subsidiaries for the fiscal years ended February 29, 2008 and February 28, 2007 and 2006.
Figures for Ito-Yokado Co., Ltd. and its consolidated subsidiaries for the fiscal year ended February 28, 2005 are presented for the convenience of the reader.

	Millions of yen			Thousands of U.S. dollars (Note)	Millions of yen
	Seven & i Holdings				Ito-Yokado
	2008	2007	2006	**2008**	2005
Revenues from operations:					
Convenience store operations:					
Merchandise	**¥1,239,097**	¥1,182,717	¥1,069,684	**$11,800,924**	¥ 986,435
Gasoline	**763,769**	689,568	575,726	**7,273,990**	462,538
Franchise commission from franchised stores	**369,467**	359,770	356,907	**3,518,733**	343,617
Other	**23,369**	17,594	12,919	**222,563**	13,579
Total	**2,395,702**	2,249,649	2,015,236	**22,816,210**	1,806,169
Superstore operations	**2,109,050**	1,882,935	1,687,735	**20,086,190**	1,642,265
Department store operations	**1,025,355**	988,358	—	**9,765,286**	—
Food services	**113,980**	121,684	124,025	**1,085,524**	126,181
Financial services	**117,956**	100,295	82,289	**1,123,390**	61,236
Others	**36,653**	32,341	19,781	**349,076**	17,196
Eliminations	**(46,303)**	(37,455)	(33,294)	**(440,981)**	(29,492)
Consolidated total	**¥5,752,393**	¥5,337,807	¥3,895,772	**$54,784,695**	¥3,623,555

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥105=US$1, the approximate rate of exchange on February 29, 2008.

ANALYSIS OF RESULTS OF OPERATIONS

Revenues from Operations and Operating Income

In the fiscal year ended February 29, 2008, Seven & i Holdings recorded revenues from operations of ¥5,752.4 billion, an increase of ¥414.6 billion year on year, and operating income of ¥281.1 billion, down ¥5.8 billion. York-Benimaru, which was made a subsidiary in September 2006, and FUJIKOSHI, which was made a subsidiary in July 2007, are included in superstore operations. THE LOFT, which was made a subsidiary in March 2007, is included in department store operations. The results of Akachan Honpo, which are included in consolidated results for the year under review, are the eight months from July 2007 to February 2008 due to a change in fiscal year-end from December to February. Also, due to a reorganization of food services accompanying the establishment of Seven & i Food Systems, from the year under review, restaurant operations changed its segment name to food services.

Seven-Eleven Japan (SEJ), the core operating company in domestic convenience store operations, has opened new stores aggressively in urban areas and relocated stores to more favorable locations. The number of SEJ stores at the end of February 2008 was 12,034, a net increase of 299 from a year earlier. In addition, SEJ began sales of new fast food products prepared with in-store fryers, and focused its development efforts on the concepts of local production for local consumption, health enhancement, and food education. Furthermore, the Group's electronic money, *nanaco,* was introduced.

By product category, a 0.2% gain was recorded in sales of fast food items, which include boxed lunches, rice balls and other rice-based products, and noodles, and a 0.8% increase was registered in sales of daily food items, which include bread, pastries, and milk and other dairy products. Sales of nonfood products, which include tobacco and sundries, were up 3.0%.

As a result, total store sales in Japan, which comprise corporate and franchised store sales, rose 1.6%, to ¥2,574.3 billion. Revenues from operations, which mainly comprise revenues from franchisees and sales at corporate stores, were up 2.1%, to ¥527.7 billion.

Overseas, 7-Eleven, Inc. (SEI), had 6,088 stores in North America as of the end of December 2007. SEI worked to accelerate store openings, renovate existing stores, and close unprofitable stores. In addition, SEI expanded its fast food lineup and developed regional products. Consequently, sales increased on a U.S. dollar basis. The yen–dollar exchange rate used in the consolidation of SEI's accounts for the fiscal year was ¥117.85, reflecting the depreciation of the yen. SEI's net sales increased 7.8% on a yen basis, to ¥1,822.7 billion.

As a result, in convenience store operations, revenues from operations were ¥2,395.7 billion, up 6.5% year on year, and operating income was ¥201.0 billion, down 2.5% year on year, due to expenses associated with upfront investment such as the introduction of *nanaco* electronic money.

