

# FY2008 Interim Business Results and Strategic Focus for Second Half

October 9, 2007

Quality



First

CircleK Sunkus

*-Securities Code- 3337*



Circle K Sunkus Co.,Ltd.

*President*

*Motohiko Nakamura*

*General Manager*

*Masahiro Yoshida*

# To Our Shareholders and Other Investors

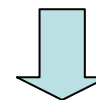


**President  
Motoshiko Nakamura**

## **FY2008 Management Policy**

**Shift to an “Intensive, Quality-driven Growth Path”**

First Half: Delivered better average daily sales at new stores, a smaller year-on-year decline in existing store sales and other results.



However, measures to improve quality are still under way. We aim to enhance quality by focusing on further strengthening sales capabilities.

**Decided to increase dividend by ¥2 per share**

**Raised the interim and year-end dividend by ¥1 per share each, bringing the annual dividend to ¥40 per share**

# 1. Highlights of Consolidated Results

(Stores, Yen in millions)

	Interim result	
		Y-o-y
Stores opened	<b>179</b>	26
Stores closed	<b>249</b>	21
Stores at term-end	<b>5,317</b>	-35
Total store sales	<b>463,490</b>	-1.2%
Total operating revenues	<b>104,556</b>	+5.6%
Gross profit	<b>69,625</b>	+0.2%
SG & A expenses	<b>58,058</b>	+5.0%
Operating income	<b>11,567</b>	-18.4%
Recurring profit	<b>11,108</b>	-18.2%
Net income	<b>4,486</b>	-19.7%

## [Consolidated subsidiaries]

	Four area franchisers total	Zero Networks	99 Ichiba
Stores opened	11	-	18
Stores closed	21	-	1
Stores at term-end	255	-	35
Total store sales	19,016	-	2,109
Total operating revenues	3,956	2,347	2,110
Operating income	58	-41	-218

1. Following the consolidation of 99 Ichiba Co., Ltd. in the fiscal 2008 interim period, Circle K Sunkus had a total of six consolidated subsidiaries.
2. Total operating revenues and operating income at consolidated subsidiaries are before consolidated eliminations.
3. Zero Networks Co., Ltd. had installed 2,498 original “Zero Bank” ATMs as of August 31, 2007.

## 2. Interim Period in Review

### (1) Non-consolidated Store Openings and Closures



1

Smaller shortfall in the number of stores opened relative to plans and average daily sales at new stores improved ¥23,000 year on year.

	Interim result	Y-o-y
Stores opened	150	+9
Relocated stores	55	+11
Average daily sales	426,000	+23,000 yen

(Stores)	
Projected	Difference
157	-7
(Full-year plan) 150	* 37%
434,000 yen	-8,000 yen

(Reference)

Circle K : Stores opened 96(Relocated stores 34), Average daily sales 437,000 yen

Sunkus : Stores opened 54(Relocated stores 21), Average daily sales 408,000 yen

**\*Note :** The percentage in the difference column represents the achievement rate relative to the planned number of relocated stores for the full year.

2

Closed 227 stores, 12 more than in the same period of the previous fiscal year

	Interim result	Y-o-y
Stores closed	227	+12
Company-owned stores	83	-5
Franchised stores	144	+17

(Stores)	
Projected	Difference
251	-24

(Reference) Circle K : Stores closed 121, Sunkus : Stores closed 106

No decrease in the number of Company-owned stores

Company-owned stores as of February 28, 2007: 598  
 ⇒ Company-owned stores as of August 31, 2007: 602 (up 4 stores)

