



# **F**inancial Section

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This graphic indicates that further details are available in the Circle K Sunkus Investors' Guide (IG) 2010. Certain figures in this annual report differ from corresponding figures in the IG due to differences in rounding methods.

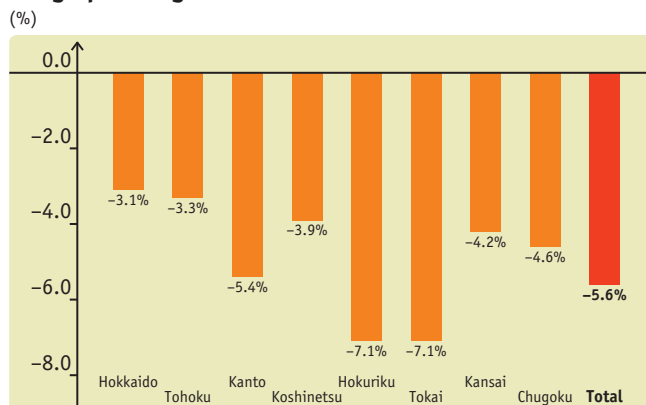
Note: Unless stated otherwise, figures for store results on pages 25 to 30 of the MD&A are shown on a non-consolidated basis.

## Business Environment

In the fiscal year ended February 28, 2010, the Japanese economy showed signs of bottoming out, including an improving trade balance supported by stronger overseas demand and a boost from consumer purchasing incentives such as the Japanese government's Eco-point system. However, Japan also saw signs of deflation, brought about by persistently weak domestic demand centered on consumer spending and capital investment. As household incomes stagnated, consumers further tightened their belts and showed increasingly stronger preferences for low prices.

In the retail industry, overall demand languished as prices fell across many different sectors, including the food, apparel, and housing-related sectors. In this context, competition between different industries and business formats intensified. In the convenience store industry, existing store sales remained weak due to declines in customer footfall and in the average purchase per customer. This partly reflected the end of a boost in sales from the introduction of taspo card systems (age-verifying IC cards installed in cigarette vending machines; hereinafter the "taspo card effect"), as well as generally weak consumer spending due to the weak economy. Weather-related factors, such as a mild summer, were also responsible.

## Year-on-Year Changes in Existing Stores Sales by Geographic Region



## Store Results

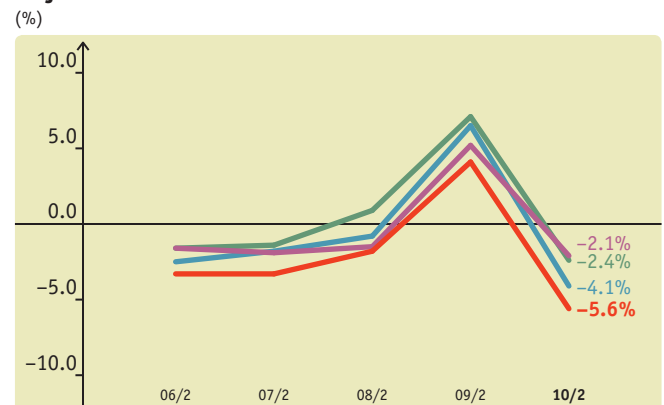
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### Sales and Existing Store Sales (Y-o-Y Comparisons)

In the fiscal year ended February 28, 2010, Circle K Sunkus continued to record weak sales across a wide range of product categories—including fast food, perishable food and processed food. This was mainly the result of generally lackluster consumer spending, low-price preferences, and intensifying competition with different business sectors. Another factor was weak sales of summertime products such as chilled noodles, ice cream, and soft drinks due to weather-related factors, such as an extended rainy season and a mild summer. From July 2009, tobacco sales decreased due to the end of the taspo card effect. Consequently, existing store sales in the fiscal year ended February 28, 2010 declined 5.6% year on year on a non-consolidated basis. Consequently, total store sales, including franchised stores, decreased 4.3% year on year to ¥852,154 million.

In the fiscal year ending February 28, 2011, Japan is expected to see an economic recovery, mainly driven by additional stimulus from government financial policies, including a child support allowance, and improving employment and personal income conditions in response to a halt in declining corporate earnings. Nonetheless, economic growth is projected to be marginal as the economy offers

## Year-on-Year Changes in Existing Store Sales of Major Convenience Store Chains



Legend: ■ Circle K Sunkus ■ Seven-Eleven ■ LAWSON ■ FamilyMart

Source: Financial reports prepared by each company.

Note: All major convenience store chains except Seven-Eleven were adversely affected by the termination of sales of prepaid highway toll cards in denominations of ¥10,000 in the second and first halves of the February 2006 and 2007 fiscal years, respectively.

no prospect of any sharp improvement in consumer spending. The convenience store industry faces intensifying competition across traditional and nontraditional business formats such as food service establishments and drug stores, which should lead to an increasingly challenging earnings environment.

In this climate, Circle K Sunkus will continue to implement measures to support improved earnings at franchisees by pursuing further cost reductions and improving productivity, so that franchisees and the Head Office can work as one to expand one another's earnings. We will also conduct bold sales-promotion measures focused on morning and night time periods when fewer customers visit stores, as we continue working to refine Circle K Sunkus' mainstay original products. Regarding new services, we plan to begin accepting new methods of payment, including payment via Suica cards offered by East Japan Railway Company (JR East). Furthermore, partnerships with the membership organizations of JR East and other partner companies will also be bolstered through incentive-point exchange programs and other means. We will strive to ensure that these and other measures help us to win new customers and boost customer footfall at our stores. Given that a recovery in consumer spending will require more time, Circle K Sunkus is projecting a continued year-on-year decline in existing store sales of 2.8% on a full-year basis, although existing store sales are improving. Consequently, Circle K Sunkus expects total store sales, including franchised stores, to decrease 1.0% year on year to ¥843,210 million.

