On September 1, 2005, we opened the door to a new stage of growth. The establishment of Seven & i Holdings marked a major step toward the creation of an entirely new retail structure. To respond to diversifying, continually changing customer needs and maximize enterprise value, Seven & i Holdings was established as the holding company for Seven-Eleven Japan, Ito-Yokado, and Denny's Japan.

Creating "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY"

Following its establishment, Seven & i Holdings has set up seven core operational areas, centered on the retail industry. Since its establishment, the Company has rapidly implemented new initiatives, such as making 7-Eleven, Inc., of the United States, into a wholly owned subsidiary and implementing a business tie-up with Millennium Retailing, a major department store operator in Japan. As a result, we have further reinforced our position as one of Japan's leading retail groups.

In this section, we will present key topics in our creation of "a new, comprehensive lifestyle industry," from the establishment of Seven & i Holdings to initiatives in the year ended February 2006 and plans and challenges for the years ahead.

ESTABLISHMENT OF THE HOLDING COMPANY

(Background and Purpose)

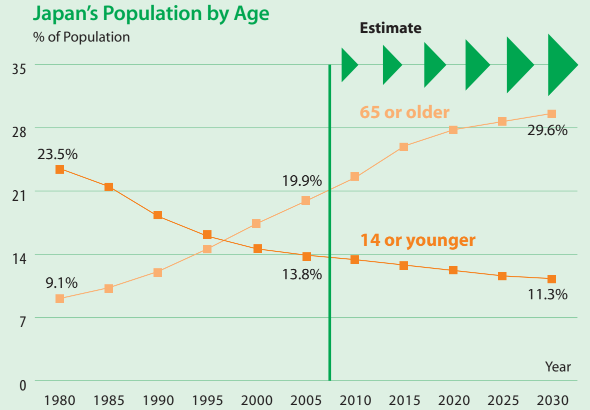
1 OPERATING ENVIRONMENT

Currently, domestic markets are characterized by consumption saturation and a surplus of material goods, and consumers are looking for more than just low prices. They increasingly want products with superior quality and products with a level of value that was not previously available. With the economy recovering, the deflationary trend has gradually bottomed out, and we expect demand for value – rather than price – to increase even further.

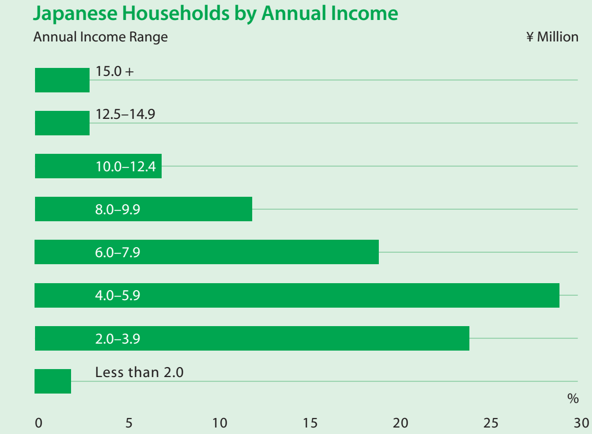
In recent years, the pace of change in Japan's economic and social conditions has accelerated. In particular, the trends toward fewer children per family and an aging population are exerting a significant effect on the retail industry, and these trends are the focus of growing attention. According to data from Japan's National Institute of Population and Social Security Research, in 2005 13.8% of the population was 14 or younger, while 19.9% was 65 or older. By 2030, those 65 and older are expected to account for about 30% of the total population.

Older customers include many who enjoy a comfortable level of economic resources, and, in comparison with younger customers, they are a source of greater demand for high-quality goods and services. The advent of an era marked by an aging population and fewer children has the potential to stimulate further reorganization and consolidation in the retail industry, but on the other hand, for the companies that respond to changes the fastest and meet customer needs, there is the potential for significant growth in new business opportunities.

One distinctive characteristic of the retail market in Japan is that the income differential is comparatively small. Customers tend to choose different types of stores – such as convenience stores, superstores, department stores, and specialty stores – in accordance with their intended purchases. Accordingly, in the domestic retail industry, it is necessary to provide high-quality products and services through a broad range of store formats and to provide a comprehensive response to customer needs.



Sources: National Institute of Population and Social Security Research, Population Statistics of Japan; Ministry of Internal Affairs and Communications, Statistics Bureau



Source: Ministry of Internal Affairs and Communications, Statistics Bureau, *Family Income and Expenditure Survey*

2 REASONS FOR ESTABLISHING THE HOLDING COMPANY

We chose to establish Seven & i Holdings in order to strengthen our business portfolio, which is centered on retailing, by accommodating rapid changes in economic and social conditions and the distinctive purchasing behavior of consumers in Japan as well as to maximize enterprise value by leveraging synergies among business fields.

