

Fresh To Go.



7-Eleven, Inc., 2003 Annual Report

At 7-Eleven, we are always taking a fresh look at convenience.

Leading this industry requires us to be forward-thinking, technologically adept and nimble. Consumer demands surface rapidly, and we strive for a fresh approach to business while preserving the brand customers have come to rely upon.

We are continually looking for fresh and innovative product offerings through market research, our retail information system and listening to our customers. We are committed to fresh ideas that will help grow the company. Our employees and franchisees complement these products and services by being focused on our customers. And, finally, we look for fresh ways to give back to and nurture our communities.

So whether you are in need of coffee and something to eat on the way to work or stopping for milk and a loaf of bread for dinner, 7-Eleven is focused on making convenience synonymous with “fresh.”



2003 Financial Highlights

Thanks to a fresh approach to delivering convenience, 7-Eleven, Inc. achieved total revenue growth of 10.1% and reported total revenue of \$10.9 billion for 2003, a record for its convenience stores.

Six million customers a day visit our 5,784 stores in the United States and Canada, and they have come to expect an unmatched selection of fresh products, Slurpee® beverages, coffee, fountain drinks, and a number of other proprietary and convenience items.

Merchandise

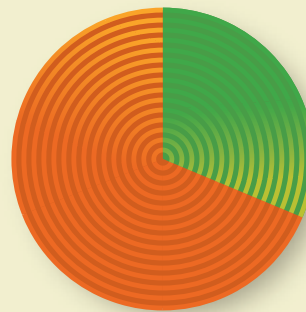
Responding to our customers' needs at each individual 7-Eleven® store through the use of proprietary technology is a key to our success. Scanning the globe for the freshest products and most convenient items and services keeps us on top of customer trends and has also contributed meaningfully to our growth in merchandise sales.

We continued our string of solid annual merchandise sales increases, reporting our tenth-straight yearly increase in 2003. Total merchandise sales increased \$391.9 million, or 5.6%, over 2002, to \$7.4 billion. Growth was primarily driven by a 3.2% increase in U.S. same-store merchandise sales, on top of a 3.1% increase for 2002. Significant contributors to the merchandise sales growth in 2003 were increases in the categories of cigarettes, non-carbonated beverages, beer, coffee and fresh food items.

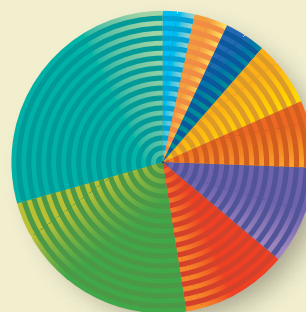
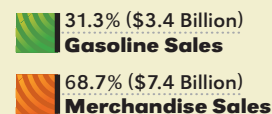
Gasoline

Approximately 2,457 7-Eleven stores in the United States and Canada sell gasoline so customers can fuel up and purchase items like beverages and snacks at the same convenient time. The majority of gasoline stores offer pay-at-the-pump technology with 24-hour-a-day convenience.

Our active daily monitoring and management of retail gasoline prices at individual 7-Eleven stores produced an eleventh consecutive year of strong gasoline margins. We delivered gasoline gross profit per gallon of 15.4 cents, for a total of \$326.3 million. Total gasoline gallons rose 6.5% to 2.1 billion gallons. Gasoline sales increased by \$611.7 million to \$3.4 billion, or 22.2%, over 2002. Average per store gallon sales, a measure of year-over-year performance, increased 4.2%.