In terms of existing store sales in the convenience store industry during the fiscal year under review, all major convenience stores suffered a downturn in existing store sales,

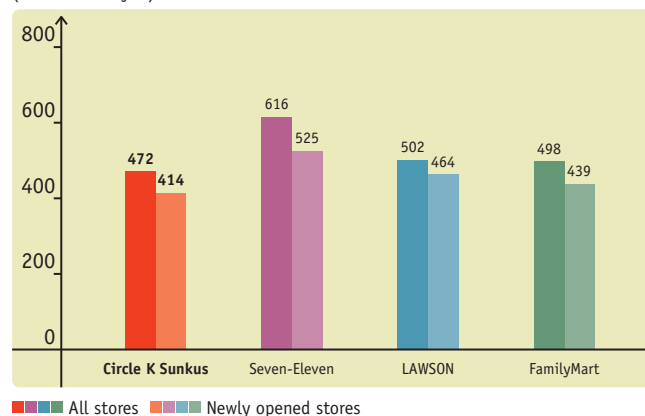
in part because of weather-related factors including a mild summer, and the end of the taspo card effect, as well as weak consumer spending. Circle K Sunkus posted flagging existing store sales due to the negative impact of the so-called "Toyota Shock" in its mainstay Tokai region, a factor responsible for Circle K Sunkus' larger year-on-year drop in existing store sales than at other major convenience stores.

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#### Average Daily Sales and Daily Average Number of Customers per Store, and Average Purchase per Customer

During the fiscal year under review, Circle K Sunkus suffered a downturn in customer footfall, which decreased 3.1% year on year. This was partly a reflection of the increasing prevalence of home-cooked meals, reflecting consumers' stronger savings preferences in response to the weak economy. Another factor was the end of the taspo card effect. On the other hand, with consumers increasingly tightening

#### Average Daily Sales at Major Convenience Store Chains (thousands of yen)



Source: Financial reports prepared by each company and news reports.


#### Average Daily Sales and Daily Average Number of Customers per Store, and Average Purchase per Customer

(yen, customers)

	2008/2		2009/2		2010/2	
		Change		Change		Change
<b>Existing stores</b>						
Average daily sales per store	472,000	-1.8%	498,000	4.1%	476,000	-5.6%
Daily average number of customers per store	806	-1.8%	849	4.0%	830	-3.1%
Average purchase per customer	586	0.0%	587	0.0%	573	-2.5%
Average daily sales at all stores	468,000	-0.4%	495,000	5.8%	472,000	-4.6%
Average daily sales at newly opened stores	409,000	3.8%	455,000	11.2%	414,000	-9.0%

Note: Year-on-year changes for existing stores represent comparisons of figures for existing stores in a given fiscal year with the same existing stores in the previous fiscal year, not comparisons with existing stores for the previous fiscal year.

their belts, the Company saw fewer items purchased per customer. There was also a drop in the unit price per item, partly reflecting the launch of low-priced boxed lunches addressing the impact of deflation and consumer preferences for low prices. Consequently, the average purchase per customer declined 2.5% year on year. As a result, average daily sales per store declined by ¥23,000 and ¥28,000 on an all-store and existing-store basis, respectively. Additionally, Circle K Sunkus opened stores with an emphasis on quality based on strategies for opening stores in each region. However, average daily sales per new store decreased ¥41,000 year on year, partly reflecting the weak economy, and a boost in sales from the taspo card effect in the previous year.

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### Stores Opened/Closed and Number of Stores at Fiscal Year-end

Circle K Sunkus opened 285 stores, including 88 relocated stores, 20 stores more than in the previous year. The Company saw 41 program participants in the “Venture Employee System,” which was launched in September 2006 to sign up, foster and train franchisee candidates, begin operating their own franchised stores. These franchisee candidates thus contributed positively to the Company’s drive to open new stores. Moreover, Circle K Sunkus opened its first stores in Fukuoka Prefecture, a business area that represents the 38th prefecture covered by the Circle K Sunkus Group. In the fiscal year ended February 28, 2010, the Company opened 11 stores in Fukuoka Prefecture. Meanwhile, Circle K Sunkus closed 266 stores during the fiscal year under review. As a result, Circle K Sunkus had a total of 4,958 stores as of

February 28, 2010, a net increase of 19 stores.

In terms of franchise agreement type, in the fiscal year ended February 28, 2010, Type A stores continued to decline in number, while Type C stores once again increased. Although Circle K Sunkus has been facing increasing difficulty year after year in securing locations suited to Type A stores, the Company has been stepping up the opening of Type A stores, opening 15 Type A stores in the fiscal year ended February 28, 2010. On the other hand, more and more new Type C stores have been opened, primarily inside buildings. As a result, Type C stores once again accounted for more than 90% of all new stores in the fiscal year ended February 28, 2010. Furthermore, Circle K Sunkus has been working to reduce the number of Company-owned stores since the fiscal year ended February 29, 2008; in the fiscal year ended February 28, 2010, it closed 112 stores. In addition, the Company utilized the “Venture Employee System” and the “Operations Management Employee System” launched in May 2008 to help convert Company-owned stores into franchised stores. Overall, the number of Company-owned stores was reduced by 90 stores compared with the previous fiscal year-end.

In the fiscal year ending February 28, 2011, Circle K Sunkus will continue to open stores with an emphasis on quality, as it strives to implement strategies for opening stores by region to reestablish a dominant presence in key areas. In particular, the Company aims to improve average daily sales at new stores by opening more stores in the highly profitable Kanto and Chukyo regions. At the same time, we aim to achieve a net increase in the number of stores by signing up, fostering and training outstanding franchisee candidates by means of using the “Venture

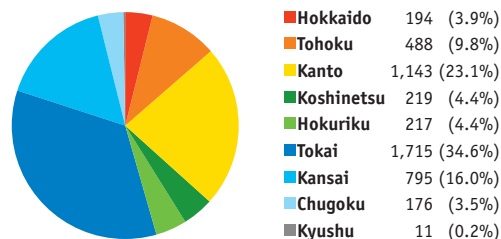
### Stores Opened/Closed

(stores)

	2008/2	2009/2	2010/2
Stores opened	284	265	<b>285</b>
Stores relocated	98	120	<b>88</b>
Stores closed	459	255	<b>266</b>
Net increase (Decrease)	(175)	10	<b>19</b>
<b>Fiscal year-end</b>	<b>4,929</b>	<b>4,939</b>	<b>4,958</b>

### Stores by Geographic Region

(stores)



Employee System” and the incentive plan for managing multiple stores. For the fiscal year ending February 28, 2011, the number of outstanding contracts to be signed for new stores was 156 at the beginning of the fiscal year, while 40 program participants in the “Venture Employee System” are expected to begin operating their own franchised stores. Circle K Sunkus expects to open 310 stores, including 100 relocations. Meanwhile, it plans to close 280

stores, resulting in a net increase of 30 stores. Consequently, Circle K Sunkus expects to have 4,988 stores as of February 28, 2011.