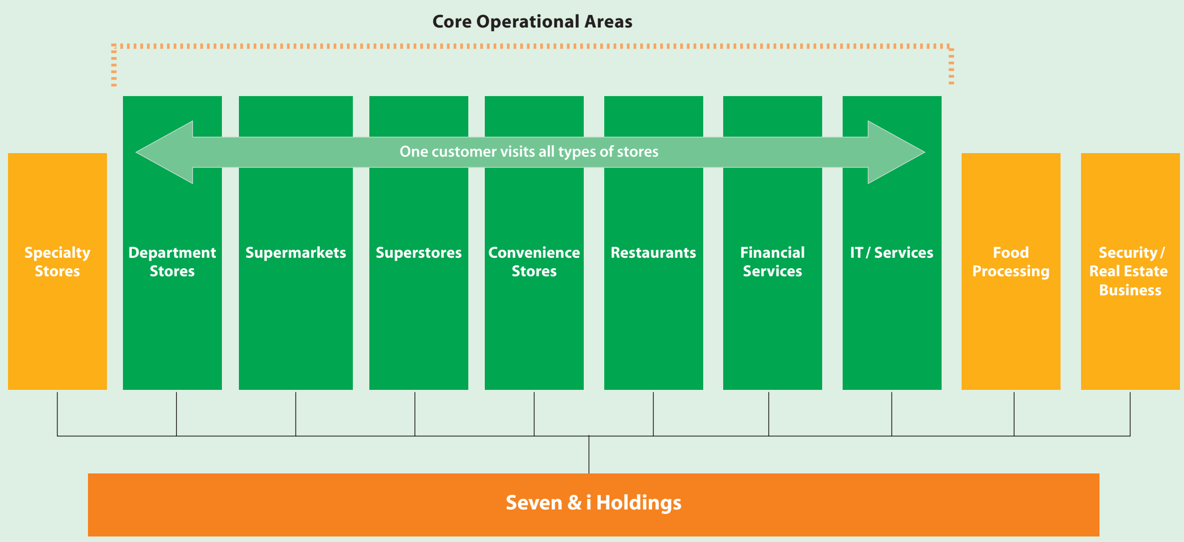
Specifically, as a global, integrated retail group, we will further strengthen our core operational areas – convenience stores, superstores, department stores, supermarkets, restaurants, financial services, and IT/services. We will strive to create "a new, comprehensive lifestyle industry" that supports comfortable lifestyles for all generations, from young to old, and establish an operational foundation that can support sustained growth.

3 THE ROLES OF THE HOLDING COMPANY AND THE OPERATING COMPANIES

As the listed company that represents the Group, Seven & i Holdings is responsible for management strategies for the Group as a whole. Specifically, we plan and formulate Groupwide management strategies, take overall responsibility for corporate governance for the Group, communicate with shareholders and other stakeholders, evaluate the profitability of the operating companies, and efficiently allocate funds to new fields with high growth potential.

In contrast, the operating companies have complete responsibility within their business fields, where they focus on such tasks as growing and expanding their operations and raising the quality of products and services provided to customers while acting independently in pursuit of higher profits and greater capital efficiency. Their basic policy for capital investment is to conduct investment within the limits of the cash generated by their own operations.

Core Operational Areas of Seven & i Holdings



STRATEGIES FOR CREATING "A NEW, COMPREHENSIVE LIFESTYLE INDUSTRY"

1 FISCAL 2006 INITIATIVES

Even prior to the establishment of the holding company, we were one of the leading retail groups in Japan, with revenues of approximately ¥3.6 trillion in the fiscal year ended February 2005. With the transition to the holding company system in September 2005, we have implemented a range of initiatives targeting the expansion of our fields of business to take further advantage of new opportunities and growth potential.

Moreover, to leverage synergies among Group companies, we have worked to implement full-fledged Group merchandising activities in joint procurement of products and raw materials, distribution, and product development and to move ahead with an information system integration project. We have also begun building a framework to make shopping even more convenient for customers. Examples include our plan to issue our own electronic money and to offer a point service that allows points to be used Groupwide.

2 ESTABLISHMENT AND STRENGTHENING OF CORE OPERATING COMPANIES IN EACH OPERATIONAL FIELD

1. Overview

Since the holding company was established and set up seven core operational areas, we have announced and implemented a number of strategies targeting the establishment or further strengthening of core operating companies in each field.