2003 Total Sales
(U.S. and Canada)



2003 Merchandise Sales
(U.S. and Canada)

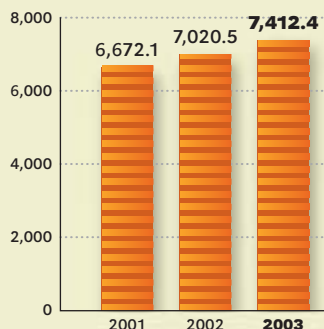


Financial Highlights

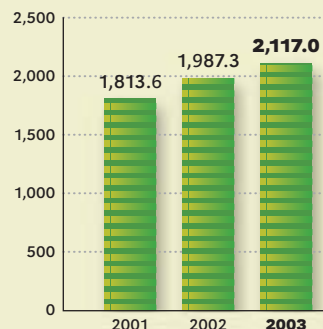
(Dollars in millions, except earnings per share and store data)	2001	2002	2003
For the Year:			
Merchandise Sales ⁽¹⁾⁽²⁾	\$ 6,672.1	\$ 7,020.5	\$ 7,412.4
Gasoline Sales ⁽¹⁾	2,636.6	2,760.6	3,372.3
Total Net Sales ⁽¹⁾⁽²⁾	9,308.7	9,781.1	10,784.7
Other Income ⁽¹⁾	111.9	102.9	97.0
Total Revenues ⁽¹⁾⁽²⁾	9,420.6	9,884.0	10,881.7
Core Earnings ⁽¹⁾⁽³⁾	104.7	76.8	88.8
Net Earnings ⁽⁴⁾	83.7	12.8	64.1
Core Earnings Per Common Share (Diluted) ⁽¹⁾⁽³⁾	0.92	0.69	0.78
Net Earnings Per Common Share (Diluted) ⁽⁴⁾	0.75	0.13	0.58
EBITDA ⁽⁵⁾	483.0	413.1	498.3
Weighted Average Shares Outstanding (Diluted) ⁽⁶⁾	125.9	111.5	127.2
At Year End:			
Shareholder's Equity	\$ 152.5	\$ 163.5	\$ 340.0
U.S. Same-Store Merchandise Sales Increase ⁽²⁾	2.8%	3.1%	3.2%
Gasoline Gallons ⁽¹⁾	1,813.6	1,987.3	2,117.0
Number of 7-Eleven Stores U.S and Canada	5,829	5,823	5,784
Total 7-Eleven Stores Worldwide	22,648	24,434	25,796
Total Sales in 7-Eleven Stores Worldwide ⁽²⁾	\$ 31,051	\$ 32,651	\$ 36,524

- (1) Prior year amounts on the consolidated statements of earnings have been reclassified to discontinued operations to conform to the current year presentation in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."
- (2) Merchandise cost of goods sold amounts of \$(136.4) million and \$(155.5) million for the years ended December 31, 2001, and 2002, respectively, have been recorded as a reduction of merchandise sales to reflect our revised accounting for sales of prepaid phone cards net of related cost in conformity with the provisions of Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross Versus Net."
- (3) Core earnings and core earnings per diluted share have been adjusted to exclude unusual items, cumulative accounting changes and discontinued operations.
- (4) Net earnings in 2001 included an after-tax cumulative effect of accounting change of \$(9.8) million in connection with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Net earnings in 2002 included an after-tax cumulative effect of accounting change of \$(28.1) million in connection with the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations." Net earnings in 2003 includes an after-tax cumulative effect of accounting change of \$(10.2) million in connection with the adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51."
- (5) EBITDA defined as earnings before net interest expense, income tax expense, depreciation and amortization, and cumulative accounting changes.
- (6) In 2002 the shares in connection with the 1995 Convertible Quarterly Income Debt Securities were antidilutive to earnings per common share and were not assumed converted for weighted average shares outstanding.

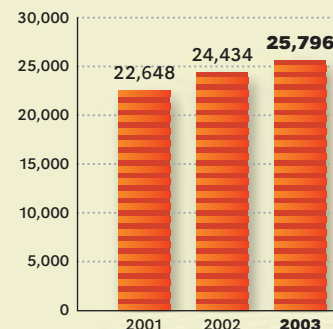
2003 U.S. and Canada Merchandise Sales
(\$ in Millions)



2003 U.S. and Canada Gasoline Gallons
(Gallons in Millions)



2003 Global Store Count
(As of Dec. 31, 2003)



Shareholder's Letter

Dear Fellow Shareholder:

Fresh ideas, fresh approaches and fresh products are all characteristics of the "new" 7-Eleven®. "Fresh" is the guiding principle that drives our company by helping us keep pace with the rapidly changing needs of convenience customers. We attribute the improvement in our performance to this obsession with freshness.

This focus on freshness, a sustainable competitive advantage, resulted in profitable growth in 2003. 7-Eleven, Inc.'s reported core earnings were \$88.8 million, or \$0.78 per diluted share, a 15.6% improvement over 2002. Revenue from our convenience store operations hit a record \$10.9 billion and merchandise gross profit grew to \$2.6 billion, an increase of 5.5%. One of the most gratifying achievements was the continued trend in our U.S. same-store merchandise sales, marking our tenth straight year of increases with a growth rate of 3.2% on top of a 3.1% rise the prior year. This continues our streak of 29 consecutive quarters of same-store merchandise growth.

Our profitable growth in 2003 can be attributed primarily to continued increases in same-store merchandise sales and improved gasoline gross profit. These items offset the one-time decrease in the royalty rate from Seven-Eleven Japan that resulted in an after-tax reduction of \$14 million during the year. This was a long-anticipated change that actually occurred in mid 2002. Royalty income from licensed operations is expected to grow as Seven-Eleven Japan and our other licensees continue their growth.