In the fiscal year ended February 28, 2010, all the major convenience store chains posted net increases in the number of stores, reflecting more stores opened and fewer stores closed than in the previous fiscal year.

## Types of Franchise Agreements

	Type A	Type C
Franchise agreements	The owner of the facility, who has received franchise approval, sets up and runs the store with his/her own investment.	The Company rents the property and recruits the store manager separately to run the store.
Contract period	120 monthly accounting periods (approx. 10 years)	
Investments required by franchisees	¥37.7 million	¥7.7 million
Contracted cash segregated as deposits	¥3.0 million, borne by franchisees	
Commission for setting up store	¥1.0 million	
Education and training expenses	¥0.3 million	
Franchise membership fees	¥0.5 million	
Part of payments for purchased products	¥1.2 million	
Merchandise, equipment and consumables	¥4.7 million, borne by franchisees	
Land, buildings and internal remodeling	¥30.0 million, borne by franchisees	Borne by the Company
Rent	Borne by franchisees	Borne by the Company
Royalty percentage (Relative to monthly gross profit)	14%–30%; 30% on average	37%–62%; 46% on average
Minimum revenue guarantee	Annual net sales of franchised stores ¥23.0 million ≤ (¥19.0 million + annual sales x 6%) ≤ ¥27.0 million	Annual net sales of franchised stores ¥20.0 million ≤ (¥14.0 million + annual sales x 6%) ≤ ¥22.0 million
Change in type of agreement	None	Upgrade to Type A possible if satisfactory performance achieved over two years following the opening of the store

Notes: 1. The average royalty percentage was calculated assuming average daily store sales of ¥472,000 and an average product markup of 27.64% for the fiscal year ended February 28, 2010.

2. The monetary figures given for “Merchandise, equipment and consumables” and “Land, buildings and internal remodeling” are amounts for an average store; the actual amount will differ for each store.

## Number of Stores by Franchise Agreement Type

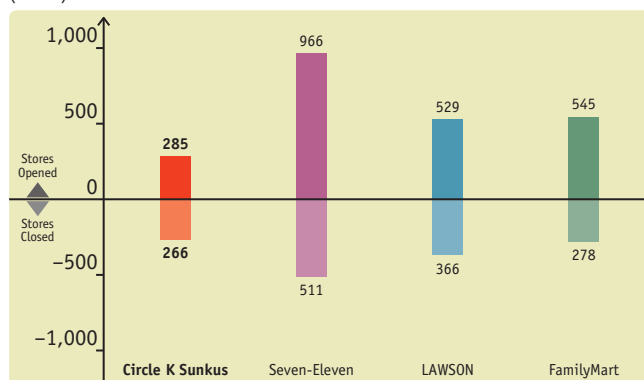
(stores)

	2008/2	2009/2	2010/2
<b>Type A</b>	1,322	1,244	<b>1,196</b>
Share	26.8%	25.2%	<b>24.1%</b>
<b>Type E</b>	482	436	<b>399</b>
Share	9.8%	8.8%	<b>8.1%</b>
<b>Type C</b>	2,575	2,751	<b>2,945</b>
Share	52.2%	55.7%	<b>59.4%</b>
<b>Company-owned stores</b>	550	508	<b>418</b>
Share	11.2%	10.3%	<b>8.4%</b>

Note: Type E agreement: This agreement lies between Type A and Type C agreements. The average royalty percentage for Type E agreements is approximately 44%. Type E agreements specific to Sunkus were abolished in September 2004 with some exceptions such as relocations.

## Stores Opened/Closed of Major Convenience Store Chains

(stores)



Note: Figures for each convenience store chain represent stores in Japan only, excluding those of consolidated subsidiaries.

Source: Financial reports prepared by each company and news reports.

### Product Details and Markup Rates

In the fiscal year ended February 28, 2010, food category sales were generally weak due to the impact of lackluster consumer spending. In particular, in the fast food category, sales dropped by a sharp 10.5% year on year, mainly because of the prevalence of home-cooked meals, reflecting consumer savings preferences, and reduced overtime work accompanying deteriorating corporate performances. Circle K Sunkus posted strong sales of boxed lunches offered in price ranges under ¥400, to address the low price preferences of consumers. However, sales of other boxed lunches, rice balls and sushi were weak. Consequently, overall rice dish sales remained weak. Sales of baked goods, processed noodles, and delicatessen items were also lackluster. The Company posted lower sales in the *Cherie Dolce* original dessert selection and reduced sales of *Oishii Pan Seikatsu* original baked goods, both of which fall under the perishable food category, partly because these products—now in their second year since launch—have largely run their course. Soft drink and ice cream sales also struggled to grow, partly reflecting a mild summer during what is typically the peak season for sales of these products. In the processed food category, sales decreased 5.5% year on year due to lackluster sales of alcoholic beverages, snacks and other products.

In the non-food items category, overall sales declined 1.3% year on year, reflecting continued weak sales of general merchandise, cosmetics products and daily necessities in the fiscal year ended February 28, 2010 due to the impact of discount sales by traditional industry outsiders such as ¥100 discount shops, and drug stores. In addition, sales of magazines and other periodicals declined, as some publications were suspended or went out of print due to the influence of the Internet. However, tobacco sales increased 1.9% year on year on a full-year basis, as a large positive contribution to sales from the taspo card effect, which continued through June 2009, more than offset falling sales from July 2009. In the service category, overall sales increased 5.0% year on year. This mainly reflected strong ticket sales, which increased year on year. The main reasons were increased customer convenience resulting from the roll-out of *KARUWAZA STATION* in-store multimedia terminals, as well as an expanded range of tickets offered after Circle K Sunkus switched ticket vendors to Ticket Pia and JTB Ticket. Another factor was higher sales from *Ticket Preca*, including online game money.