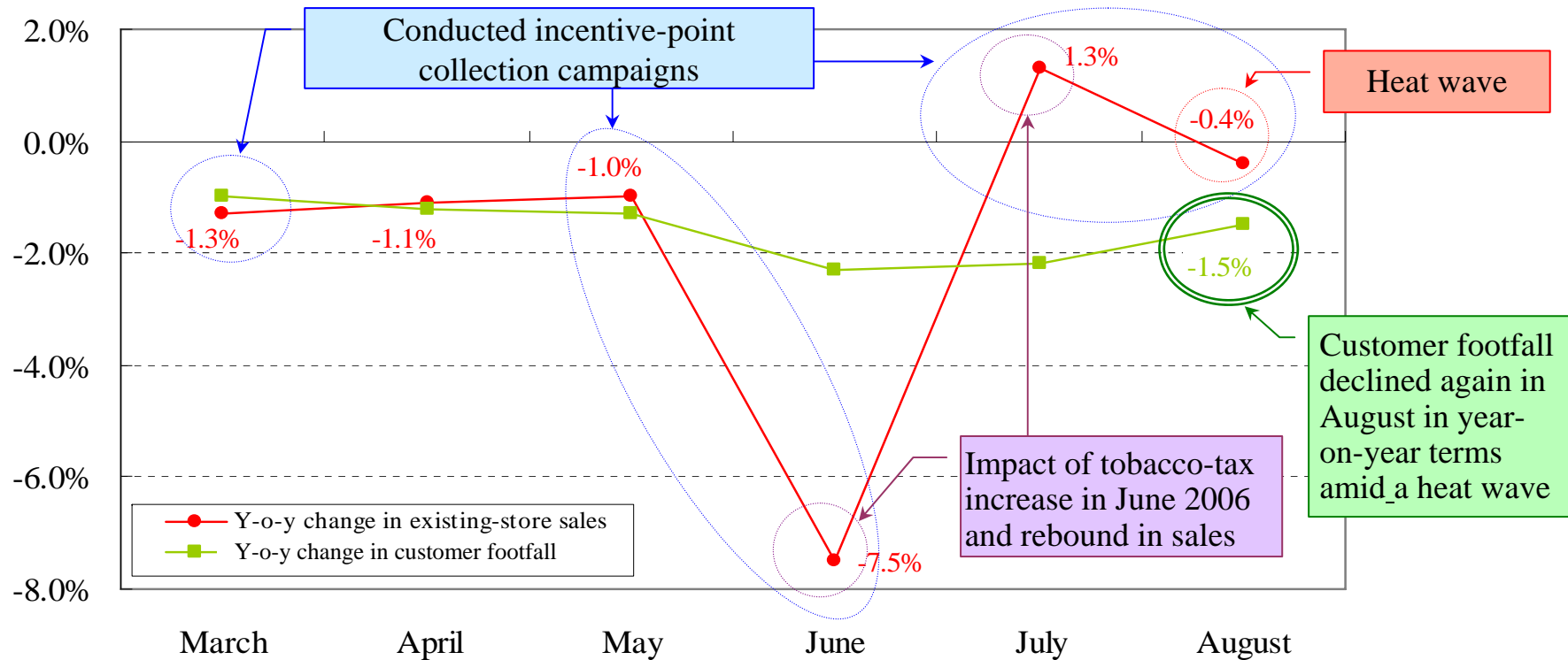
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## 2. Interim Period in Review

### (2) Year-on-year change in existing store sales



#### 1 Smaller year-on-year decline in existing store sales



FY 2007	Hokkaido	Tohoku	Kanto	Chubu Hokuriku	Chukyo	Kansai	Chugoku	Total
Circle K Sunkus	-0.8%	-3.2%	-0.5%	-1.1%	-2.2%	-2.4%	-2.1%	<b>-1.7%</b>