Specifically, we have positioned Ito-Yokado, which had previously served as an operating holding company, as the core operating subsidiary in superstores, thereby paving the way for Ito-Yokado to focus on rebuilding our superstore operations. In November 2005, we further strengthened our convenience store operations overseas by making 7-Eleven, Inc., of the United States, a wholly owned subsidiary. In January 2006, we implemented a business tie-up with Millennium Retailing, and in February 2006 we made Seven and Y, which is engaged in Internet sales of books and other products, a subsidiary. On September 1, 2006, we will make York-Benimaru a wholly owned subsidiary and position it as the core operating company in our supermarket operations. And in spring 2007, we will issue our own electronic money, *nanaco*. With this series of measures, we have already increased the speed of our implementation of strategies as a holding company.

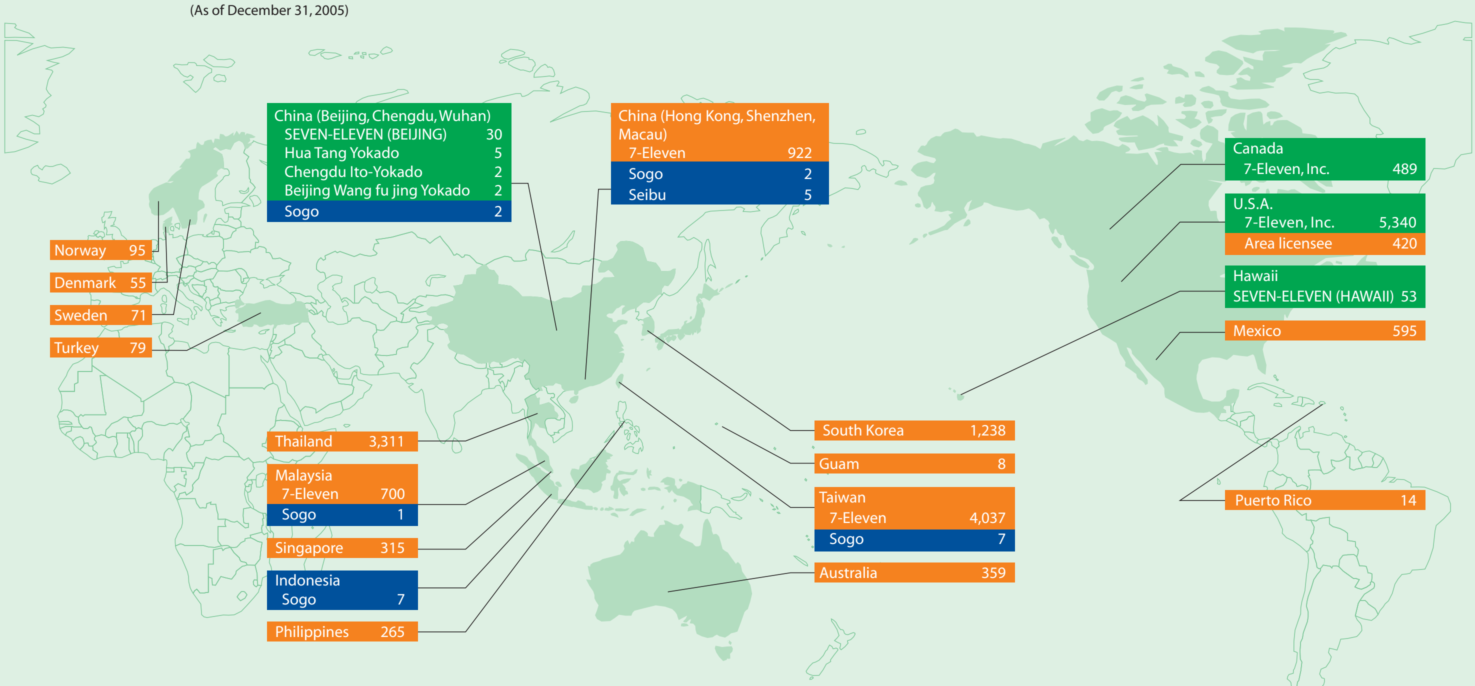
As of the end of February 2006, the store networks of core operating companies were as shown on page 13.

Key Initiatives by Seven & i Holdings

Operational Field	Core Operating Companies	Initiatives following Establishment of Holding Company
Convenience Stores	Seven-Eleven Japan, 7-Eleven, Inc.	7-Eleven, Inc. made wholly owned subsidiary
Superstores	Ito-Yokado	Steps being taken to improve profitability
Department Stores	–	Business tie-up with Millennium Retailing
Supermarkets	York Mart, York-Benimaru (affiliate)	York-Benimaru will be made wholly owned subsidiary
Restaurants	Denny's Japan	–
Financial Services	Seven Bank, IY Card Service	Introduction of electronic money and point service announced
IT / Services	7dream.com, Seven-Meal Service	Seven and Y made subsidiary Began discussing tie-up with Yahoo Japan Corporation