As a result of the foregoing, total product sales decreased 4.3% year on year.

The average product markup for Circle K Sunkus in the fiscal year ended February 28, 2010 was 27.64%, down 0.47 of a percentage point year on year. The primary reason

### Sales by Product and Product Markups

	2008/2				2009/2				2010/2			
	Sales Growth	Share	Markup	Change	Sales Growth	Share	Markup	Change	Sales Growth	Share	Markup	Change
Fast food	-4.0%	19.5%	36.0%	0.3%	-3.2%	18.2%	36.2%	0.2%	-10.5%	17.0%	36.3%	0.1%
Perishable food	2.2%	13.3%	34.2%	0.5%	0.0%	12.8%	34.4%	0.2%	-4.9%	12.8%	34.4%	0.1%
Processed food	-2.6%	31.3%	36.0%	0.4%	-2.0%	29.6%	36.5%	0.5%	-5.5%	29.2%	36.8%	0.2%
Non-food items	-1.8%	30.1%	18.2%	-0.3%	16.8%	34.0%	16.6%	-1.6%	-1.3%	35.1%	16.2%	-0.5%
Service	7.8%	5.8%	6.7%	-1.0%	-3.9%	5.4%	6.4%	-0.3%	5.0%	5.9%	5.9%	-0.5%
Total	-1.5%	100.0%	28.99%	0.02%	3.6%	100.0%	28.11%	-0.88%	-4.3%	100.0%	27.64%	-0.47%

was higher sales of low-margin tobacco and service category products, which together reduced the product markup by 0.14 of a percentage point. On the other hand, the average product markup for food categories, excluding non-food items and service categories, improved 0.11 of a point year on year, but food category sales were generally weak.

For the fiscal year ending February 28, 2011, Circle K Sunkus expects the average product markup to improve by 0.08 of a point to 27.72%. This outlook is based on a projected year-on-year drop in tobacco sales, despite continued growth in sales of low-margin service category products.

**Fast food:**

Rice dishes, sandwiches, noodles, delicatessen snacks, and countertop fast foods

**Perishable food:**

Milk, chilled beverages, bread, desserts, and fresh packaged foods

**Processed food:**

Alcoholic beverages, soft drinks, snacks, instant noodles, ice cream, and dried foods

**Non-food items:**

Magazines, newspapers, DVD software, tobacco, cosmetics, general merchandise

**Service:**

Tickets, *Net Prica* used for prepaid cards, stamps, and parcel delivery

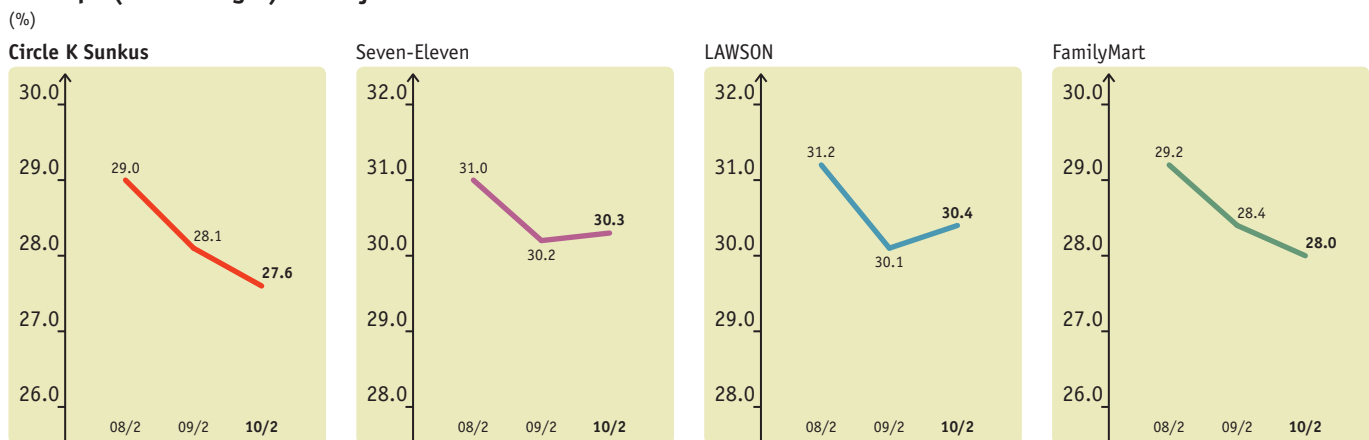
**Consolidated Operating Results for the Fiscal Year Ended February 28, 2010**

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The Company's operating revenue is drawn from franchise commissions from franchised stores, license fees from area franchisers, net sales of Company-owned stores and other operating revenue. In the fiscal year ended February 28, 2010, franchise commissions from franchised stores decreased 4.7% year on year to ¥98,933 million as a result of a drop in sales. Net sales of Company-owned stores declined 14.9% year on year to ¥83,106 million, as Company-owned stores were reduced as a policy objective. Consequently, operating revenue decreased 9.0% to ¥194,143 million.

Consolidated selling, general and administrative (SG&A) expenses decreased 0.6% year on year to ¥114,583 million, due to the pursuit of cost effectiveness and rigorous efforts to reduce inefficiencies. This was despite higher projected SG&A expenses based on related spending accompanying large investments made until the previous fiscal year. The main factors behind the change in SG&A expenses were as follows. There was an increase of 31.5% in depreciation following the deployment of new systems and services. Another factor was an increase of 1.3% in rental and lease expenses, despite a drop in expenses due to the adoption of

**Markups (Gross Margin) for Major Convenience Store Chains Over the Past Three Years**



Source: Financial reports prepared by each company and news reports.

new lease accounting standards from the fiscal year under review. The increase was mainly attributable to higher rental and lease expenses mainly due to an increase in the number of Type C franchise agreement stores, and the promotion of store relocations. Meanwhile, payroll and remuneration expenses rose 3.1% due to an increase in provisions to the retirement benefit liability. On the other hand, advertising and sales promotion expenses declined 21.5% mainly due to reduced expenses for prizes and TV and radio commercials. There was also a large decrease in management consignment fees due to the reduction in Company-owned stores. As a result of the foregoing, consolidated operating income decreased 33.9% to ¥15,200 million.

