

WAKU WAKU?

**Interim Business Results**  
**For the Six Months Ended August 31, 2004,**  
**Benefits Derived from the Merger and**  
**New Three-year Business Plan**

*-Securities Code- 3337*

CircleK Sunkus



Circle K Sunkus Co.,Ltd.

*October 14, 2004*

*President Kiyoshi Hijikata*

*General Manager Satoru Shimada*



# **Interim Business Results**

## **For the Six Months Ended August 31, 2004**

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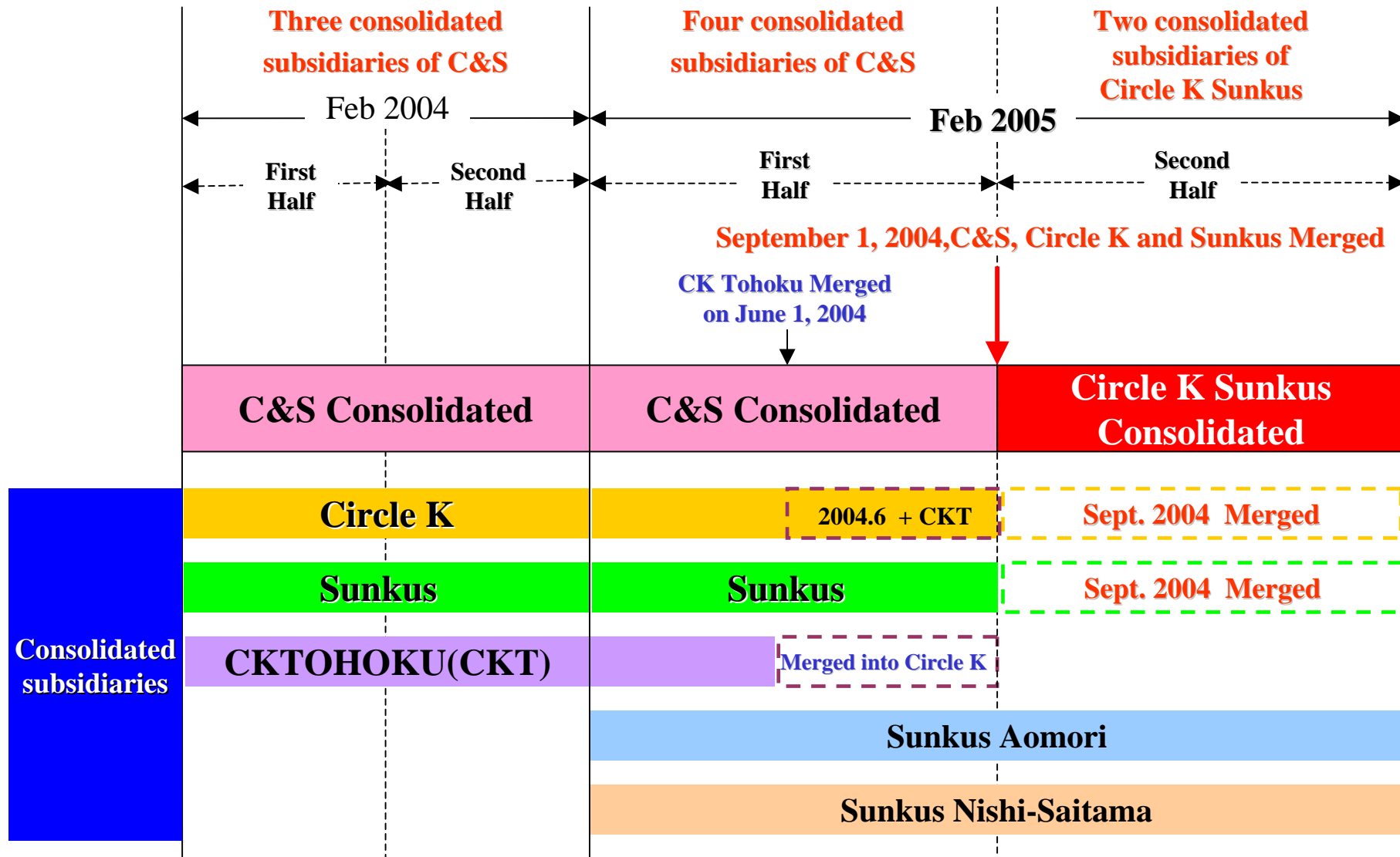
*Satoru Shimada*  
*General Manager of Corporate Communications*  
*& Environmental Affairs Office*