Seven & i Holdings' Worldwide Store Network

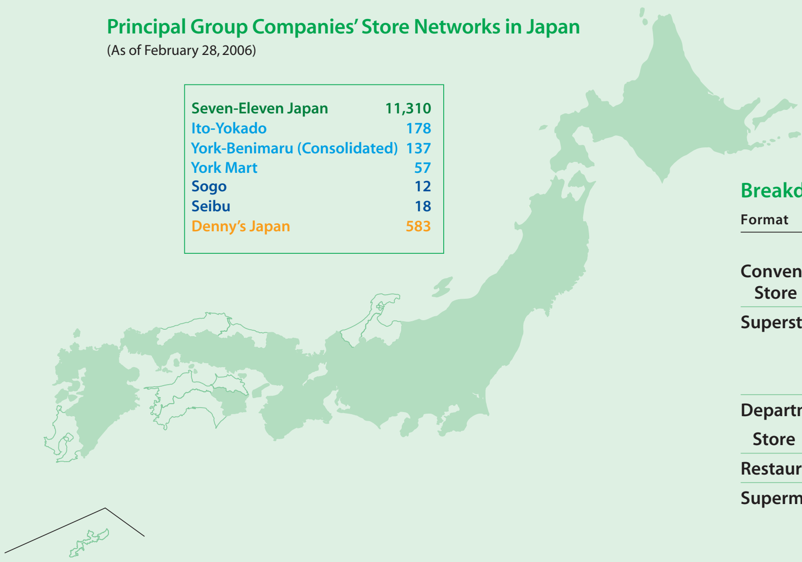
(As of December 31, 2005)



■ Number of stores operated by subsidiaries of Seven & i Holdings
■ Number of stores operated by 7-Eleven, Inc.'s area licensees
■ Number of stores operated under trademarks licensed from Millennium Retailing

Principal Group Companies' Store Networks in Japan

(As of February 28, 2006)



Breakdown of Store Network by Brand

Format	Brand	Number of Stores: Japan	Number of Stores: Overseas
Convenience Store	7-Eleven	11,310	18,396 (of which, area franchise: 12,484)
Superstore	Ito-Yokado	178	–
	Hua Tang Yokado	–	5
	Chengdu Ito-Yokado	–	2
Department Store	Sogo	12	19*
	Seibu	18	5*
Restaurant	Denny's	583	–
Supermarket	York-Benimaru (Consolidated)	137	–
	York Mart	57	–
	Beijing Wang fu jing Yokado	–	2

* Number of stores operated under trademarks licensed from Millennium Retailing

2. Strengthening Core Operations – Rebuilding Superstore Operations

Ito-Yokado is taking steps to create sales areas that meet customer needs, such as revitalizing existing stores by reforming apparel merchandising and sales areas and developing mall-type shopping centers in urban areas. Ito-Yokado has also revised its cost structure in a range of fields and worked to build a highly profitable store network.

Reforming Apparel Merchandising

Improving apparel merchandising is a key part of the revitalization of our superstore operations. These reforms were initiated as a project, led by SEVEN & i Life Design Institute Co., Ltd., which was established in April 2005, targeting the fundamental reevaluation of Ito-Yokado's apparel operations, the establishment of new private brand merchandise, and the creation of sales areas that customers find appealing.

In sales area reform, we changed from sales areas based on type of clothing to sales areas organized by brand and actively instituted coordinated displays, thereby enhancing our ability to appeal to the target customers for each brand. In private brand products, we have already reevaluated all apparel brands from the basic concept level and are consolidating existing brands for which target customers overlap while, at the same time, launching new brands. Specifically, in February 2006, we launched new brands of apparel for men and women in their 30s and a casual wear brand for men in their 50s. We have also launched three brands of suits for businessmen, whose tastes differ by age group.

One aspect of these merchandising reforms is the reevaluation of the merchandising system. Moreover, we are not just simply swapping in new merchandise. We are taking steps to enhance visual merchandising, such as creating sales areas that make it easy for customers to select merchandise and improving product display methods. And we are reevaluating the use of flyers and other media in sales promotions and implementing reforms for sales areas overall, such as educating sales staff and improving customer contact skills. In these ways, we are working to boost sales.

In parallel with those initiatives, we are working to expand the percentage of consignment products, for which inventory risk is low. Highly specialized products and products with short selling seasons, such as formal wear, informal summer kimono, and swimwear, will be the focus of our efforts to increase the percentage of consignment products. In this way, we are bolstering our initiatives to reduce markdown losses while maintaining our product lineup.

Rebuilding the Store Network

We are developing mall-type shopping centers in urban areas as a new store format. We opened "Ario" mall-type shopping centers in Soga, Sapporo, and Kawaguchi in the year ended February 2006 and one in Kameari in March 2006. In addition to core tenant Ito-Yokado, the range of tenants includes many popular shops and restaurants, and we are targeting a wide range of customer age groups, from senior citizens to new families.