In the fiscal year ended February 28, 2010, Circle K Sunkus closed 10 fewer stores than in the previous fiscal year. Consequently, Circle K Sunkus posted sharp decreases in expenses related to store closures, specifically declines of 77.7% in the loss on sales or disposal of property and equipment, and 21.2% in lease contract cancellation expenses and the loss on cancellation of lease contracts. Meanwhile, the Company booked an impairment loss on fixed assets of ¥3,529 million, up 9.4% year on year. As a result of the foregoing, income before income taxes and minority interests declined 40.0% to ¥10,781 million. There was an impact of ¥65 million from the adoption of

new lease accounting standards at the income before income taxes and minority interests level. Net income decreased 41.1% to ¥5,555 million. Net income per share amounted to ¥66.32.

Looking at projections for the fiscal year ending February 28, 2011, Circle K Sunkus expects operating revenue to increase 0.1% to ¥194,300 million, mainly reflecting the addition of one consolidated subsidiary. In the fiscal year ending February 28, 2011, although Circle K Sunkus will drastically reduce operating expenses by streamlining the Head Office and rigorously reducing inefficiencies, the Company expects to increase spending on measures to help franchisees boost their sales and earnings, as well as bear additional expenses from a newly consolidated subsidiary. Consequently, SG&A expenses are projected to increase 2.0%. As a result, operating income is projected to fall 5.9% to ¥14,300 million, while net income for the fiscal year ending February 28, 2011 is projected to decrease 8.4% to ¥5,090 million.

## Consolidated Subsidiaries

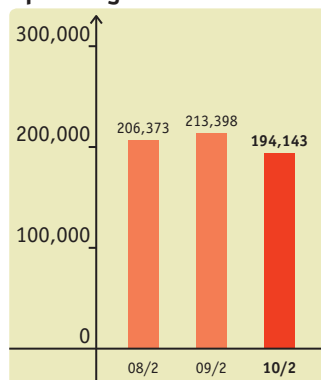
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In the fiscal year ended February 28, 2010, Circle K Sunkus had seven consolidated subsidiaries, comprising Retail Staff Co., Ltd., which is engaged in staffing services and became

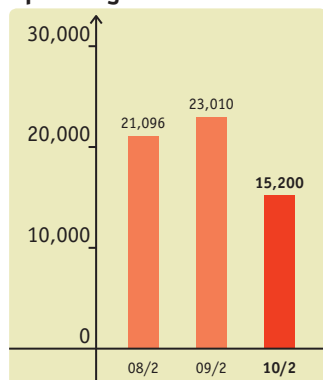
### Consolidated Operating Results

(millions of yen)

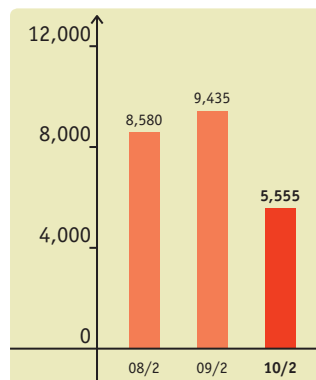
#### Operating revenue



#### Operating income

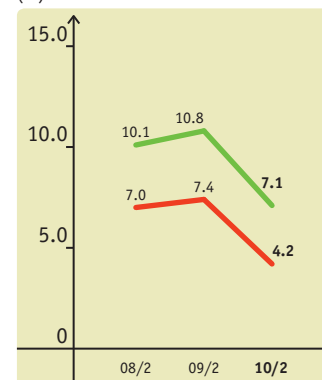


#### Net income



### Return on Equity (ROE) and Return on Assets (ROA)

(%)



■ ROE ■ ROA

- Notes: 1.  $ROA = \frac{\text{Operating income} + \text{Interest and dividend income}}{\text{Total assets (Yearly average)}} \times 100$   
 2.  $ROE = \frac{\text{Net income}}{\text{Total equity (Yearly average)}} \times 100$

a consolidated subsidiary in the fiscal year under review; four area franchisers; ZERO NETWORKS Co., Ltd., which is contracted to conduct ATM operations; and 99 ICHIBA Co., Ltd., which operates small fresh food supermarkets.

The four area franchisers posted a year-on-year decrease of 0.5% in net sales and an operating loss of ¥165 million, reflecting the end of the taspo card effect, a mild summer and the impact of weak consumer spending. ZERO NETWORKS Co., Ltd. began installing ATMs in nine new prefectures. As of February 28, 2010, the company had installed a total of 3,955 ATMs, an increase of 492 ATMs compared with February 28, 2009. With steady increases in ATM transactions, the company posted operating income of ¥375 million, largely as planned. On the other hand, 99 ICHIBA Co., Ltd. posted an operating loss of ¥428 million as it worked to enhance its earnings structure by opening stores at a slower pace. However, this operating loss was around ¥90 million smaller than in the previous fiscal year. Retail Staff Co., Ltd., a newly consolidated subsidiary, posted operating income of ¥39 million, exceeding its forecast.

In the fiscal year ending February 28, 2011, Sunkus Hokuria Co., Ltd., an area franchiser, will become a consolidated subsidiary. Circle K Sunkus' five area franchisers expect to post an operating loss of ¥377 million, mainly due to higher selling, general and administrative (SG&A) expenses from the newly consolidated subsidiary. ZERO

NETWORKS Co., Ltd. expects operating income to decrease 7.5% to ¥347 million based on increased SG&A expenses related to new ATM installations. In the fiscal year ending February 28, 2011, 99 ICHIBA Co., Ltd. aims to further reduce its operating loss by continuing to enhance its earnings structure.