## **■ Highlights for the Interim Period**

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- (1) Store closures slowed down to normal levels. Net increase of 97 stores.**
- (2) Existing store sales was 0.1% vs. previous year.  
Consolidated total store sales exceeded the plan by ¥1.6 bn.**
- (3) Markup down 0.4% vs. the plan at both Circle K and Sunkus due to increased share of low markup products.**
- (4) SG&A expenses were ¥1.4 bn less than the plan partly reflecting our cost saving efforts**
- (5) Operating income, recurring profit and net income for the interim period exceed the plan and the previous year results.**
- (6) Consolidated subsidiaries increased by two.**

# Merger Timetable and Scope of Consolidation



# Review of the Interim Period (1)

## Management Strategy

- Continue to improve cost structure, and strengthen marketing capabilities
  - Negotiations to reduce rents for existing stores : Total cost reduction of **¥230 million** annually
- Accelerate reform to ensure successful merger

## Merchandising

- Measures to enhance rice meal sales

(1) Improve quality: improve quality of materials and production process to bring the best taste to customers

(2) Increase volume: Continue expanded rice dish purchasing : Sales promotion expenses ¥600mn

**(Target)**  
 achieve y-o-y  
 increase in rice meal sales



- Development of Common Private Brand “KACHIAL” for Both Chains

-Addition of general merchandise from March, snacks from the end of August.



## ■ Review of the Interim Period (2)

### *Services*

#### **-Expanded Services-**

- Mail boxes in all stores from April
- Introduction of “KARUWAZA CLUB” store card with “Edy” electronic money function

Number of KARUWAZA CLUB card members : 21,081



### *Store Development*

- 190 new stores opened in line with the planned opening of 193 stores (excl. Tohoku Business Unit)
- Store expansion in new locations :
  - Expressway Rest Areas in March
  - Hospitals in August



Sunkus “Shin-Nagoya Store”

## ■ Number of Stores at Year-End

Interim 2004		(Stores)	
		Projected	(Difference)
Stores opened	192	200	-8
Stores closed	95	101	-6
<b>Franchised and Company-owned stores</b>	<b>5,102 (+251)</b>	5,100	+2
Stores opened	56	69	-13
Stores closed	42	38	+4
<b>Area franchised stores</b>	<b>1,161 (-140)</b>	1,181	-20
Stores opened	248	269	-21
Stores closed	137	139	-2
<b>Group total</b>	<b>6,263 (+111)</b>	6,282	-19

(Notes) 1. Figures in parentheses represent changes in the number of stores from February 29, 2004.

2. Company-owned stores include Tohoku Business Unit. Area franchised stores include CK Tohoku before the merger.

## ■ Consolidated Results - Actual and projected results

(Stores, Yen in million)

	Interim 2004 (Actual)		Projected	(Difference)
		Year-on-year		
<b>Sales by franchised and Company-owned stores</b>	<b>479,534</b>	<b>+4.5%</b>	477,850	+1,684
Y-o-y change in existing-store sales	<b>0.1%</b>	<b>-</b>	-	-
<b>Total operating revenues</b>	<b>90,417</b>	<b>+3.9%</b>	88,680	+1,737
<b>Gross profit</b>	<b>68,076</b>	<b>+4.1%</b>	68,600	-524
Selling, general & administrative expenses	<b>53,865</b>	<b>+1.3%</b>	55,270	-1,405
<b>Operating income</b>	<b>14,210</b>	<b>+16.1%</b>	13,330	+880
<b>Recurring profit</b>	<b>14,186</b>	<b>+30.9%</b>	12,600	+1,586
<b>Net income</b>	<b>7,918</b>	<b>+66.5%</b>	6,130	+1,788

## Circle K Operating Results - Actual and projected results

(Stores, Yen in million)

	Actual in 2004/8
<b>Stores opened</b> (Relocated stores)	100 (26)
Average daily sales (Yen in thousand)	473
<b>Stores closed</b>	46
Net decrease in Tohoku Business Unit	-8
<b>Net increase in Area Franchised</b>	4
<b>Stores at term-end</b>	2,967 <sup>(Note)</sup> (+50)