In addition to new store openings, we have begun to rebuild our store network with a focus on profitability. Some existing stores have suffered from declining profitability due to changes in their service area over the many years since they were opened, while some others have found it difficult to provide a product lineup that meets diversifying customer needs due to limited space. Ito-Yokado closed eight such stores in the year ended February 2006 and plans to close a total of more than 30 by the end of February 2009. Nonetheless, we will decide to close stores only after we take steps to reduce costs, such as negotiating rent. In some locations, we will experiment with continuing to operate food sales areas in the stores while leasing out the remaining store space to tenants, thereby bolstering the stores' earning power. The first store operating under that format is Shokuhinkan-Kamagaya, which opened in April 2006.

Reevaluating the Cost Structure

Cost reductions are another key part of superstore reforms. In the previous fiscal year, we revised our personnel policies, leading to a decline in full-time employees and an increase in the percentage of part-time employees, and reduced depreciation and amortization expense through the application of impairment accounting. As a result, we have built a system that can produce significant cost reductions at the overhead level. In the year ending February 2007, we expect to reduce general and administrative expenses by about ¥10 billion from the year ended February 2006.

3. Strengthening Core Operations – Making 7-Eleven, Inc., of the U.S., a Wholly Owned Subsidiary

In November 2005, Seven-Eleven Japan (SEJ) made 7-Eleven, Inc., which operates about 5,800 stores in the United States and Canada and is the global licensor for 7-Eleven, into a wholly owned subsidiary.

As a result, in the United States and Canada, 7-Eleven, Inc., will rebuild the store network targeting long-term growth and implement aggressive store renovations and investment in new stores. At the same time, the know-how that SEJ acquired through its original product development will be shared with 7-Eleven, Inc., and we will strive to develop differentiated products that meet the needs of consumers in the United States and Canada. Also, through the provision of know-how in the areas of product development, item-by-item management, and distribution management, SEJ will support operational expansion. 7-Eleven, Inc., will aim to establish an operating system that positions fast food and other original items as core products.

In regard to SEJ's relationship with area licensees around the world, SEJ will play the central role in the 7-Eleven chain and will work to strengthen the competitiveness of the global 7-Eleven chain. In particular, in regard to area licensees in Asia, SEJ will supply know-how in the areas of fast food development, distribution, and IT systems; products; and equipment.

3 PURSUIT OF SYNERGIES

1. Overview

Along with the expansion of core operational areas, the pursuit of Group synergies was one of the major objectives of the establishment of the holding company. The operating companies differ in terms of format, but they all are retail companies or companies that offer related goods and services. By drawing on that common core, we will be able to leverage synergies in merchandising, such as product procurement, product development, raw material procurement, and distribution, as well as in costs, through greater efficiency. In the fiscal year ending February 2009, we anticipate increased operating income based on synergy effects of ¥26.0 billion in merchandising and ¥4.0 billion in costs.

2. Synergies in Merchandising

A major point in our growth strategy is the maximization of synergies through the bolstering of Group merchandising. We have implemented Group merchandising for some time, but we were not able to achieve adequate results due to the existence of barriers separating our companies and organizations. However, after moving to the holding company system, Seven & i Holdings has taken the initiative and the operating companies have given their complete cooperation as we have worked to maximize the benefits of Group merchandising. Specifically, the Group Merchandising Subcommittee

Group Merchandising System

1. Aim of Reform: Maximization of Group Corporate Value

- Share and further advance the Group's overall strengths
- Consolidate purchasing (food ingredients / containers): fully exploit planning and purchasing power

2. Reform Advancement System

- Establish the Group Merchandising Subcommittee under the Group Synergy Committee > Progress management and coordination of reform

Pursuing Higher Sales + Enhanced Profit Margins

Measures in Food Products Operations

Group Development Team

- Differentiated products / pursuit of absolute quality
- Value-added products / uncompromising pursuit of taste and quality
- Expansion of team merchandising
- Sales promotion, new brand strategies

Common Infrastructure Development Team

- Enhancement of production / distribution efficiency (cost reduction)
- Production management system
- Materials coordination (B2B)
- Joint purchasing body (B2B)
- Construction of outsourcing structure
- Maintenance of quality (low temperature distribution)
- Development of processing centers

Fresh Ingredients Development Team

- Quality benchmarks (value standards)
- Ensuring of traceability
- Enhancement of ingredients, production processes, production engineering
- Ingredient quality standards
- Contracted farmers / joint ingredient purchasing

External Support Team

has been set up under the Group Synergy Committee, which was formed after the establishment of the holding company, providing an effective means of controlling and regulating progress in the implementation of reforms.