Ito-Yokado, the core operating company in superstore operations, took steps in merchandising to propose new value in line with customer needs and to sell *Seven Premium*, the Group's new private brand products. In addition, Ito-Yokado worked to diversify its sales channels, expand sales opportunities, and uncover latent demand by expanding the number of stores offering Internet supermarket services, through which customers can place orders over the Internet and have the products delivered to their homes. Although we have implemented these initiatives, Ito-Yokado's net sales were down 1.6%, to ¥1,464.1 billion.

By product category, apparel sales in the year under review were down 4.3%, to ¥278.2 billion; sales of household goods were down 3.9%, to ¥253.6 billion; and sales of food declined 0.3%, to ¥670.5 billion.

In store openings, Ito-Yokado opened 3 stores, including Ario Nishiarai, the sixth Ario mall-type shopping center, and closed 1 store, for a total of 176 stores at the end of the fiscal year.

Due in part to the consolidation of York-Benimaru, Akachan Honpo, and FUJIKOSHI, in superstore operations, revenues from operations were ¥2,109.1 billion, up 12.0% year on year, and operating income was ¥34.1 billion, up 16.8% year on year.

In department store operations, we made steady progress with remodeling initiatives. After full-scale remodeling, SEIBU reopened the SEIBU Shibuya in March 2007 and the SEIBU Tokorozawa in September 2007. Both of these stores are taking steps to meet emerging needs in accordance with the characteristics of the stores themselves and their service areas, such as utilizing self-directed sales areas that make original fashion proposals. Also, in existing stores, we implemented meticulous store operations with consideration for market and competitive characteristics by region and store, centered on merchandising activities. Due in part to the effects of store remodeling initiatives and the consolidation of THE LOFT, in department store operations, revenues from operations were ¥1,025.4 billion, up 3.7% year on year, while operating income was ¥25.8 billion, down 3.8% year on year.

In restaurant division, the core division in food services, our efforts to build attractive restaurants were guided by the key words "impressive food and atmosphere," "impressive service," and "impressive manners and passion." We focused on employee training and took steps to activate existing stores and meet diversifying customer needs. To those ends, we used safe ingredients that are reassuring for customers, developed menu items based on fresh ingredients, proposed menu items that customers enjoy and that are reasonably priced, and developed new format stores. Nonetheless, the results were not satisfactory. Revenues from operations in food services were down 6.3%, to ¥114.0 billion, and operating loss was ¥4.2 billion, compared with operating income of ¥0.9 billion in the previous fiscal year.

Seven Bank, the core company in financial services, completed the installation of ATMs in all areas where SEJ and Ito-Yokado have stores, and also installed ATMs in public spaces, such as airports and hotels. As a result, as of the end of February 2008, Seven Bank had 13,017 installed ATMs, and the average daily transaction volume per ATM during the fiscal year was strong, reaching 108 transactions. The bank made solid progress in increasing its profitability. Also, IY Card Service, which handles card operations, made progress in issuing *nanaco* cards and worked to expand the issuance and usage of its credit cards. Due to higher awareness by customers of these two companies, revenues from operations in financial services were ¥118.0 billion, up 17.6%. However, accompanying Seven Bank's shift from leasing to purchasing ATMs, depreciation and amortization expenses increased, and IY Card Service recorded expenses associated with upfront investment in the issuance of *nanaco*. As a result, operating income was ¥21.1 billion, a decrease of 14.2%.

Other Income (Expenses) and Income Before Income Taxes and Minority Interests

Other expenses, net, totaled ¥53.6 billion, an increase of ¥9.9 billion year on year.

This increase was attributable to lower interest on bonds due to bond redemptions, which offset an increase in interest income.

In addition, at Ito-Yokado, gain on sales of property and equipment increased substantially and gain on increase of the Company's interest in consolidated subsidiaries was recorded accompanying the sale of Seven Bank treasury stock. However, accompanying the sale and impairment loss of CREDIT SAISON stock held by SEIBU, loss on sales of investments in securities and valuation loss on investments in securities were recorded.

As a result, income before income taxes and minority interests was ¥227.4 billion, a decrease of ¥15.6 billion.

Income taxes (including deferred income taxes) and net income

Income taxes totaled ¥88.2 billion, a decline of ¥12.4 billion year on year. After the application of tax effect accounting, the effective tax rate was 38.8%.

As a result, net income was ¥130.7 billion, down ¥2.8 billion from the previous fiscal year. Net income per share was ¥137.03, a decrease of ¥5.87 per share from ¥142.90 per share in the previous fiscal year.