Projected	(Difference)
103 (16)	-3 (+10)
460	+13
55	-9
3	-11
10	-6
2,978	-11

	Interim 2004 (Actual)	Year-on-year
<b>Sales of franchised and company-owned stores</b>	251,379	+3.0%
Y-o-y change in existing-store sales	1.1%	-
<b>Total operating revenues</b>	47,606	-1.0%
<b>Gross profit</b>	34,634	+1.7%
<b>Average product markup</b>	28.7%	-0.2%
Selling, general & administrative expenses	26,038	-2.3%
<b>Operating income</b>	8,597	+16.3%
<b>Recurring profit</b>	8,542	+26.2%
<b>Net income</b>	4,852	+44.2%

Projected	(Difference)
245,490	+5,889
-0.8%	+1.9%
46,390	+1,216
34,470	+164
29.1%	-0.4%
-	-
-	-
-	-
-	-

(Notes) 1. Figures in parentheses represent changes in the number of stores from February 29, 2004.

2. The above figures include results for Tohoku Business Unit after the merger between June and August.

## Sunkus Operating Results - Actual and projected results

(Stores, Yen in million)

	Actual in 2004/8
<b>Stores opened (Relocated stores)</b>	90 (13)
Average daily sales (Yen in thousand)	486
<b>Stores closed</b>	42
<b>Net increase in Area Franchised</b>	13
<b>Stores at term-end</b>	3,296 <sup>(Note)</sup> (+61)

Projected	(Difference)
90(20)	±0(-10)
512	-26
42	±0
21	-8
3,304	-8

	Actual in 2004/8	Year-on-year
<b>Sales of franchised and company-owned stores</b>	207,312	+0.8%
Y-o-y change in existing-store sales	-1.4%	-
<b>Total operating revenues</b>	36,610	+5.3%
<b>Gross profit</b>	30,770	+3.1%
<b>Average product markup</b>	29.2%	-0.1%
<b>Selling, general &amp; administrative expenses</b>	24,531	+1.8%
<b>Operating income</b>	6,239	+8.8%
<b>Recurring profit</b>	6,264	+24.9%
<b>Net income</b>	3,579	+53.1%

Projected	(Difference)
210,820	- 3,508
0.2%	-1.6%
36,350	+260
31,170	- 400
29.6%	-0.4%
-	-
-	-
-	-
-	-

(Note) Figures in parentheses represent changes in the number of stores from February 29,2004.

# Breakdown of Consolidated Business Results

(1) Year-on-year Change in Existing-Store Sales and Average Product Markup



(Yen in million)

	Consolidated	Year-on-year change
Sales by franchised and Company-owned stores	<b>479,534</b>	<b>+20,731</b>
Y-o-y change in existing-store sales	<b>0.1%</b>	-
Average product markup	-	-
Total operating revenues	<b>90,417</b>	<b>+3,355</b>

Circle K	<b>251,379</b>
Tohoku Business Unit	<b>9,719</b>
Sunkus	<b>207,312</b>
2 other subsidiaries	<b>11,121</b>

**Circle K 1.1%, Sunkus -1.4%**

**Circle K 28.7% (Y-o-y -0.2%)  
Sunkus 29.2% (Y-o-y -0.1%)**

## ■ ¥20.7 bn increase in total store sales is accounted for by:

- 1) the strong sales of cigarette and summer seasonal products such as soft drinks and cold noodles,
- 2) the contribution of two newly consolidated subsidiaries, Sunkus Aomori and Sunkus Nishi-Saitama with combined sales of ¥11.1 bn.