Above all, an important issue is how the Group utilizes economies of scale to secure improvements in the procurement prices of national brand products. We will promote the sharing of procurement information among operating companies and the revision of the terms on which each operating company transacts its business to ensure consistency in pricing. In the year under review, we standardized product classification codes in superstores and supermarkets, making possible procurement negotiations in accordance with the scale of sales of all companies.

We are also aggressively introducing original products. During the year under review, we launched a series of original products in such fields as daily foods, which include breads, and processed foods and beverages, which include instant noodles, ice cream, and beer. As a result, we have been able to not only differentiate the product lineups of Group stores but also benefit from economies of scale using the purchasing power of the entire Group. Moreover, in the future we will promote joint procurement on a Groupwide basis and work to reduce procurement prices for the fresh foods used in each store format through combined purchasing. For example, convenience stores, superstores, and restaurants use different cuts of pork, so the Group will reduce costs by purchasing entire hog carcasses. Also, a production facility that had previously supplied fast food products exclusively to convenience stores will also supply *sozai* prepared dishes and semi-prepared dishes to superstores. In these ways, we will share production infrastructure in the field of food product manufacturing and processing.

Furthermore, we will build a joint distribution system that transcends the boundaries of operating companies in different store formats, thereby realizing improved quality and productivity, increased administrative efficiency, and lower costs. In regard to the joint distribution system, Ito-Yokado and York-Benimaru have already begun joint use of distribution centers in the Tohoku region, and in the future we will pursue greater efficiency by implementing this type of framework on a nationwide basis.

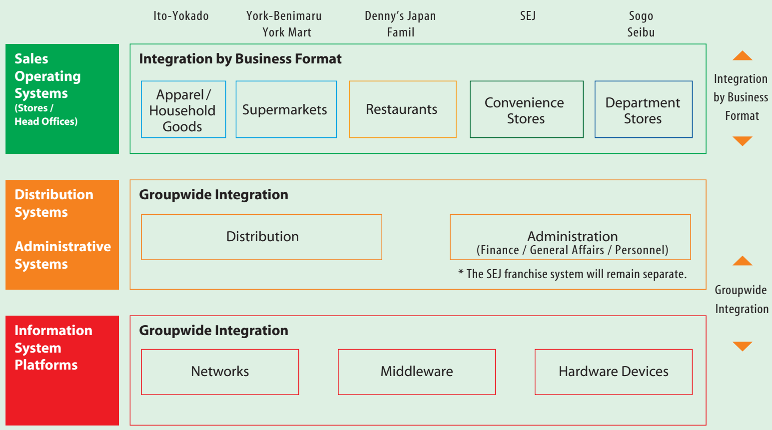
Original products by Seven & i Holdings

3. Information System Integration

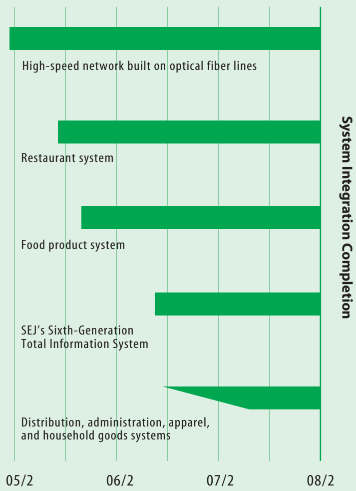
Under the Corporate Group System Integration Project, which was commenced in 2003, we are integrating Group systems by store format to establish a foundation for creating Group synergies. The objectives are to benefit from economies of scale in merchandising by drawing on the purchasing volume of the entire Group through the sharing of sales data, to increase efficiency by sharing distribution infrastructure by standardizing product classification codes, and to reduce hardware development and operating costs by standardizing information infrastructure hardware specifications among operating companies.

We have already begun using on a Groupwide basis a high-speed network built on optical fiber lines. In June 2005, Denny's Japan introduced a new restaurant system, and in September 2005 Ito-Yokado, York-Benimaru and York Mart introduced a new food product system. Under the new food product system, we have integrated product classification to increase efficiency in product development and distribution. In addition, we have bolstered the hardware by such steps as the use of wireless LANs with ordering terminals, thereby improving the ordering system and increasing its usability. SEJ is working to implement an upgrade to its Sixth-Generation Total Information System and at the end of May 2006 began the installation of the core system, a store system. This milestone marked a significant enhancement of the ordering support function. The Corporate Group System Integration Project is scheduled for completion by the end of February 2008, except for Sogo and Seibu.