## Consolidated Financial Position



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Total current assets decreased ¥2,408 million from the previous fiscal year-end to ¥89,920 million. This reflected a decrease of ¥3,100 million in short-term investments, due to a decline of ¥3,000 million in a commingled monetary trust fund established for investment purposes. Another factor was a decrease of ¥643 million in deferred tax assets.

Net property and equipment rose ¥10,496 million from the previous fiscal year-end to ¥60,069 million. This mainly reflected an increase of ¥3,076 million in buildings and structures, as Type C franchise agreements, where Circle K Sunkus supplies new stores for franchisees, account for more than 90% of all new stores. Following the adoption of new lease accounting standards, Circle K Sunkus recorded leased assets of ¥12,633 million.

Investments and other assets decreased ¥5,549 million from a year earlier to ¥74,855 million. Following the adoption of new lease accounting standards, store leasehold

## Business Performance of Consolidated Subsidiaries

(stores, millions of yen)

	2010/2				2011/2 (Forecast)			
	Four area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff	Five area franchisers total	99 ICHIBA	ZERO NETWORKS	Retail Staff
Stores opened	21	10	–	–	36	2	–	–
Stores closed	8	3	–	–	16	6	–	–
Fiscal year-end	276	68	–	–	396	64	–	–
Total store sales	39,477	10,685	–	–	57,823	11,087	–	–
Total operating revenues	8,025	10,692	5,584	1,546	11,857	11,087	5,850	1,898
Operating income	–165	–428	375	39	–377	–201	347	7

Reference: Circle K Sunkus' consolidated subsidiaries are listed below.

- Sunkus Aomori Co., Ltd. (Area franchisers)
- SUNKUS KITAKANTO Co., Ltd. (Area franchisers)
- Sunkus Nishi-Saitama Co., Ltd. (Area franchisers)
- Sunkus Nishi-Shikoku Co., Ltd. (Area franchisers)
- 99 ICHIBA Co., Ltd. (Mini supermarkets that specialize in fresh foods)
- ZERO NETWORKS Co., Ltd. (Outsourced ATM operations)
- Retail Staff Co., Ltd. (Staffing services)

deposits are now recorded as leased assets, whereas previously they were recorded as long-term leasehold deposits. Consequently, long-term leasehold deposits decreased by ¥3,769 million.

Total current liabilities decreased ¥5,135 million from a year ago to ¥71,957 million. This mainly reflected a decrease of ¥1,503 million in trade accounts payable in line with lower total store sales. Another factor was a drop of ¥3,633 million in income taxes payable due to a decrease in taxable income from the previous year.

Total long-term liabilities increased ¥5,498 million from a year earlier to ¥20,055 million. This mainly reflected the recording of lease obligations of ¥6,061 million, as a result of recording finance lease agreements for furniture, fixtures and other property as leased assets, following the adoption of new lease accounting standards.

As a result of the foregoing, total equity increased ¥2,176 million to ¥132,832 million. This change was attributable to an increase of ¥2,202 million in retained earnings from a year earlier, which reflected net income of ¥5,555 million, despite payments of ¥3,350 million for dividends. Consequently, the equity ratio was 59.1%, and total equity per share was ¥1,585.98.

## Capital Expenditures

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In the fiscal year ended February 28, 2010, system investments were ¥2,816 million, ¥7,731 million less than in the previous fiscal year, despite the roll-out of *KARUWAZA STATION* in-store multimedia terminals through the first half of the fiscal year. The drop in system investments reflected the end of a series of large-scale system investments through the fiscal year ended February 28, 2009. Consequently, total investments, including investments treated as leases, decreased ¥10,870 million to ¥26,437 million. Meanwhile depreciation and amortization increased in line with large-scale system investments from the fiscal year ended February 29, 2008 to the first half of the fiscal year ended February 28, 2010.

In the fiscal year ending February 28, 2011, Circle K Sunkus expects to further reduce system investments. Accordingly, the Company is budgeting for total investments of ¥24,680 million.

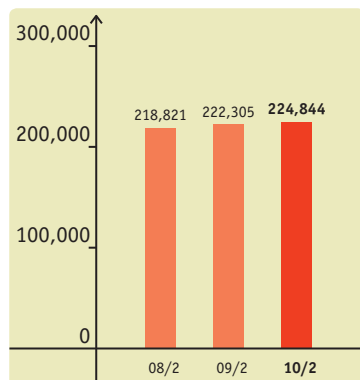
## Consolidated Cash Flows

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In the fiscal year ended February 28, 2010, operating activities provided net cash of ¥15,921 million, ¥6,605 million less than in the previous fiscal year. This decrease mainly reflected a drop of ¥7,175 million in income before

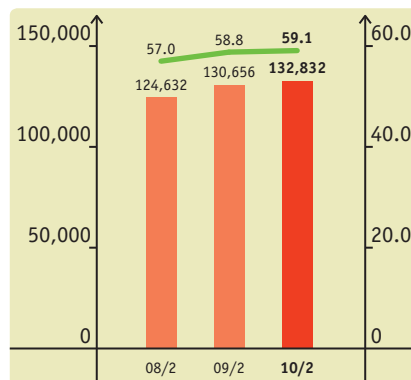
### Total Assets

(millions of yen)



### Total Equity/ Shareholders' Equity Ratio

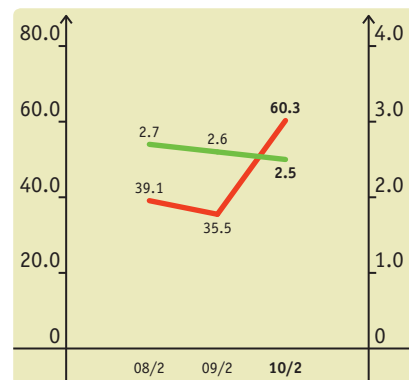
(millions of yen, %)



■ Total Equity (left scale)  
■ Shareholders' Equity Ratio (right scale)

### Payout Ratio/ Ratio of Dividends to Total Equity

(%)



■ Payout Ratio (left scale)  
■ Ratio of Dividends to Total Equity (right scale)

income taxes and minority interests due to reduced sales, despite a change in money held as agent of ¥2,732 million, for payment of utility and other bills, and for money held in conjunction with sales from the Sports Promotion Lottery "toto" using *KARUWAZA STATION* in-store multimedia terminals.