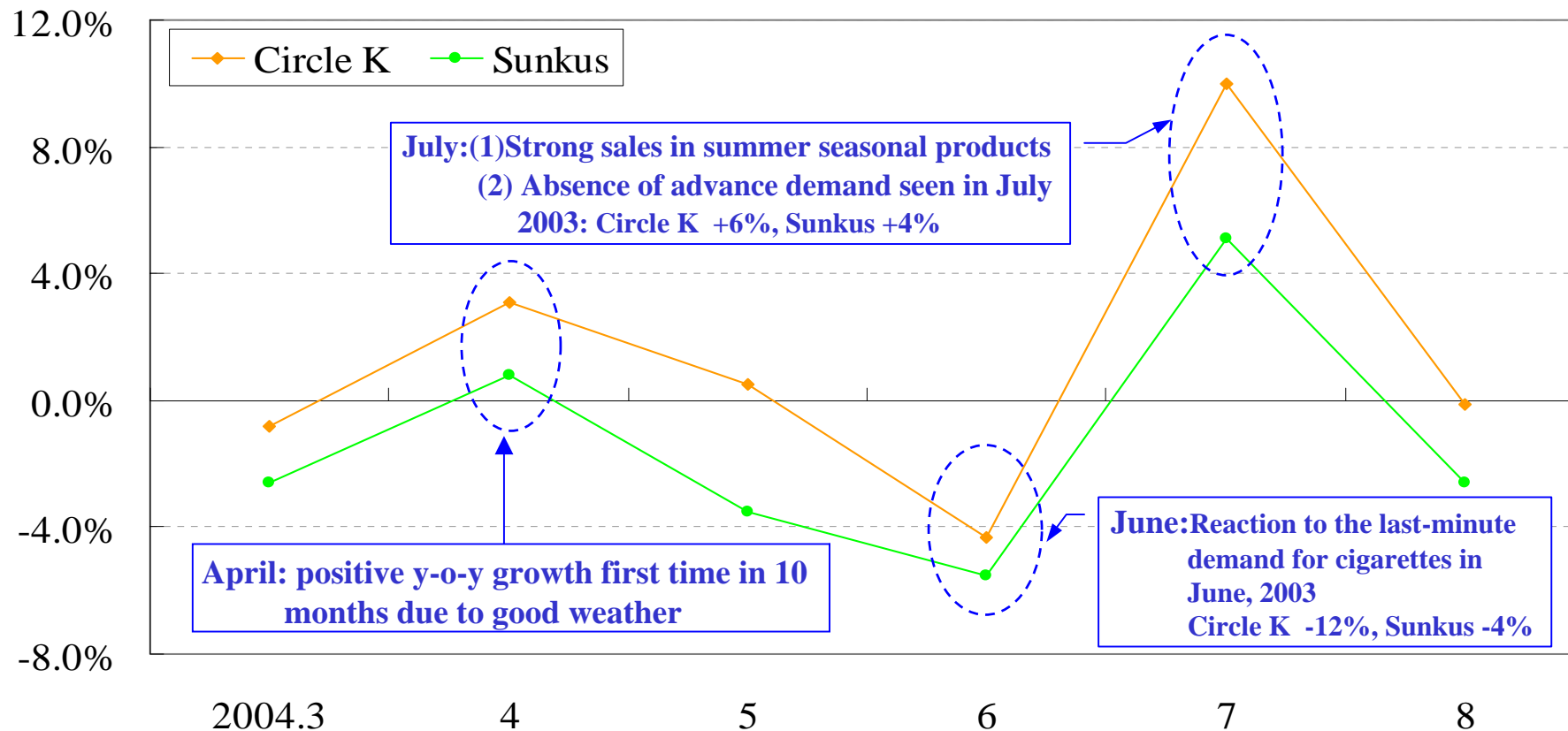
## ■ Difference in y-o-y existing store sales growth between the two chains was mainly because

- Sunkus saw substantial drop in sales in Hokkaido and Tohoku due to weaker liquor sales

## ■ 0.2% at Circle K and 0.1% at Sunkus reduction in average product markup was due to:

- increased share of low markup products such as cigarette and services
- Share of cigarette sales to total sales: Circle K 17.8% (Y-o-y +1.1%), Sunkus 14.4% (Y-o-y +0.9%)

# Comparison of Year-On-Year Change in Monthly Sales at Existing Stores



	Hokkaido	Tohoku	Kanto	Chubu, Hokuriku	Chukyo	Kansai	Chugoku	Total
Circle K	-	7.8%	3.7%	2.3%	0.0%	1.6%	6.4%	<b>1.3%</b>
Sunkus	-3.4%	-1.9%	-1.0%	-	-0.3%	-2.0%	1.2%	<b>-1.4%</b>

Note: June-August Circle K results include Tohoku Div (previously CK Tohoku)

# Breakdown of Consolidated Business Results

(2) SG&A expenses and Operating income



(Yen in million)

	Consolidated	Year-on-year change
<b>Gross profit</b>	<b>68,076</b>	<b>+2,679</b>
Selling, general & administrative expenses	<b>53,865</b>	<b>+706</b>
<b>Personnel expenses</b>	10,485	+905
<b>Advertising expenses and Sales promotional expenses</b>	6,923	+1,466
<b>Store leasing expenses</b>	17,460	+599
<b>Equipment leasing expenses</b>	5,598	+326
<b>Other</b>	13,398	-2,585
<b>Operating income</b>	<b>14,210</b>	<b>+1,972</b>

## ¥ 706 million increase SG&A expenses

- 1) ¥1.2 bn increase due to the addition of two new consolidated subsidiaries
- 2) Rice disposal costs incurred amounted to approximately ¥600 million.