Strong gasoline gross profit in 2003 contributed significantly to earnings. Total gasoline gallons sold climbed to 2.1 billion, or an increase of 6.5%. Gasoline gross profit was a healthy 15.4 cents per gallon and average per store gallon sales rose 4.2% contributing to a gross profit of \$326.3 million. This marks the eleventh consecutive year of gasoline margins at or above 13 cents per-gallon. Day-to-day management of our gasoline business on a store-by-store basis is driving our steady performance, even in a year that saw rapid fluctuations in the price of gasoline.



James W. Keyes
President and
Chief Executive Officer



25,000th 7-Eleven Store Celebrated
7-Eleven commemorated the opening of
its 25,000th store in downtown Chicago.

Retailer Initiative keeps a fresh supply of products continually available.

With over 6 million daily customers in the U.S. and Canada, 7-Eleven's greatest opportunity is to do a better job of providing the products and services they want and need. Keeping pace with the changing need of convenience customers is at the heart of our unique strategy that we call Retailer Initiative. 7-Eleven's scale provides similar purchasing power and leverage as some of the world's greatest retailers. The infrastructure offers wide-ranging advantages from our proprietary retail information system to a nationwide network of daily distribution providers. Our Retailer Initiative strategy leverages both of these strengths as well as the entrepreneurialism of our individual store operators. Their

focus on item-by-item management—deleting slow-selling merchandise and introducing new items at every store, every day—allows 7-Eleven stores to satisfy their customers in ways that few retailers can match. In the simplest terms, we enjoy the power of a global retailer, but maintain the store-level focus of a single-store operator.

Technology has enabled this unique strategy. Our proprietary technology for inventory management captures even subtle shifts in buying patterns, allowing 7-Eleven stores to serve a diverse customer base. The easy-to-use system puts powerful decision-making tools in the hands of individual store operators. They can see what their customers are purchasing and which products are languishing so they can make informed decisions about precisely what to stock on any given day. We attribute the consistency and stability of 7-Eleven's sales over the past several years to our successful Retailer Initiative strategy.

To teach the principles and benefits of Retailer Initiative throughout 7-Eleven, we have established "model markets." To date there are nine model markets, representing around 600 stores. In these stores, store personnel undergo advanced



7-Eleven Convenience Card™
A faster, easier way to purchase goods at 7-Eleven stores was launched in 2003.

training, use labor-saving equipment and practice effective merchandising techniques. In essence, they are reclaiming responsibility for ordering every item in the store, a responsibility that was long-ago delegated to suppliers. Today, 7-Eleven store managers and franchisees are armed with the most current and relevant information and make decisions far better than any individual supplier.

The model market initiative is already demonstrating benefits such as double-digit increases in sales, reduction in inventory, improvement in inventory turnover and a resulting improvement in store results. We anticipate further success as 7-Eleven continues to roll out the model market concept in 2004. While the first phase will be complete in 2005, our work will never be complete as we strive for continuous improvement in our ability to satisfy the customer.

Our commitment to product innovation offers customers fresh choices.

In addition to responding to today's buying patterns via Retailer Initiative, we tap into consumer trends to develop products they will buy tomorrow. During the year we introduced over 2,500 new items and deleted nearly as many slow-movers from our product assortment. A keen emphasis on proprietary products that provide differentiation, promote customer loyalty and typically offer a higher margin to the company are key elements of this merchandising strategy. 7-Eleven works closely with suppliers in an approach that we call Team Merchandising in order to collaborate on new product ideas.

One of our favorite examples is this past year's launch of Diet Pepsi-flavored Slurpee® beverage. Thanks to the diligence of our category management group and the product development team at PepsiCo, Inc., this long-awaited product was finally introduced last year. It generated a flood of positive media attention and, most important, a resounding response from

Our proprietary technology for inventory management captures even subtle shifts in buying patterns, allowing 7-Eleven stores to serve a diverse customer base. We call this successful strategy Retailer Initiative.



Fresh Food Test Market
Test marketing our fresh food products in 7-Eleven's Austin, Texas stores.

Existing product lines—favorites among our customers—have been expanded with fresh additions. 7-Eleven's Big Eats Deli™ sandwiches line offers more selections. The latest additions to our grill include a new line of Big Eats® griller sausages and a new Hot Pockets Brand Grill Snack program. A fresh food test market in Austin, Texas stores is underway to gauge consumer acceptance of products prior to a national rollout.

Another opportunity for proprietary product is 7-Eleven's growing lineup of services offerings. Last year we launched our stored value 7-Eleven Convenience Card™. During December—our most active month so far—our stores sold nearly 100,000 cards. Our findings show that customers think the card is easier to use than cash or credit, and they typically spend more when using this payment method.

Prepaid wireless phones and phone cards saw another strong sales year in 2003. 7-Eleven is already recognized as a premier loading destination for prepaid wireless services, and we have the opportunity to fortify this position even further.