ANALYSIS OF FINANCIAL POSITION

Assets, Liabilities, and Net Assets

In the year under review, THE LOFT, Akachan Honpo, and FUJIKOSHI were added to the scope of consolidation.

Total assets rose ¥77.5 billion, to ¥3,886.7 billion. Total current assets were up ¥80.0 billion, to ¥1,354.4 billion. Cash and cash equivalents increased ¥97.6 billion. However, Seven Bank call loans declined ¥107.8 billion.

Construction in progress rose ¥16.3 billion, but due to sales of non-current assets and impairment losses, property and equipment increased ¥4.0 billion. In intangible assets, goodwill of ¥8.3 billion was recorded as a result of the new consolidation of THE LOFT, while amortization of other goodwill was recorded and goodwill associated with 7-Eleven, Inc., declined due to the appreciation of the yen. As a result, intangible assets declined ¥12.9 billion. Investments in securities declined ¥13.1 billion due to the sales of and valuation loss recorded by shares of CREDIT SAISON held by SEIBU. As a result, total non-current assets declined ¥2.4 billion from a year earlier, to ¥2,532.0 billion.

Total liabilities were down ¥11.4 billion, to ¥1,828.6 billion. Due to the shift from long-term loans to current portion of long-term loans and to refinancing of short-term loans as long-term loans, significant amounts shifted between short-term and long-term loans, but overall, loans declined ¥17.2 billion. Also, due primarily to the redemption of ¥30.0 billion in bonds at Ito-Yokado, the total of bonds and current portion of bonds declined ¥27.7 billion. On the other hand, bank deposits received in banking business increased ¥36.0 billion.

Total net assets increased ¥88.9 billion, to ¥2,058.0 billion. Retained earnings were reduced ¥50.5 billion by cash dividend payment and increased ¥130.7 billion by net income for the year. Therefore, retained earnings increased ¥80.1 billion. Also, due to the cancellation of treasury stock, capital surplus and treasury stock each declined ¥34.6 billion.

As a result, net assets per share were up ¥82.08 from a year earlier, to ¥2,081.85, and the owners' equity ratio rose to 51.1%, from 50.1% a year earlier.

Cash Flows

Cash and cash equivalents (hereafter "cash") were provided by operations with high revenues and profit generating capacity, centered on convenience store operations. However, the use of cash includes opening new stores, remodeling existing stores, repaying loans, and redeeming bonds. As a result, cash increased ¥97.6 billion, to ¥667.8 billion at year-end.

Net cash provided by operating activities was ¥465.4 billion, an increase of ¥308.2 billion. Income before income taxes and minority interests was down ¥15.6 billion due to a net increase in call loan in Seven Bank of ¥239.1 billion and decreased income taxes paid of ¥47.5 billion.

Net cash used in investing activities was ¥237.2 billion, an increase of ¥1.2 billion from the previous fiscal year. Acquisition of property and equipment, principally for new store openings and store renovations declined ¥43.2 billion, and acquisition of investments in subsidiaries declined ¥24.2 billion. Payment for time deposit and payment for negotiable certificates of deposit increased ¥70.4 billion.

Net cash used in financing activities was ¥130.1 billion, an increase of ¥167.4 billion from the previous year. Net decrease in short-term loans declined ¥103.2 billion and payment for redemption of bonds increased ¥30.1 billion.

OPERATIONAL AND OTHER RISK FACTORS

The following items concern risks related to the Group's operations that could significantly affect the decisions of investors. However, the following does not represent all of the risks faced by the Group.

1. Domestic Market Trends

The majority of the Group's operations are carried out within Japan. As a result, domestic economic conditions, such as the business climate and consumer spending trends, could affect the Group's business performance. As part of its efforts to cater to consumer demand, the Group actively markets or develops seasonal products based on sales plans. However, an unexpected change in consumer behavior due to unseasonable weather could affect the Group's business performance or financial position.

2. Dependence on Specific Producing Areas, Suppliers, Products, and Technologies

The Group decentralizes its operations to avoid over dependence on specific producing areas, suppliers, products, and technologies. However, the interruption of supply routes due to such factors as political change, outbreaks of war or terrorist attacks, and natural disasters in countries or regions from which products and raw materials are sourced could have a limited effect on the Group's business performance.