**Declining customer footfall**

Y-o-y change in cumulative customer footfall during FY08 interim period: -1.5%

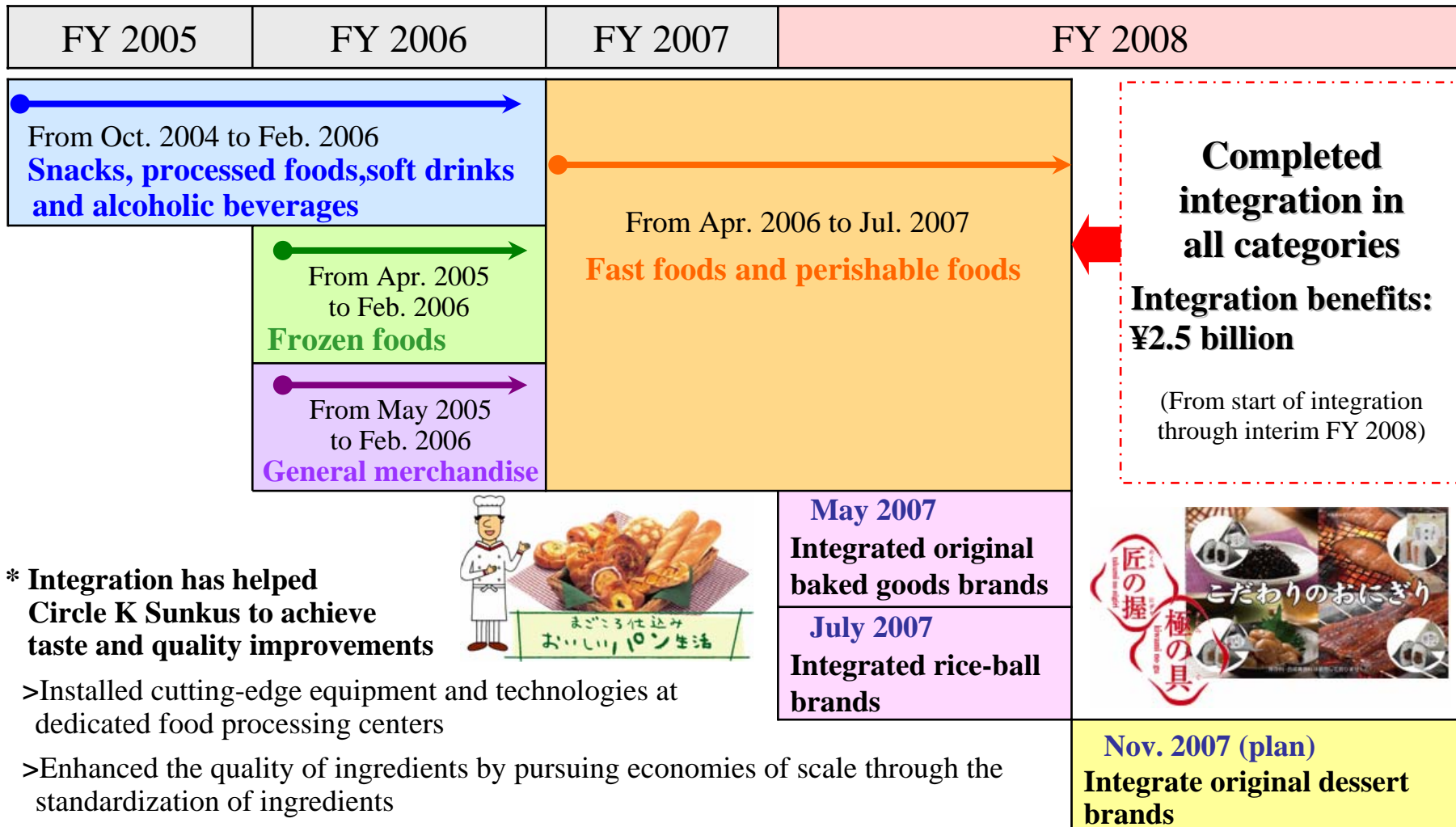
## 2. Interim Period in Review

### (3) Status of Product Integration Process



1

Completed integration of product vendor and logistics networks ahead of schedule in July and currently integrating product brands



\* Integration has helped Circle K Sunkus to achieve taste and quality improvements



> Installed cutting-edge equipment and technologies at dedicated food processing centers

> Enhanced the quality of ingredients by pursuing economies of scale through the standardization of ingredients

➔ **Conduct aggressive merchandising going forward**



## 2. Interim Period in Review

### (4) Other Initiatives

1

#### Implemented incentive-point collection campaigns

From Feb. 15 to Apr. 2 <i>Doraemon Fair</i> <i>Doraemon mug giveaway</i>	 ©藤子プロ・小学館・テレビ朝日・ シンエイ・ADK 2007
From May 22 to June 10 <i>Tom and Jerry Plate Giveaway</i> marking launch of new brand	 TM & ©Turner Entertainment Co. (s07)
From July 10 to Aug. 6 <i>Summer WAKUWAKU! Fair</i> <i>The Moomins Plate Giveaway</i>	 ©Moomin unaractersTM

2

#### KARUWAZA CLUB surpasses 270,000 members

>Began registration of cardless members via mobile-phone credit payment services in April



"KARUWAZA CLUB" Members : **272,948**  
(up **56,496** from end of previous year)



3

#### Launched pickup service at stores

>Launched a new pickup service at stores for products purchased via Internet mail-order

➔ Current service covers products offered by Dinos Inc. and cecile co., ltd.