Net cash used in investing activities was ¥10,896 million, ¥11,836 million less than in the previous fiscal year. This mainly reflected a decrease of ¥3,291 million in acquisition of long-term investments and other assets, mainly for software development for the next-generation franchise accounting system and for launching new content for in-store multimedia terminals. Another factor was a decrease of ¥3,465 million in the payment of long-term leasehold deposits. These factors were partly offset by an increase of ¥1,873 million in acquisition of property and equipment, chiefly to open new stores and improve the functions of existing ones.

Consequently, free cash flow, which is net cash provided by operating activities minus net cash used in investing activities, was ¥5,025 million, an increase of ¥5,231 million from the previous fiscal year.

Net cash used in financing activities was ¥4,631 million, up ¥991 million year on year. This reflected dividends paid of ¥3,350 million, and the repayment of guarantee deposits received of ¥1,120 million, mainly due to store closures. Cash was also used for the repayment of ¥894 million in lease obligations following the adoption of new lease accounting standards.

## Capital Expenditures

(millions of yen)

	2008/2	2009/2	2010/2	2011/2 (Forecast)
New store investments	12,894	12,641	<b>12,485</b>	14,501
Existing store investments	2,668	2,953	<b>1,803</b>	1,940
System investments	4,402	10,547	<b>2,816</b>	1,694
Head office investments	741	215	<b>1,218</b>	615
Capital expenditure < 1 >	20,705	26,358	<b>18,322</b>	18,750
Leasing expenditures < 2 >	13,992	10,949	<b>8,115</b>	5,930
Total investments < 1+2 >	34,697	37,307	<b>26,437</b>	24,680
Depreciation and amortization	6,804	7,887	<b>10,372</b>	12,340

Note: Capital expenditures represent the sum of increases in property and equipment, intangible fixed assets, long-term prepaid expenses, and leasehold deposits. Investments treated as operating expenses are excluded from capital expenditures.

As a result of the foregoing, as of February 28, 2010, cash and cash equivalents were ¥63,499 million, up ¥582 million, from the end of the previous fiscal year.

## Returning Profits to Shareholders

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Circle K Sunkus regards dividends as the most important means of returning earnings to shareholders. The Company's basic policy is to return profits to shareholders based on earnings growth, while building up retained earnings to bolster the operating base as necessary to sustain business growth into the future. More specifically, Circle K Sunkus considers the maintenance of stable dividends its first priority as it returns earnings to shareholders while carefully monitoring its medium-term earnings outlook, capital expenditure plans and financial position, with the aim of paying out at least 30% of consolidated net income as dividends.

In the fiscal year ended February 28, 2010, Circle K Sunkus declared interim and year-end dividends of ¥20 per share. As a result, the annual dividend for the fiscal year ended February 28, 2010 was ¥40 per share, representing a dividend payout ratio of 60.3% and a ratio of dividends to total equity of 2.5%.

Retained earnings will be earmarked for investments related to store information systems, and for investments in developing new stores, revitalizing existing ones, and procuring product displays and other equipment for new products.

## Outlook

In the fiscal year ending February 28, 2011, the Japanese economy is expected to remain flat through the first half of the year, mainly due to weak consumer spending. In the second half of the fiscal year, Japan should see an economic recovery, mainly driven by additional stimulus from government financial policies, including a child support allowance, and improving employment and personal income conditions. Nonetheless, economic growth is projected to be marginal as the economy offers no prospect of any sharp improvement in consumer spending.

The convenience store industry faces an increasingly challenging earnings environment, reflecting intensifying competition across traditional and nontraditional business formats such as food service establishments and drug stores. In this climate, Circle K Sunkus will continue to implement measures to support improved earnings at franchisees by pursuing further cost reductions and improving productivity, so that franchisees and Head Office can work as one to expand one another's earnings.

Our approach is to establish a new budget for supervisor-franchisee sales promotion expenses to implement sales-boosting initiatives that are more in line with actual conditions at each individual store. The goal of this approach is to enhance sales capabilities at each individual franchised store. On the product development front, Circle K Sunkus will further enhance its hallmark *Cherie Dolce* original dessert brand. One new initiative will see us offer a new series of chilled beverages, including sweets that can be enjoyed as beverages. In addition, to address fewer customers visiting stores during morning and night time periods, we will conduct bold sales-promotion measures focused on these particular time periods. Regarding new services, we plan to begin accepting new methods of payment, including payment via QUO Cards from July, as well as Suica cards offered by East Japan Railway Company (JR East). Partnerships with the membership organizations of JR East and other partner companies will also be bolstered through incentive-point exchange programs and other means. We

will strive to ensure that these and other measures help us to win new customers and boost customer footfall at our stores. In addition, Circle K Sunkus will continue to open stores with an emphasis on store profitability, while maintaining net increases in the number of stores.

In the fiscal year ending February 28, 2011, although Circle K Sunkus will streamline Head Office operations, rigorously reduce inefficiencies, and cut operating expenses related to Company-owned stores, the Company is projecting decreased earnings, mainly based on higher costs related to franchisee support measures and to an increase in consolidated subsidiaries. Looking ahead, we will continue working to bolster our sales capabilities and transform our earnings structure, with the aim of restoring earnings growth as early as possible.

## Area Franchisers



P.28-29

Circle K Sunkus and its area franchisers each develop store networks. The Company establishes area franchisers as joint venture companies with prominent local firms to operate franchised stores in specific regions. Area franchisers receive expertise and guidance from the Company on their respective convenience store chains. The Company provides guidance to area franchisers on topics such as store development, operations and accounting, while at the same time supplying them with products, information systems and other items. Fees from area franchisers are paid to the Company in return. The Circle K Sunkus Group maximizes scale merits across the Group, including at area franchisers, with regard to product policies and developing its store network.

Circle K Sunkus respects the autonomy of management at area franchisers. While carefully considering returns on investments from a Group-wide perspective, the Company provides personnel and funding support for area franchisers as necessary. Going forward, the Circle K Sunkus Group will work to capture group-wide synergies by deepening collaboration with area franchisers, while further strengthening management guidance.