3. Changes in Purchase Prices

The products sold by the Group include products that are sourced overseas and affected by changes in currency exchange rates, products that are affected by changes in the prices of such raw materials as crude oil, and products with purchase prices that change due to external factors. The Group has developed systems that enable the supply of products at stable prices by the use of forward exchange contracts and other methods for direct purchasing. However, changes in purchase prices across multiple purchasing routes or such external factors as a dramatic change in currency exchange rates could have a limited effect on the Group's business performance or financial position.

4. Product Safety and Labeling

The Group endeavors to provide customers with safe products and accurate information through the enhancement of food hygiene related equipment and facilities based on relevant laws and regulations, the implementation of a stringent integrated product management system that includes suppliers, and the establishment of a system of checks. However, the occurrence of a problem beyond the scope of the Group's measures could reduce public trust in the Group's products and incur costs stemming from countermeasures. Such an eventuality could affect the Group's business performance or financial position. Further, the occurrence of a major incident that involves the Group's products, despite the Group's measures to ensure product safety, and leads to product recalls or product liability claims could affect the Group's business performance or financial position.

5. Convenience Store Operations

The Group's convenience store operations are primarily organized under a franchise system, which is a joint enterprise in which the Group and franchised stores fulfill their respective roles based on an equal partnership and a relationship of trust. If agreements with numerous franchised stores became unsustainable because either the Group or the franchised stores did not fulfill their respective roles, the Group's business performance could be affected.

Approximately 34,000 7-Eleven stores operate worldwide, including stores outside the Group that operate under licenses granted by 7-Eleven, Inc. A reduction in royalties or sales resulting from misconduct on the part of area licensees that do not belong to the Group or by stores operated by area licensees could affect the Group's business performance or financial position.

6. Overseas Operations

The Group's business performance and financial position are affected by the business performances and financial positions of the Group's overseas subsidiaries and affiliates. Overseas operations could be affected by such factors as amendments to laws or regulatory changes that adversely affect the Group's operations, sudden changes in economic conditions or social instability, political change, outbreaks of war or terrorist attacks, and natural disasters.

7. Earthquakes and Other Natural Disasters or Accidents

With a view to creating safe, comfortable stores, the Group takes all possible measures in the design and operation of its stores to protect customers from normally foreseeable situations, such as natural disasters or accidents. Those efforts include ensuring the earthquake resistance of stores, the provision of disaster countermeasures manuals, and the implementation of evacuation drills. However, a large natural disaster, such as an earthquake or a typhoon, could damage the plants or warehouses of suppliers or damage transportation infrastructure, affecting product supply.

In particular, a large earthquake with an epicenter directly below the Tokyo metropolitan area could damage stores and other operational bases, partially halting operational activities. Such eventualities could affect the Group's business performance or financial position. Also, in its mainstay convenience store operations, the Group opens numerous stores in high geographical densities in Japan in accordance with its area dominance strategy. Therefore, the occurrence of a large natural disaster in a region where stores are concentrated would likely have a significant effect.

8. Information Systems and Other Operational Infrastructure

The Group outsources the operation and management of information systems for sales management, ATMs, and other operations to trustworthy service providers and seeks to construct a safe management system. However, a systems failure due to a natural disaster or defective software or hardware could impede store operations, which could affect the Group's business performance or financial position.

Further, if there was a conspicuous decrease in the technical capabilities or the profit-making capabilities of the companies to which the Group outsources the operation of significant operational infrastructures, such as distribution and product supply, or if it became difficult to continue contracts with such companies to which the Group outsources operations, the Group's business performance or financial position could be affected.

In particular, in its mainstay convenience store operations, 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 were no longer able to maintain operational relationships with business partners in its convenience store operations or if business partners' technical capabilities declined conspicuously, the Group's business performance or financial position could be affected.

9. Credit Management

The Group seeks to protect deposits and guarantee deposits pledged for store lessors through the establishment of mortgages and other collateral. However, deterioration in the economic condition of the store lessors or a drop in the value of the collateral properties could affect the Group's business performance or financial position.

10. Financial Services Operations

The Group conducts financial services operations, including credit card and banking operations. The Group seeks to curb such risks as credit risks and administrative risks through stringent personal identification checks and the recording and appropriate accounting treatment of provisions for doubtful accounts that reflect the collectibility of notes and accounts receivable–trade. Further, in banking operations, credit risk is limited through the restriction of settlement operations using ATMs and the restriction of deposits to quality financial institutions. However, increases in the rates of bad debt write-offs or finance receivables outstanding, increased difficulty in accurately evaluating the credit risks of borrowers, or unexpected bad debt write-offs could affect the Group's business performance or financial position.