Our streak of 29 consecutive quarters of same-store merchandise growth is due in part to our ongoing implementation of key initiatives and our commitment to introducing innovative products.

customers. Also a hit with customers was the lineup of Crystal Light sugar-free Slurpee® beverage flavors, and unique tastes like GraperMelon, which was created through our collaboration with the Wrigley Company.

Other proprietary products included the first-ever edible candy Slurpee® straw, novelty frozen products, energy drinks, enticing café combinations and tie-ins with hit movies. In response to consumers' increasing preference for premium import beer, we developed Santiago Cerveza de Oro™, made in El Salvador specifically for and sold exclusively by 7-Eleven stores.

Existing product lines—favorites among our customers—have been expanded with fresh additions.



Variety of Prepaid Wireless Phone Cards
7-Eleven is a premier loading destination for prepaid wireless services.

The initial rollout for Vcom®, our self-serve financial services kiosk, is complete. Last year 7-Eleven completed the installment of the machine in 1,000 stores, offering 24-hour access to a variety of financial transactions, including ATM, money orders, money transfers, check cashing and the ability to manage a Verizon online account.

7-Eleven is experiencing continued worldwide expansion.

Every day over 20 million customers visit our global network of nearly 26,000 7-Eleven stores. Our worldwide growth remains

All that we have achieved could not have been done without the commitment and involvement of our hard-working employees, franchisees and licensees.

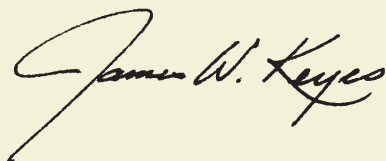
strong with the addition of more than 1,300 licensed stores under the 7-Eleven sign in 2003. Seven-Eleven Japan opened its 10,000th store in August. Early in 2004, we were pleased to announce that the Ministry of Commerce in the People's Republic of China approved the formation of a joint venture among Seven-Eleven Japan, Co., Ltd., Beijing ShouLian Commercial Group Co., Ltd., and China National Sugar & Alcohol Group Corporation. Following the execution of an area license agreement with 7-Eleven, Inc., the joint venture will start to develop 7-Eleven stores in Beijing and the surrounding area. The first stores are expected to open in the spring of 2004.

All that we have achieved could not have been done without the commitment and involvement of our hard-working employees, franchisees and licensees. I personally want to thank them for their dedication to 7-Eleven and for their contribution to our improved results, especially our franchisees. As independent business people, they are seeing the mutual benefits of our strategy and continue to embrace and implement our initiatives.

I believe 7-Eleven is the "Sign of Opportunity" for our employees, our franchisees, our licensees and for you, our shareholders.

This report will show you the energy and passion we bring to the task of improving our collective opportunities every day. I also hope it will help you share our confidence in the promising future before us. We have the opportunity to improve revenue and reduce cost through the increased efficiency of our infrastructure. The aggressive investment spending of the past few years is behind us and now one of our key challenges is to fully utilize the tools that are in place. We are confident in our ability to keep pace with the changing needs of customers by implementing our strategies to give customers what they want—exciting new products, fast service, easy transactions, quick in-and-out experiences and high quality, portable fresh foods—while providing our shareholders with steady, sustainable improvement in performance.

Sincerely,



James W. Keyes

President and Chief Executive Officer



Seven-Eleven Japan Opens 10,000th 7-Eleven Store
Seven-Eleven Japan reached this significant milestone in August 2003.



Fresh Data.

Technology helps us give customers the fresh products they expect.

Customers rely on 7-Eleven to deliver consistent, reliable products day in and day out. Behind the scenes we use advanced technology to ensure that these top-selling items are always in stock and our assortment of fresh foods is continuously available.

Our retail information system is a tool that provides store operators historical sales data and key indicators of sales for any item, such as the time of day it was sold, the package size and product flavor. This empowers them to customize their product mix according to customers' purchases, emerging trends, season, demographic preferences and even specific product requests.

Through this process of Retailer Initiative, 7-Eleven improves the productivity of stores and the profitability of our company.



Here's an example.

The past few years we noted increasing sales of nutritional items like energy bars and beverages, and saw a growing trend in high-protein/low-carbohydrate diets. It was an early sign that many consumers were becoming more keenly focused on food that would not conflict with their new eating habits. We worked with vendors to develop low-carb choices such as energy bars and snack chips. These diet-friendly items are merchandised throughout the store and clearly

marked. 7-Eleven also gained exclusivity in the convenience channel for Mad Croc Energy Drink. This beverage introduction was one of the most successful in 2003, matching other high-profile energy drink sales and bringing new users to the category. Most important, this energy drink offers customers a lower-priced option for a high-quality product and provides the company with a higher profit margin than similar products.