**- SG&A expenses net of 1) and 2) above was ¥1.4 bn less than planned reflecting our cost reduction efforts**

## ¥ 1,972 million increase in operating income

was due to favorable sales and reduced SG&A expenses that was ¥1.4 bn less than planned

# Breakdown of Consolidated Business Results

## (3) Recurring profit and Net income



(Yen in million)

	Consolidated	Year-on-year change
Operating income	14,210	+1,972
Non-operating income	612	+175
Non-operating expenses	637	-1,201
Recurring profit	14,186	+3,350
Extraordinary gains	142	+104
Extraordinary losses	784	-1,060
Net income	7,918	+3,161

### ¥ 3,350 million increase in recurring profit

Losses from leasehold cancellations included in non-operating expenses declined by ¥1.1 bn y-o-y as store closures returned to more normal levels.

### ¥ 7,918 million increase in net income

- 1) ¥1 bn reduction in extraordinary losses (incl. ¥300 million reduction in lease cancellation charges associated with store closures)
- 2) Reduced tax liability resulting from reassessment of recoverability of deferred tax assets using tax effect accounting

## ■ Consolidated Cash Flows

(Yen in million)

	Interim 2003	Interim 2004	Year-on-year change
Cash flows from operating activities	23,269	23,878	+609
Cash flows from investing activities	-4,355	-6,868	-2,513
Dividends paid	-1,378	-1,378	±0
Free cash flows	17,536	15,632	-1,904
Cash flows from financing activities	-1,932	-2,408	-476
Net change in cash and cash equivalents	16,981	14,600	-2,381

Cash flow from investing activities decreased ¥2,513 million y-o-y  
as the round of closure of unprofitable stores was completed in the previous year,  
and new investments increased during the first half.

**Free cash flow decreased ¥1,904 million year-on-year**

## ■ Area Franchisers

### (1) Results for Area Franchisers

(Stores, Yen in million)

	Interim 2004				Area licence fees
	Number of stores	Sales	Year-on-year	Y-o-y change in existing-store sales	
Circle K's area franchiser	<b>113</b>	<b>14,140</b>	<b>n.a.</b>	<b>n.a.</b>	<b>86</b>
Total of Sunkus' 13 area franchisers	<b>1,048</b>	<b>91,484</b>	<b>4.7%</b>	<b>0.4%</b>	<b>1,570</b>
<b>Total</b>	<b>1,161</b>	<b>105,624</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1,656</b>

(Note) Circle K's area franchisers include CK Tohoku's results for March-May period before the merger.

### (2) Profits and losses for the two consolidated subsidiaries

(Yen in million)

Company	Recurring profit
Sunkus Aomori Co., Ltd.	41
Sunkus Nishi-Saitama Co., Ltd.	80

(Note)

On June 1, 2004, CIRCLE K JAPAN Co., Ltd. merged CKTOHOKU Co., Ltd.

## ■ Strategic Focus for the 2<sup>nd</sup> Half

Circle K Sunkus born on Sep. 1 as a result of the three-way merger of Group companies

- Maximize merit of scale and rationalization derived from the merger
- Stores that generate **WAKU WAKU?** or sense of anticipation and excitement.



### Apply our customer-first approach to merchandizing, store layout and customer reception

- Offer products that are safe, appeal to customer needs and provide customers with peace of mind
  - Circle K to also cease using preservatives and artificial coloring in rice meals, delicatessen snacks, prepared dishes and noodle dishes from October 5, 2004
  - A high quality and environment-friendly private brand, “Kachial” to be rolled out in snacks in addition to general merchandise.
- Enhanced convenience with the introduction of a new payment alternative
  - Credit card to be accepted from September
- Improve customer reception
  - “WAKUWAKU” program to be rolled out company-wide also involving franchised stores

### Store Development

Continue to develop high quality stores that can withstand competition with clear focus on profitability

- Renewed emphasis on store opening and relocation in the priority territories (Circle K: Nagoya, eastern part of Aichi Pref.; Sunkus: central Tokyo). Achieve target of 400 new store openings for the year.