Integration of Group Information Systems



Group System Integration Schedule



BUSINESS TIE-UP WITH MILLENNIUM RETAILING

Toshifumi Suzuki, Chairman and Chief Executive Officer of Seven & i Holdings (right), and Shigeaki Wada, President of Millennium Retailing (December 26, 2005)

1 PURPOSE OF THE BUSINESS TIE-UP

When the Company was established, we set off on a course of expansion in our operational foundation, centered on our seven core operational areas. Bolstering our department store operations was one of our principal challenges. Through the business tie-up with Millennium Retailing, Inc., which owns Sogo Co., Ltd. (Sogo) and THE SEIBU DEPARTMENT STORES, LTD. (Seibu), the Group was expanded with the addition of department stores having combined revenues from operations of nearly ¥1 trillion. The Company and Millennium Retailing have a great deal in common in such areas as customer strategy, so by integrating the tangible and intangible management resources that we have each acquired in our respective operational fields, we can expect substantial synergies not only in department store operations but also in other fields. In January 2003,

Structure of Millennium Retailing

MILLENNIUM RETAILING GROUP

Sogo Co., Ltd.	THE SEIBU DEPARTMENT STORES, LTD.
Department stores	Department stores

SHELL GARDEN CO., LTD.
Food retail (supermarkets for high-quality foods)

THE LOFT CO., LTD.*
Specialty sundries retail

MILLENNIUM Casting Inc.
Comprehensive human resources service

IKEBUKURO SHOPPING PARK CO., LTD.
Shopping center and parking lot

Yatsugatake Kogen Lodge Co., Ltd.
Hotel and villa management

GOTTSUO BIN CO., LTD.
Gift kit planning and sales

* Affiliate accounted for by the equity method

Major Japanese Department Stores by Revenues from Operations and Operating Income

Fiscal year ended February 2006 ¥ Million

	Revenues from Operations	Operating Income
Takashimaya	¥ 1,031,150	¥ 32,755
Sogo + Seibu	**957,670 ***	**37,181 ***
Sogo	**474,732**	**17,248**
Seibu	**482,939**	**19,934**
Mitsukoshi	842,009	15,272
Daimaru	822,584	30,678
Isetan (fiscal year ended March 2006)	760,038	30,061

* Figures for "Sogo + Seibu" are the sum of the two companies' figures.

Sogo completed reorganization procedures under the Civil Revitalization Law, and in March 2005 Seibu completed its restructuring plan ahead of schedule. In the fiscal year ended February 2006, the two companies had combined revenues from operations of ¥957.7 billion and operating income of ¥37.2 billion, giving them one of the strongest levels of profitability in Japan's department store sector. We expect them to make a stable contribution to our profitability in the years ahead.

2 BENEFITS OF THE BUSINESS TIE-UP

One merit of the business tie-up is the contribution that it will make to accelerating the reform and revitalization of our superstore operations. By introducing Millennium Retailing's marketing methods for high-quality products and services into Ito-Yokado's superstore operations, we will be able to implement reforms under a different conceptual framework than that which characterized our previous initiatives. For example, in apparel merchandising reform, we can effectively utilize the fashion information and know-how of the department stores. Also, in mall-type shopping centers in urban areas, where product lineups and other attributes are similar to those in department stores, we will work to use Millennium Retailing's channels to draw tenants with the power to attract customers and to develop new suppliers.

Moreover, we will complement regional marketing by mutually sharing information with the establishment of a business model that includes the card business and effective use of IT. For example, we expect to sell Millennium Retailing's seasonal gifts through other Group companies and to effectively use in Ito-Yokado's product development data about the purchasing behavior of prime customers, such as wealthy customers and senior citizens. Millennium Retailing, which has had an especially strong track record in one-to-one marketing using customer information cards, will share its card strategy know-how with the Company.

We also expect to undertake joint development of new multipurpose commercial facilities, such as shopping centers. Through the sharing of information and know-how in such areas as tenant operations, sales promotion, planning and execution, customer service, and support operations, we will develop the optimal stores for regional needs and enhance customer service and support.

PLANS FOR FISCAL YEAR 2007 AND BEYOND

1 UPCOMING CHALLENGES

As we continue striving to create "a new, comprehensive lifestyle industry," the entire Group will work together to strengthen and enhance its principal operational fields. We will strive to further leverage Group synergies and bolster cooperation within the Group in all areas, including product development, raw material procurement, and distribution.

Accordingly, in addition to the business tie-up with Millennium Retailing, we will take aggressive steps in fields that offer new opportunities and growth potential. For instance, we will make York-Benimaru a wholly owned subsidiary, issue our own electronic money, and endeavor to meet the needs of senior citizens. We will maximize synergies by expanding core operational areas and implementing Group merchandising, thereby raising the Group's enterprise value.

2 MAKING YORK-BENIMARU A WHOLLY OWNED SUBSIDIARY

As mentioned, York-Benimaru will become a wholly owned subsidiary through a stock-for-stock exchange in September 2006 and will be positioned as the core operating company in our supermarket operations, one of our core operational areas.