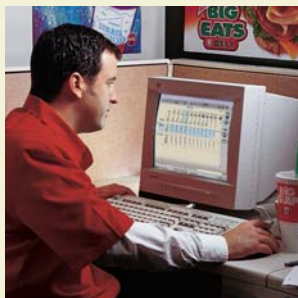


Technology gives us the ability to try new products—in selected stores or nationally—with a great deal of confidence and little risk. We can stock an item on a Monday, know how customers are responding the next day and decide quickly if it's a success.

Continued investment in technology helps build on our success.

7-Eleven continued to enhance its technology capabilities during 2003, further sharing the power of information throughout the enterprise. We upgraded store infrastructures to allow for individual computer-based training, and added a number of features to the retail information system that simplified operations, such as a real-time ability to change prices at the gasoline pumps, electronic signature capture for credit and debit cards, and an easier process for identifying new products available to the stores.

During the year we also improved efficiency and performance throughout the organization. The 7-Connect intranet portal facilitates communication among stores in nearly 6,000 locations. Our field organization now has better analysis and reporting capabilities. Several previously manual functions in our accounting, procurement and human relations departments are now automated. And our data warehouse improves the organization's ability to access and analyze information.



While technology enables our Retailer Initiative strategy and other critical operations throughout the company, it is our people who use it. Our retailers' eagerness to apply this new technology makes their job of giving customers what they want easier and more effective. This winning combination made possible 7-Eleven's sixth consecutive year of U.S. same-store merchandise sales in the three- to five-percent range and a 3.2% increase in U.S. same-store merchandise sales for 2003. Continuing to achieve these trends is our mission. It's based on harnessing the power of fresh data. ■



Delivered fresh, every morning.

Determining what customers want is only the beginning. Getting this broad selection of quality products to our stores in a timely manner is also critical. That's where 7-Eleven enjoys a true point of differentiation.

Every day 7-Eleven stores electronically send delivery orders to the commissaries and bakeries that produce our signature line of fresh food products. Items are prepared fresh the same day—adhering to 7-Eleven's proprietary recipes and strict specifications. Fresh products are date- and time-stamped. Other perishable products are delivered throughout the day to

Fresh Daily.



the distribution center to be sorted for that night's delivery. 7-Eleven's combined distribution center (CDC) concept "combines" these products from multiple suppliers for daily delivery by third-party logistic operators. As a complement to the twice-weekly traditional distribution method for dry goods, the CDCs deliver fresh items such as our proprietary line of Big Eats Deli™ sandwiches, Big Eats Bakery® fresh bakery products, dairy products, bread, produce and other perishable items to 7-Eleven stores 365 days a year.

Strategically located throughout North America, 23 CDCs support approximately 4,700 stores, or just above 80% of the store network. Daily distribution provides many advantages to 7-Eleven, among them are the ability to deliver fresh, high-quality products, reduce the sheer number of deliveries to any given store, lower distribution costs, free-up parking spaces for customers and generally increase the amount of time store operators can devote to customer service. The CDC also enables stores to carry products from regional or local manufacturers, creating true customization at the store level.

With daily ordering and delivery, a store can replenish stock of its more popular items within hours rather than days, shortening the amount of time between order and delivery. The ability to order more efficiently and better manage inventory is part of the reason 7-Eleven has achieved its sixth-straight yearly increase in inventory turnover.

CDCs completed around 1.7 million fresh food deliveries in 2003 to 7-Eleven stores, increasing the volume of goods delivered daily while maintaining service standards and reducing distribution costs. This contributed to total fresh food sales in 2003 exceeding \$450 million, or an increase of just over 11%.



While managing how product gets to our stores is challenging, we are making progress. Increasing frequency from once a day to twice a day in some locations will further derive benefits from the system. We challenge suppliers that deliver directly to our stores to do so more frequently and at a time that minimizes disturbance. All of these efforts are designed with our customers in mind—delivering value by offering fresher products, greater variety and added convenience. ■

New approaches to marketing fresh food.

The iconic 7-Eleven® logo and red, orange and green stripes winding around suburban-area stores is a powerful image. Regular customers know they can dash in and purchase quality, fresh products in a clean and friendly atmosphere. While this remains a constant, we've refreshed our thinking about some aspects of our store locations, size and appearance to bring 7-Eleven stores to once untapped markets.

Many of these target consumers are on foot—walk-up customers in city centers, university campuses, airports and other high-density areas—and want a fresh selection of foods and beverages as well as convenience items. Our urban store format is consequently smaller, requires less capital investment, can be opened more quickly and utilizes the existing distribution infrastructure. Retailer Initiative is integral to its operation, directing retailers what to stock and having fresh product available daily.

Deli and breakfast sandwiches, meals hot off the grill and fresh-baked donuts, muffins and cookies are a sampling of this fresh food. We are making it the focus in our 7-Eleven stores in Austin, Texas, where we have designed and are testing a fresh food section featuring our freshest, best-tasting and highest-quality products.