4

#### ATM services to be rolled out in the Kansai region beginning in February 2008

>Reached basic agreement on May 24 with Resona Bank on installing ATMs at stores in the Kansai region

5

#### "99 Ichiba" sales proceeding well

>Number of stores increased to 35 as of August 31, 2007

	(Stores)	
	Interim result	Versus plan
Stores opened	18	+1
Stores closed	1	+1
Stores at term-end	35	±0
Average daily sales	435,000 yen	±0

### 3. Interim Non-consolidated Results and Forecasts



(Stores, Yen in millions)

	Interim results	
		Year-on -year
Total store sales	<b>442,365</b>	<b>-1.5%</b>
Y-o-y change in existing-store sales	<b>-1.7%</b>	<b>-</b>
Average product markup	<b>29.10%</b>	<b>-0.05point</b>
Total operating revenues	<b>96,640</b>	<b>+3.3%</b>
Gross profit	<b>66,773</b>	<b>0.0%</b>
SG & A expenses	<b>54,989</b>	<b>+3.7%</b>
Operating income	<b>11,783</b>	<b>-14.1%</b>
Recurring profit	<b>11,263</b>	<b>-14.5%</b>
Net income	<b>4,580</b>	<b>-16.2%</b>

Planned	Difference
445,890	<b>-3,525</b>
-0.8%	<b>-0.9%</b>
29.17%	<b>-0.07point</b>
94,690	<b>+1,950</b>
67,300	<b>-527</b>
54,289	<b>+700</b>
13,010	<b>-1,227</b>
11,320	<b>-57</b>
4,340	<b>+240</b>

Note: The year-on-year comparison for the average product markup represents the percentage-point change in this ratio.

# 4. Breakdown of Non-consolidated Business Results



## (1) Total Store Sales and Total Operating Revenues

(Yen in millions)

	Interim result	Year-on-year change
Total store sales	<b>442,365</b>	<b>-6,756</b>
Y-o-y change in existing-store sales	<b>-1.7%</b>	<b>-</b>
Average product markup	<b>29.10%</b>	<b>-0.05point</b>
Total operating revenues	<b>96,640</b>	<b>+3,123</b>

### ¥ 6.7 Billion Decrease in Total Store Sales

Y-o-y change in existing-store sales : -1.7%

Average daily sales at all stores : 476,000 yen  
Down approximately ¥2,000 year on year

Closed 227 stores, 12 more than in the previous interim period

### Average markup ratio down 0.05 points

【Average product markup by category】 >Integration benefits:0.04%

Categories	Y-o-y
Fast foods	+0.3%
Perishable foods	+0.4%
Processed foods	+0.3%
Non-food items	-0.2%
Services	-1.0%

>markups deteriorated due to worsening sales mix

#### Y-o-y sales

Fast foods : - 5%

Tobacco : +2%

Ticket : +7%

Net Preca : +45%

### ¥3.1 billion increase in total operating revenues

- Net sales of Company-owned stores rose ¥4.1 billion, reflecting 71 more Company-owned stores than in the interim period of fiscal 2007.

Breakdown of total operating revenues	Y-o-y
Franchise commission from franchised stores*	-1.9%
Real estate rental income	-6.9%
Net sales of Company-owned stores	+11.6%
Other	+6.3%

\* Franchise commission from franchised stores includes area franchise fees of 1,572 million yen from 13 area franchisers.

# 4. Breakdown of Non-consolidated Business Results

## (2) SG&A expenses and Operating income



(Yen in millions)

	Interim result	Year-on-year change
Gross profit	<b>66,773</b>	+20
SG & A expenses	<b>54,989</b>	+1,958
Personnel expenses	<b>9,956</b>	-75
Advertising and sales promotion expenses	<b>5,559</b>	+553
Store leasing expenses	<b>19,649</b>	+942
Equipment leasing expenses	<b>3,593</b>	-699
Depreciation and amortization	<b>3,012</b>	-126
Other	<b>13,217</b>	+1,364
Operating income	<b>11,783</b>	-1,938

### ¥1.9 Billion Increase in SG&A Expenses

● Advertising and sales promotion expenses up ¥553 million

Actively conducted sales promotions, including three incentive-point collection campaigns

● Store leasing expenses up ¥942 million

\*Rising rents for new stores

\*Larger stores and total site areas

● Equipment leasing expenses, depreciation and amortization down ¥825 million

\*Equipment leasing expenses down ¥592 million due to the expiry of a leasing contract for Circle K Sunkus' current information system and depreciation and amortization down ¥222 million the completion of amortization of related software

\*Reduction in expenses related to accounting for impairment of fixed assets Up ¥149 million year on year

● Other expenses up ¥1.36 billion

\*Expenses related to Company-owned stores under consigned management increased ¥728 million year on year

⇒ There were 39 more stores under consigned management than in the same period of the previous fiscal year.