It has been 33 years since Ito-Yokado and York-Benimaru entered an operational alliance in 1973. Through the exchange of information and the implementation of joint activities in such areas as operational development, procurement, and distribution, the two companies have developed their relationship, and we are confident that the benefits of making York-Benimaru a wholly owned subsidiary will be realized at an early stage. In the future, we will strive to raise enterprise value by leveraging synergies in Groupwide operations, sales networks, cost management, and merchandising and by further increasing management efficiency.

As of the end of February 2006, York-Benimaru and its wholly owned subsidiaries operated 137 stores in five prefectures – Fukushima, Miyagi, Yamagata, Tochigi, and Ibaraki. In the future, York-Benimaru will take aggressive steps to bolster its store network, with the goal of reaching 200 stores.

3 INTRODUCTION OF ELECTRONIC MONEY AND POINT CARDS

Accompanying the introduction of our own electronic money, *nanaco*, which marks the next stage of development in our financial services, SEJ will introduce prepaid electronic money cards with contactless IC chips. We also plan to incorporate point service functions in the cards. The benefits of introducing electronic money include our ability to set fees lower than those for existing electronic money systems and our ability to use the system not only for payments but also to obtain customer data, thereby enhancing marketing initiatives through the effective use of such data in sales promotion efforts.

In the first phase, 7-Eleven stores throughout Japan – about 11,300 stores in all – will accept *nanaco* electronic money cards. Greater efficiency in handling payments will enable us to reduce waiting times at registers, thereby further increasing convenience for customers. IY Card Service will be the issuer of the electronic money, and we expect about 10 million cards to be issued in the first year, placing the service on a par with existing electronic money systems in Japan. Plans call for electronic money terminals to be installed in 7-Eleven stores from fall 2006, utilizing new POS registers incorporating the world's first multi-reader/writer.

Card Issuance: Progress to Date and Future Direction

Current State of Progress

	Credit cards	Point cards		Cash cards	Electronic money	Millennium Card	Club On Card
Issuer	IY Card Service	IY Card Service	SEJ	Seven Bank	–	Sogo	Seibu
Usage	Ito-Yokado, York Mart	Ito-Yokado, York Mart	SEJ	–	–	Sogo, Seibu	Seibu, Sogo
Number Issued	3 million	5 million	1.8 million	320 thousand	–	2.4 million	2.8 million

Future Direction

Toward a multipurpose card based on an electronic money card

	Electronic money and point card	+ credit card	+ cash card
Issuer	IY Card Service		+ Seven Bank
Usage	All Seven & i Holdings stores in Japan and stores of tie-up partners		
Number Issued	10 million (first year target)	–	

\+

All types of previously issued cards

In the second phase, all Ito-Yokado and other stores in the Seven & i Holdings Group will accept *nanaco* electronic money. Ultimately, we will facilitate wide-ranging use of the electronic money through tie-ups with companies outside the Group. And by integrating the electronic money card with credit cards and cash cards, we are planning to introduce a multipurpose card that is based on the electronic money card.

In developing the electronic money, Seven & i Holdings entered a tie-up with JCB, the largest Japanese credit card company. JCB had previously developed QUICPay, a post-paid contactless IC card settlement service, and, by applying JCB's know-how to the development of a prepaid system, we will be able to achieve a rigorous level of security, reduce development costs, and speed up the development process.

4 COMMITTED TO SERVING SENIOR CITIZENS IN THE YEARS AHEAD

In Japan, the baby boom generation is on the verge of retirement. The full-scale advent of an aging population will make the seniors market extremely important in the years ahead. Many senior citizens want products that are delicious even if expensive, and the seniors market is expected to record significant growth in terms of sales volume. We will treat the aging of Japan's population as a business opportunity and aggressively work to meet the needs of the seniors market.

Seven-Meal Service, a subsidiary of SEJ, has already begun to offer a meal delivery service in certain regions, and that service has been well received. We plan to make this service available in all areas where SEJ has stores by the end of 2006.

In the future, we will consider the use of the Group-wide store network. In particular, in addition to SEJ, which has a network of about 11,300 stores, the largest in Japan, near the homes of senior citizens, our wide-ranging store network encompasses a variety of formats, such as department stores operated by Millennium Retailing subsidiaries Sogo and Seibu, which have garnered a high level of brand recognition among senior citizens, and Ito-Yokado and York-Benimaru, which have purchasing power and know-how in the fields of fresh and processed foods. And while leveraging that competitive advantage, we will also consider the use of other frameworks, such as Internet shopping sites and catalog sales. In these ways, we will develop our operations in the seniors market, which is poised to record significant growth in the years ahead.