Fresh thinking also pays dividends in package design and adds to a product's appeal. We recognized a rise in the number of people who snack while in their cars, so we are working with companies to create packages that fit their lifestyle. Cookies, chips and candy are now available in containers that fit into cup-holders instead of bags. Dozens of items are available this way, including many of our own.

We are continuing to develop other ways to grow fresh food sales, and making it a major goal for 2004 and beyond.



Something new in store.

Some of the best ideas come from our employees, franchisees and vendors who have joined us in making a success of the concept we call Team Merchandising. At its essence, Team Merchandising is designed to find ways to meet consumer demands, even if it challenges conventional assumptions. The results are as complex as a technology that bundles financial services, as ordinary as equipment that enhances product quality and as innovative as exclusive product offerings.

Vcom®, which stands for "virtual commerce," is 7-Eleven's proprietary financial services kiosk. Its initial rollout was completed last year and it is now available in 1,000 stores in 25 markets. With the ease of a touch-screen and convenience of 24-hour availability, Vcom offers ATM, check cashing, money order purchases and money transfers, and access to Verizon residential telephone services. Last year, we saw steady growth in the number of new Vcom members and services transacted. We are optimistic about continued improvement in 2004 as we prepare to offer bill payment, phone cards, stored value cards and lottery sales. We will continue to add more functionality to provide customers with a one-stop shop for their financial services needs.