Further, to enable rapid and flexible responses to changes in interest rates or currency exchange rates, the Group conducts monitoring on a daily basis and prepares countermeasures based on different scenarios. However, changes of an unexpected size could lower asset management efficiency or increase the cost of raising funds, which could affect the Group's business performance or financial position.

11. Asset Impairment Accounting, Retirement Benefit Obligations, and Deferred Tax Assets

The Group has already adopted asset impairment accounting for fixed assets. However, if the actual value of assets owned by the Group, including securities, dropped or further recognition of asset impairment became necessary for stores with low profitability, the Group's business performance or financial position could be affected.

Further, the Group calculates retirement benefit obligations based on discount rates and the expected rate of return on plan assets. However, unexpected changes in domestic share prices or interest rates upon which those rates are based, deterioration in the returns on plan assets due to such changes, or changes in the general pension system could affect the Group's business performance or financial position.

In addition, the Group records deferred tax assets based on estimates of future taxable income using rational methods. However, if estimates of taxable income were lowered due to unexpected changes in domestic economic conditions or consumer behavior, the adjustment in deferred tax assets would be recorded as an expense, which could affect the Group's business performance or financial position.

12. Store Development

The Group's opening of large stores that attract many customers is regulated based on the Large-Scale Retail Store Location Law and the City Planning Law. However, if those laws were amended or local authorities changed related regulations, it could become difficult to open stores in accordance with initially prepared store opening plans or refurbish existing stores, or costs could be incurred in responding to a reduction in potential candidate areas for future store openings. Such eventualities could affect the Group's business performance or financial position.

Further, regarding store opening plans, an inability to secure properties that meet store opening standards prepared for new stores, the discovery of land contamination not apparent at the time of store opening, or the failure of stores to meet store opening standards due to changes in the location environment following store opening could affect the Group's business performance or financial position. In addition, regarding rents for leasehold properties, the Group establishes reasonable rents based on consideration of various factors, including surrounding land prices and discussions with lessors. However, increases in rents for leasehold properties due to such factors as higher land prices could affect the Group's business performance or financial position. Also, regarding the liquidation of stores, influence on the sales operations of stores due to repurchases of leasehold properties, stemming from such external factors as changes in real estate prices or interest rates, could affect the Group's business performance or financial position.

13. Personal Information Protection Law

The Personal Information Protection Law, which was fully enacted on April 1, 2005, stipulates the obligations of companies handling personal information to manage personal information safely, specifies usage purposes, and limits the usage of personal information to those purposes. Because the Group's financial services and other operations handle diverse personal information, the Group is working to comply with the law by raising employee awareness, introducing new storage resources, and strengthening the security of information systems. However, an incident beyond the scope of the Group's measures that resulted in leakages of personal information could damage the Group's social trust or lead to damage liability claims, which could affect the Group's business performance or financial position.

14. Amendments to Other Laws

New costs could be incurred due to measures necessitated by amendments to various laws or changes in business practices, including changes in consumption tax rates due to amendments to the Consumption Tax Law, the expansion of the application of social insurance standards to include part-time workers, or amendments to the Containers and Packaging Recycling Law. Further, such amendments or changes could require the Group to change the content of its existing operations. Such eventualities could affect the Group's business performance.

In particular, in mainstay convenience store operations, stores are regarded as "convenient shops near everyone's home or workplace" that are part of the social infrastructure, and most domestic stores are open 24 hours a day. Therefore, the introduction of new laws or regulations relating to store openings, opening hours, products, or services could affect the Group's business performance.

15. Significant Suits and Other Legal Incidents

In the fiscal year under review, no suits that significantly affect the Group's performance were filed against the Group. However, if decisions unfavorable to the Group resulted from suits with a potentially significant effect on business results or social standing, the Group's business performance or financial position could be affected.

16. Brand Image

The occurrence of the risk events itemized in this section or misconduct on the part of subsidiaries, affiliates, or franchised stores could damage the Group's overall brand image. As a result, consumers' trust in the Group could diminish, the Group could lose personnel, or personnel could become difficult to secure, which could affect the Group's business performance or financial position.