## Projection for Store Openings and Closures for Fiscal 2005

(Stores)

	Interim (Actual)			Full year to Feb 2005 (Est.)		
	Circle K	Sunkus	Total	Circle K	Sunkus	Total
						(Second Half)
Stores opened	102	90	192	215 (113)	185 (95)	400 (208)
Stores closed	53	42	95	140 (87)	83 (41)	223 (128)
<b>Franchised and Company-owned stores</b>	<b>2,854</b>	<b>2,248</b>	<b>5,102</b>	<b>2,880</b>	<b>2,302</b>	<b>5,182</b>
Stores opened	11	45	56	26 (15)	102 (57)	128 (72)
Stores closed	10	32	42	11 (1)	58 (26)	69 (27)
<b>Area franchised stores</b>	<b>113</b>	<b>1,048</b>	<b>1,161</b>	<b>127</b>	<b>1,079</b>	<b>1,206</b>
Stores opened	113	135	248	241 (128)	287 (152)	528 (280)
Stores closed	63	74	137	151 (88)	141 (67)	292 (155)
<b>Group Total</b>	<b>2,967</b>	<b>3,296</b>	<b>6,263</b>	<b>3,007</b>	<b>3,381</b>	<b>6,388</b>

(Notes)

- Interim results for "franchised and Company-owned stores" include Tohoku Business Unit (2 new stores, 7 closures) after the merger between June and August. Interim results for "area franchised stores" include CK Tohoku before the merger (5 new stores, 8 closures.)
- Full year estimate for "franchised and Company-owned stores" include Tohoku Div. (10 new stores, 20 closures) after the merger between June and February 2005.

# Projections of Consolidated Earnings for Fiscal 2005

(Yen in million)

	Interim (Actual)			Full year to Feb 2005 (Est.)	
	Circle K	Sunkus	C&S (Consolidated)	Circle K Sunkus (Consolidated)	Year-on-year change
Sales of franchised and Company-owned stores	251,379	207,312	479,534	940,130	4.2%
Y-o-y change in existing- store sales	1.1%	-1.4%	0.1%	-	-
Average product markup	28.7%	29.2%	-	-	-
Total operating revenues	47,606	36,610	90,417	176,650	4.2%
Gross profit	34,634	30,770	68,076	133,610	4.6%
Selling, general & administrative expenses	26,038	24,531	53,865	109,340	3.8%
Operating income	8,597	6,239	14,210	24,270	8.2%
Recurring profit	8,542	6,264	14,186	23,210	17.8%
Net income	4,856	3,579	7,918	12,580	64.4%

Y-o-y change in  
existing-store sales

**Circle K 0.0%**  
**Sunkus -1.8%**

Original projection:  
- 0.1% for both  
Circle K and Sunkus

Average product  
markup

Circle K 28.7%  
Sunkus 29.2%

Revised downward  
by 0.2% from  
original projection

(Note) Interim results for Circle K do not include Tohoku Business Unit after the merger between June and August.



# **Benefits Derived from the Merger and New Three-year Business Plan**

*Kiyoshi Hijikata*  
*President*

## ■ Objectives of the Merger

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# The Merger September 1, 2004

Circle K Sunkus  
**Birth of**   **Circle K Sunkus Co.,Ltd.**

### *-Objectives of the Merger-*

- **With further organizational integration after the merger**
  - (1) **Decision-making will be faster.**
  - (2) **Communication will be smoother.**
  - (3) **Promotion of further integration will produce economies of scale and profits from rationalization.**
  - (4) **Overlapping costs will be reduced.**

# ■ Circle K Sunkus' Mission Statement and Business Strategy



## Circle K Sunkus' Mission Statement

**“We aim to be a company that achieves sustainable growth, while earning the trust of society.”**

## Business Strategy — Scenario for reform

- Marketing innovation
- Enhanced efficiency in use of funds and investment
- Emphasis on compliance
- Introduction of new HR management system
- Integration of business processes
- Eliminate waste and reduce fixed costs
- Develop and better manage area franchisers
- Develop new business, new business model