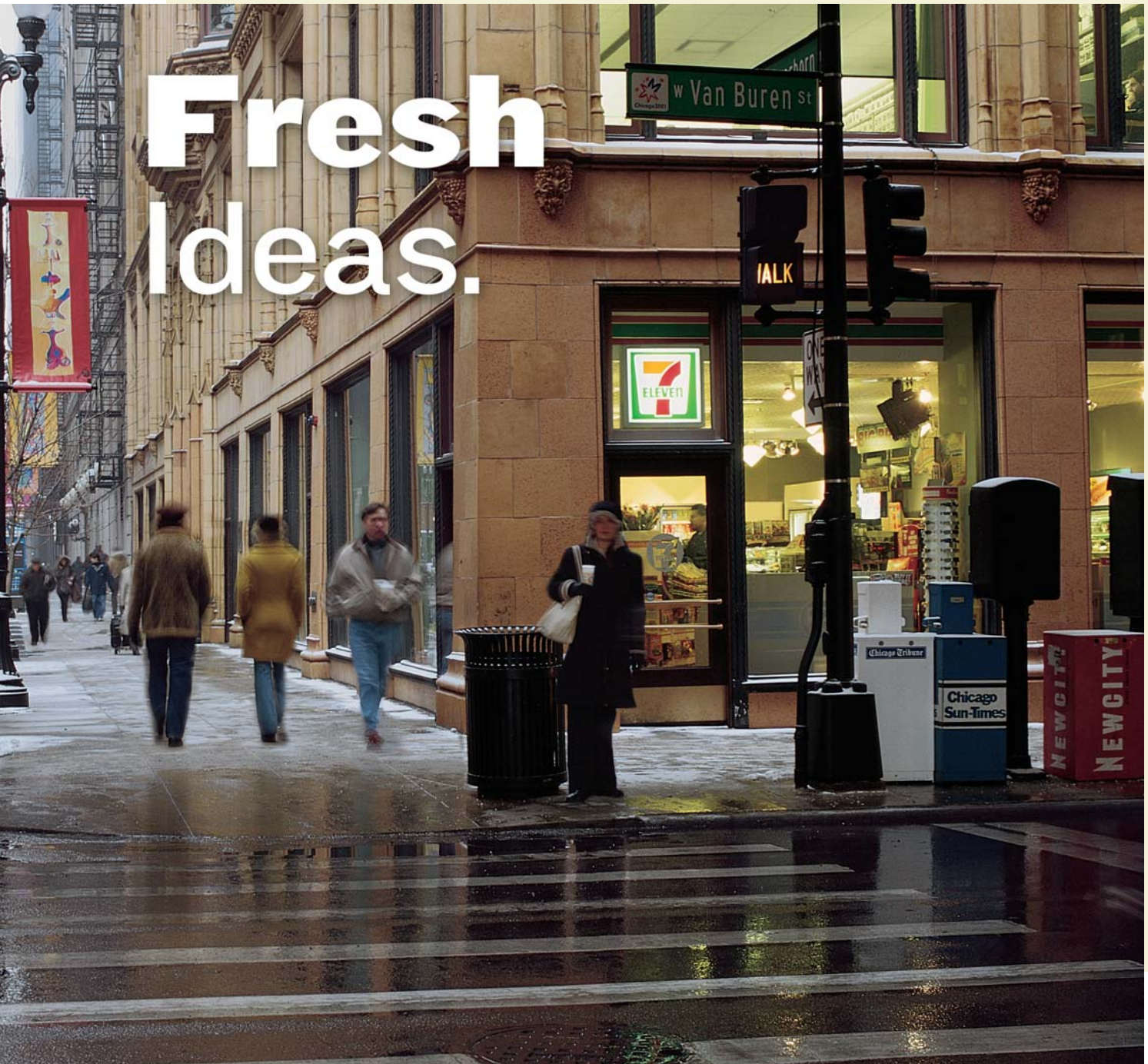


Also new in our stores is an upgraded hot beverage bar. We installed around 4,300 cappuccino/cocoa machines in late 2003. Several enticing flavors like Oreo Mint, Candy Cane and Hershey's S'mores candy bar were introduced alongside our top-selling French Vanilla Cappuccino. Supporting this rollout was a successful "1300+ Ways to Create Your Own Coffee™" advertising campaign which received great customer response. Fresh flavors will continue to be added throughout 2004.

Stirring up conventional thinking often leads us to completely different product categories. We began testing disposable DVDs. This novel twist to DVD movie rental will allow us to offer customers choices without heavy inventory costs.

Challenging ourselves to take a fresh look at our products and consumers' needs will lead us to innovative products, new options and additional markets as we continue to break ground in the industry. ■

Fresh Ideas.



Changing products to give customers greater choice.

When customers walk into a 7-Eleven store on any given day, they're sure to find what they need as well as something new. We are continually changing our product selection in order to anticipate what customers want, then give them a product that is even better than expected. This strategy requires us to stay alert to developing trends in the marketplace, and be prepared to test and introduce products that address those trends. Doing so early in the product's life cycle allows us to fully tap its potential.



Last year 7-Eleven introduced more than 2,500 new items—around 50 a week—and their popularity among customers was evident in our steady rise in sales. Our company marked its tenth-straight increase in annual U.S. same-store merchandise sales, and, as of fourth quarter 2003, 29 consecutive quarterly increases. This continued steady growth produced a 5.6% increase in total merchandise sales for 2003, with merchandise sales reported at \$7.4 billion.

Sharing this success with suppliers, who appreciate and share our passion for product innovation, creates a winning combination of resources. Team Merchandising enables us to offer products that are superior to what could be accomplished alone. Last summer 7-Eleven held its first-ever strategic review and planning session with representatives from more than 100 of our major suppliers. This gave us the opportunity to develop new relationships and strengthen established ones.

A notable outcome of Team Merchandising was the expansion of 7-Eleven's Slurpee beverage choices. We tapped into the low-calorie/low-carbohydrate trend and met customers' demand for great-tasting refreshment with popular sugar-free Crystal Light Raspberry Ice, Lemon-Lime and Orange-Pineapple flavors. And we reached a hard-fought goal with the launch of Diet Pepsi Slurpee. After years of working to overcome technical challenges, PepsiCo created the perfect blend of nonnutritive sweeteners and other ingredients to produce the first-ever zero-calorie Slurpee drink. With these beverages, 7-Eleven added recognizable names to its list of proprietary brands.

Our determination to develop additional low-calorie products will continue because our customers are becoming more health-conscious and want their options at 7-Eleven to include a greater variety of good-for-you products. Recognition of this customer need led us to seek or develop dozens of low-carbohydrate, high-nutrition food products that were introduced throughout 2003. Expect to see other Team Merchandising breakthrough products in 2004.

7-Eleven's other new items included merchandise tie-ins with hit movies; Slurpee-licensed candy, straws and gum; proprietary café combinations at the coffee bar; exciting





Fresh Assortment.



cappuccino flavors; the melt-in-your-mouth Dreammm Donut; an appetizing selection of new 7-Eleven Go-Go Taquitos® and tasty fresh sandwiches at our Big Eats Deli open air case.

This parade of new products is the result of keeping our focus on our customers and delivering what they have come to expect from 7-Eleven—fresh ideas, a fresh look and fresh product.

Moving the inventory.

One of the priorities of store operators and their associates is ordering properly. It is the responsibility of each store to be in stock on fast-selling items, appropriately merchandising high-potential products and removing slow-selling ones in order to make space for continual new product introductions.

Inventory turnover tells us how quickly and broadly we are selling our products, and turning inventory faster is pivotal to our success. 7-Eleven's merchandise inventory turnover rate was more than 17 times in 2003 and our near-term goal is to reach 25 turns. That's where the fresh thinking empowered by Retailer Initiative helps master inventory. We manage every item, in every store, every day, stocking those products that sell and eliminating those that don't.

Always having available, exciting, fresh products customers want—sometimes even before they know they want it—is an unbeatable combination. ■



Fresh Smiles.