As of February 28, 2010, the Circle K Sunkus Group had 13 area franchisers who operated 1,261 stores in 20 prefectures. In the fiscal year ended February 28, 2010, area franchisers posted sales of ¥198,934 million, down 2.6% year on year.

In the fiscal year ending February 28, 2011, Sunkus Hokuria Co., Ltd. will become a newly consolidated subsidiary, bringing the total number of consolidated subsidiaries among area franchisers to five.

## Business Risks

The Circle K Sunkus Group's Risk Management Guidelines set forth Company-wide risks that, if they materialize, may impede efforts to achieve Group-wide objectives. Three major risk areas have been identified: (1) reliability of financial reporting; (2) compliance with laws and regulations concerning business activities; and (3) business activities. As of February 28, 2010, the Group recognizes the following five areas as major risks associated with the aforementioned "(3) business activities." Circle K Sunkus

will make every effort to prevent these kinds of events from occurring and to respond promptly if they occur. However, an unforeseen event could have an impact on the Circle K Sunkus Group's operating results and financial position.

### [1] Food Product Safety

The Circle K Sunkus Group gives the highest priority to food safety. The Group has already eliminated the use of preservatives and artificial coloring from mainstay products such as rice balls and boxed lunches. Circle K Sunkus also develops new products to consistently offer items that help to build trust among customers. Food safety is also ensured through an inspection and control system and other inspections at stores. However, the food industry has faced a range of issues in recent years, including BSE, bird flu and genetically modified food products. Although Circle K Sunkus takes steps to identify and take preventive measures to deal with these and other risks, an unforeseen event could impact the Group's operating results and financial position.

## Area Franchisers

(As of February 28, 2010)

Company	Equity interest	Date of agreement	Number of stores		Sales (millions of yen)		Area license fees (millions of yen)
				Change		Change	
Sunkus Aomori Co., Ltd.*	100.0%	1994. 3. 1	67	3	¥ 9,402	1.2%	
Sunkus Nishi-Saitama Co., Ltd.*	100.0%	1987. 2.28	84	4	12,572	1.0%	
SUNKUS KITAKANTO Co., Ltd.*	100.0%	1997. 3.12	40	4	5,323	-1.7%	
Sunkus Nishi-Shikoku Co., Ltd.*	100.0%	1992. 8.27	85	2	12,178	-2.8%	
Circle K Shikoku Co., Ltd.	35.0%	1996. 5.14	164	12	25,322	-0.8%	
Sunkus Higashi-Saitama Co., Ltd.	19.0%	1988. 7.19	68	1	10,114	2.6%	
Sunkus Tokai Co., Ltd.	19.0%	1989. 9. 6	109	6	16,117	-3.6%	
Sunkus Keihanna Co., Ltd.	19.0%	1989.10.26	103	4	17,217	-2.0%	
Sunkus and Associates Higashi-Shikoku Co., Ltd.	19.0%	1995. 1.12	127	-7	19,563	-4.9%	
Sunkus Hokuria Co., Ltd.	19.0%	1995. 1.24	100	7	16,459	0.2%	
Sunkus and Associates Toyama Co., Ltd.	19.0%	1996. 7. 2	78	±0	12,660	-8.3%	
Minami-Kyushu Sunkus Co., Ltd.	19.0%	1998. 8.21	106	3	15,335	-0.7%	
CVS Bay Area Inc.	2.4%	1997. 1.14	130	-5	26,666	-7.2%	
<b>Total</b>			<b>1,261</b>	<b>34</b>	<b>¥198,934</b>	<b>-2.6%</b>	<b>¥2,918</b>

\* Consolidated subsidiaries

Note: On June 4, 2010, Circle K Sunkus newly acquired additional shares of Sunkus and Associates Higashi-Shikoku Co., Ltd. Consequently, Circle K Sunkus currently holds an equity interest of 31.0% in Sunkus and Associates Higashi-Shikoku Co., Ltd.



## [2] Information Systems

The Group holds franchise store information through its franchise business, and personal information on customers and other individuals gained from sales promotion campaigns and purchases made with Edy electronic money enabled *KARUWAZA CLUB* cards. To prevent the leak or corruption of customers' information, Circle K Sunkus takes appropriate security measures in information management, including computer systems. However, there is a risk that unforeseen events such as disasters, unauthorized access, or infection by computer viruses could result in the leak of internal information, which could prevent the Group from carrying out its operations and other activities.

## [3] Litigation

The Group's business operations are subject to food safety, fair trading, environmental protection and other laws and regulations, as well as licenses granted by government agencies. In the course of its business activities, the Circle K Sunkus Group works to ensure compliance with all relevant laws and regulations, while encouraging all directors and employees to understand and practice compliance. To this end, the Group has established an Internal Control & Environmental Management Office to strengthen internal control systems. However, the Group may incur additional expenses as a result of unforeseen changes in laws and regulations or government policies, and is open to the risk of litigation in the course of its operations. These changes or legal action taken against Circle K Sunkus, or the result of such action, could impact the operating results and financial position of the Group.

## [4] Area Franchisers

The Group grants permission to third parties to operate stores through area franchises. In area franchiser operations, the characteristics of each region are respected and importance is given to profitability through synergies with other parts of the Group and results-driven business development in each area. Nonetheless, deteriorating operating performance in some areas amid changes in consumption patterns, intensifying competition, and growing disparity in income and regional economic performance is a cause for concern. In dealing with this situation, the Group's policy is to provide the necessary personnel and financial support to area franchisers. However, an unforeseen situation could impact the Group's operating results and financial position.

## [5] Disasters and Other Factors

The Group defines disasters as natural disasters such as earthquakes and typhoons, terrorist acts, and crimes targeting companies. The Group believes that convenience stores have an important role to play in society in the event of such a disaster, through the provision of vital support to affected communities. However, an unexpected disaster, unforeseen accident or similar event could halt the Group's logistics system, leading to opportunity losses. Additionally, the Group's operating results and financial position could be impacted by changes in the natural environment such as unseasonable weather.