**Circle K Sunkus pursues sustainable/stable growth**

## ■ Key Success Factors for the 3-Year Plan

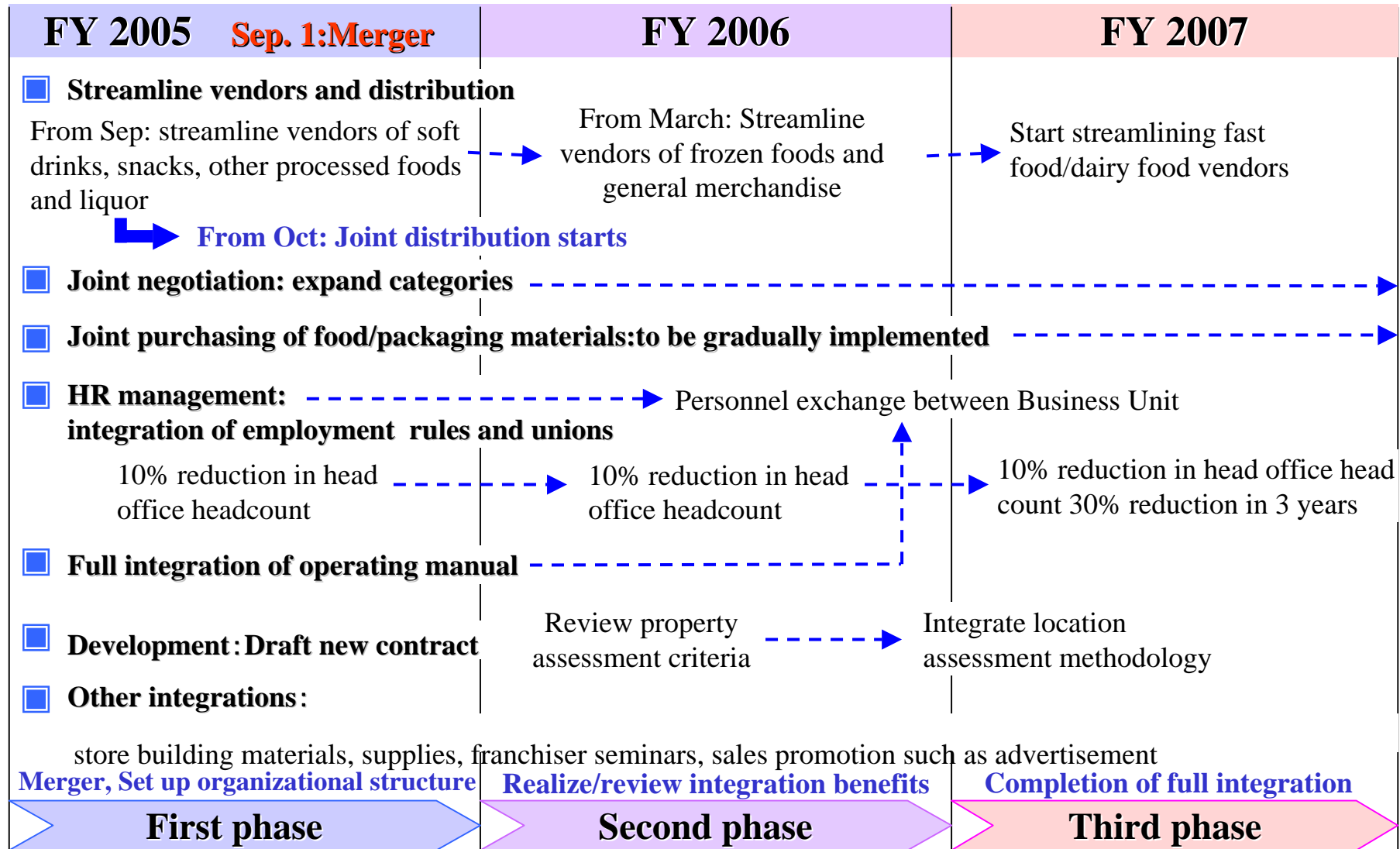
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### ■ Achieve high efficiency in store/administrative operations through thorough implementation of low-cost management and reform of earnings structure