Developing great people to build great stores.

The success of 7-Eleven as an enterprise is based on the hard work of its employees, franchisees and licensees. To assist the front-line staff in managing an effective store, we launched an intense 12-week certification program in 2002 and stepped up the pace of training in 2003. Almost one-third of the field management organization was certified by the end of 2003.

We have made it easier for people working in the stores to learn while on the job with Web-enabled computer-based training. This better facilitates communication with corporate areas as well.

To achieve better order forecasting, we created a two-day advanced classroom training module that has been completed by more than 2,700 store sales associates. These training tools are intended to apply our Retailer Initiative strategy at a higher level, continuing to support our merchandise sales growth and better manage inventory.

Early results indicate that what we are doing is working. Improved hiring, career path development and better training have lowered store-associate turnover two years in a row, or a decrease from 2001 of almost 20%. Customer service scores—a measurement of our five fundamental principles of Assortment, Quality, Value, Cleanliness and Service at the store level—have improved again in 2003, and we expect greater strides in 2004.



Better alignment with franchisees.

Franchisees operate around 3,300 7-Eleven stores in the United States and are an integral part of the company's success. This entrepreneurial group delivered another solid year in 2003.

Further aligning 7-Eleven's interests and its franchisees is a new franchise agreement developed together over the last two years. This agreement combines 7-Eleven's strategies regarding fresh foods, combined distribution, and differentiation with franchisees' entrepreneurial business approach. In addition, the new agreement should enhance the company's ability to leverage its scale with additional purchasing power and reduce costs to the stores. By strengthening the relationship with our franchisees, we should improve profitability for both franchisees and 7-Eleven.

Working as a team generates fresh ideas.

The success of Team Merchandising and Retailer Initiative is an orchestrated effort by 7-Eleven, its people and its suppliers. Last year proved to be productive, with our introduction of 2,500 new products and the expectation for even more in 2004.

A few of our suppliers are worthy of particular mention, for they embody the qualities of mutual dedication and commitment to excellence necessary to produce winning results through Retailer Initiative. The Retailer Initiative Award recipients were Nestlé Waters North America, Inc. taking top honors, with special honorees The Foreign Candy Company, Inc. and AT&T Wireless.



Good companies make good neighbors.

Our employees and franchisees have a history of active participation in their communities through community service days, local government and community boards. We applaud their dedication.

7-Eleven supports worthy charities through direct donations, in-kind contributions and its signature canister program. Last year our canisters raised nearly \$1 million for national charities like the American Red Cross, Muscular Dystrophy Association and Education is Freedom. 7-Eleven and its franchisees have raised a total of \$100 million since 1976, the program's inaugural year.



7-Eleven donated to local programs supporting a variety of causes like education, the arts, law enforcement and food banks. Through customer donations and corporate giving, 7-Eleven donated nearly \$3 million in support during 2003 to nonprofit organizations in the communities we serve.

7-Eleven was the recipient of several awards in 2003. Some of those honors included recognition as a Top 100 Franchise by *Nation's Restaurant News*, *Hispanic* magazine's Corporate 100 List and for the thirteenth-straight year ranked by *Entrepreneur* magazine in Top 500 Companies to Franchise, taking 4th place in 2003. Additionally, the company received a number-one ranking in every category of the 2003 *Convenience Store News* annual study, inclusion in the new business book *America's Greatest Brands*, named as *Beverage Aisle* magazine's "Retailer of the Year," "Retail Leader of the Year" from *CSP* magazine and some notable technology awards from *Infoworld*, *Computerworld* and *CIO* magazines. ■

7-Eleven's story is as fresh and familiar as a steaming cup of coffee.

Thanks to our fresh thinking, fresh products and fresh methods of delivering convenience, 7-Eleven® is a well-recognized global brand. Every day approximately 26,000 stores in 18 countries and territories serve some 20 million people.

Responding to customers' needs at the store level is vital to our success. We scan the globe for the most convenient and freshest products. Products that are on-target with customer trends and that can contribute significantly to our continued success in merchandise retailing.

Reaching new customers plays a role in reaching our sales goals as well. We developed a concept for a walk-up urban store that serves customers in city centers, on university campuses, at airports, apartment buildings and other highly populated areas.

Ongoing investment in technology and our people has empowered our individual store retailers and streamlined our inventory management. Our company's ongoing commitment to developing leaders ensures that these products and programs are successfully implemented and managed.

Last year was one of growth, forward momentum and innovation. We reaped the rewards of our hard work and learned what we need to do to continue our progress. 7-Eleven is well positioned to set even more sales records. Our first store embraced the fresh approach of selling much-needed food items on Sunday, and that innovation stays with us today as the new 7-Eleven continues to evolve. ■



Fresh Approach.