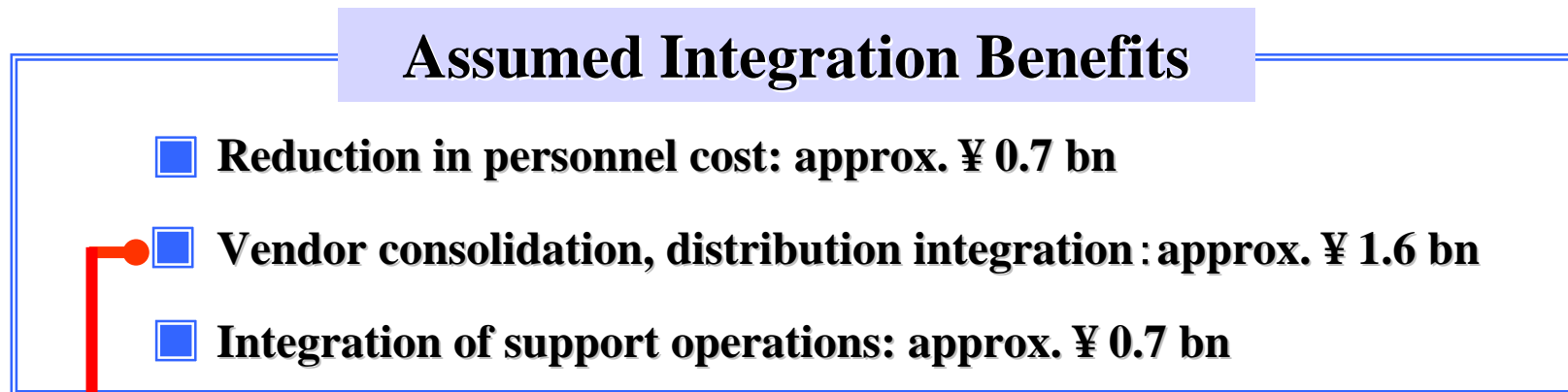
- Reduce headcount by transferring head office staff to business departments
- Gradually reduce number of vendors and streamline physical distribution, and thereby improve gross profit margin
- Gradually expand centralized purchasing of food/packaging materials
- Reduce costs by eliminating overlaps/duplications in all areas of operations
- Develop products that are delicious, safe, and cause “WAKUWAKU”, sense of anticipation and excitement, in the minds of the consumers
- Enhanced services capitalizing on the enlarged scale of operation with 6000 stores
- Undertake new businesses

### ■ All business processes to be fully integrated by the year ending February 2007

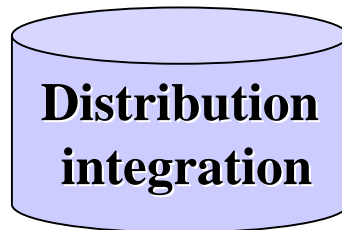
# Timetable for Business Process Integration



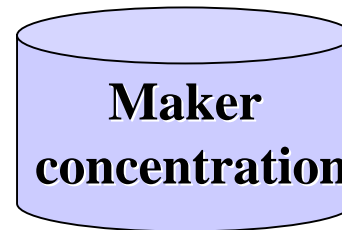
# Assumed Integration Benefits



Better purchasing conditions through increased volume



Joint distribution to start in 4 categories this year



Better conditions through increased efficiency in distribution



Increase transaction volume, and joint purchasing of food items



**0.5% improvement in markup over medium term**

(Gross profit improvement of ¥ 0.8 million per store)

## ■ Three-Year Business Plan (consolidated performance targets)

(Stores, Yen in million)

		2005/2	Year-on-year change	2006/2	Year-on-year change	2007/2	Year-on-year change
Stores opened		417	n.a.	436	+19	449	+13
Stores closed		238	n.a.	213	-25	230	+17
No. of stores at end of period		5,326	n.a.	5,549	+223	5,768	+219
Sales of franchised and Company-owned stores		940,130	+4.2%	973,200	+3.5%	1,007,150	+3.5%
Y-o-y change in existing-store sales	Circle K	0.0%	-	-1.0%	-	-1.5%	-
	Sunkus	-1.8%	-	-2.0%	-	-2.0%	-
Average product markup	Circle K	28.7%	±0.0%	28.9%	+0.15%	29.1%	+0.25%
	Sunkus	29.2%	+0.1%	29.4%	+0.15%	29.6%	+0.25%
Operating income		24,270	+8.2%	27,370	+12.8%	30,380	+11.0%
Recurring profit		23,210	+17.8%	25,800	+11.2%	28,550	+10.7%
Net income		12,580	+64.4%	14,210	+13.0%	15,750	+10.8%

## ■ Returning Profits to Shareholders

**Plan to pay 20% of consolidated net income as dividend**

- Plans call for raising the dividend payout ratio to 30%

**Year-end dividends increased by 4 yen**

- Merger payout (interim dividend equiv.) : ¥16 per share
- Year-end dividend : plans to pay ¥20 per share → **¥4 increase**
  - ➔ Dividends per share for the year : ¥36
  - ➔ Payout ratio : 24.7%

**This presentation contains forward-looking statements that are based on projections and plans derived from assumptions based on current market conditions.**

**Actual results may differ significantly from these projections due to changes in a number of factors that could not be foreseen at the time of the projections.**