### ¥1.9 Billion Fall in Operating Income

Operating income was down ¥1.9 billion due to a ¥1.9 billion increase in SG&A expenses

# 4. Breakdown of Non-consolidated Business Results



## (3) Recurring Profit and Net Income

(Yen in millions)

	Interim result	Year-on-year change
Operating income	<b>11,783</b>	-1,938
Non-operating income	<b>750</b>	+169
Non-operating expenses	<b>1,271</b>	+140
Recurring profit	<b>11,263</b>	-1,908
Extraordinary gains	<b>136</b>	+4
Extraordinary losses	<b>3,329</b>	-182
Net income	<b>4,580</b>	-888

### Recurring Profit Down ¥1.9 Billion

\*Company closed 12 more stores year-on-year.

> Loss on cancellation of lease contracts: ¥1.1 billion (up 12.6% YoY)

### Net Income Down ¥0.8 Billion

\* Extraordinary gains : Up ¥4 million

\* Extraordinary losses : Down ¥0.18 billion

Breakdown of extraordinary losses	Result	Y-o-y
Store closure expenses	493	-9.7%
Loss on disposal of property and equipment	409	-10.5%
Loss on cancellation of lease contracts	84	-6.4%
Impairment loss on fixed assets	2,306	+4.1%
Loss on write-down of investment securities	351	-47.5%

## 5. Strategic Focus for Second Half



### 1 Improving quality of stores and measures for Company-owned stores

#### (1) Plans for opening/closing stores (non-consolidated basis)

(Stores)

	First-half Result	Second-half Plan	Full-year Plan
Store opened	150	170	320
Relocated stores	55	-	150
Average daily sales	426,000 yen	408,000 yen	412,000 yen
Stores closed	227	230	457
Company-owned stores	83	86	169

#### (2) Measures to reduce the number of Company-owned stores

**\* Curb increase in Company-owned stores, mainly by providing more business incentives to storeowners and motivating them to continue their businesses.**

(1) Launched an incentive plan for managing multiple stores on September 1.

(2) Continue to use the “Venture Employee System”—Aim to employ 120 new franchisee candidates in fiscal 2008 on a temporary basis. Plans call for recruiting five new independent franchisees.

(3) Continue franchisee support measures (incentive-point collection campaigns, etc.) with the aim of improving existing store sales in year-on-year terms

## 5. Strategic Focus for Second Half

### 2 Measures to boost customer footfall

#### 1. Develop strong-selling products for aggressive merchandising activities

- (1) Launch new dessert brands from November and develop these brands into mainstay products;
  - (2) Develop better-tasting products by adopting new preparation methods for boxed lunches from November; and,
  - (3) Launch a premium product lineup under the *Hogaraka Time* original snack brand from November.
- In addition:
- (4) Launch ¥105 *Frozen Foods* at all stores in a move to introduce 99 *Ichiba* products to existing stores



#### 2. Reinforce services

- (1) Strengthen pickup service at stores to boost customer footfall
  - (2) Diversify electronic payment options by accepting QUICKPAY and Visa Touch (Smartplus)
  - (3) Progressively install ATMs in the Kansai region (seven prefectures) from February 2008 under the original brand Bank Time, for which Resona Bank will be the principal bank
- (ref.) In the interim period, customer footfall fell 2.1% year on year in the Kansai region.

**BankTime**  
バンクタイム

#### 3. Conduct incentive-point collection campaigns to inject excitement into stores based on the WAKUWAKU! concept

- (1) Conduct *Doraemon Fair* from October 16 to November 19  
Give away *Doraemon* picture plates and handbags
- (2) Plan to conduct the *Winter WAKUWAKU! Campaign* over the New Year period



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## 6. Forecast of Non-consolidated Earnings for Fiscal 2008

(Stores, Yen in millions)

	Interim result	FY2008 (forecast)		Initial forecasts for FY2008
			Y-o-y change	
Stores opened	150	<b>320</b>	+13	320
Stores closed	227	<b>457</b>	+100	450
Stores at term-end	5,027	<b>4,967</b>	-137	4,974
Total store sales	442,365	<b>865,230</b>	-0.9%	869,780
Y-o-y change in existing-store sales	-1.7%	<b>-1.2%</b>	-	-0.8%
Average product markup	29.10%	<b>28.99%</b>	+0.02%	29.11%
Total operating revenues	96,640	<b>188,230</b>	+2.6%	181,110
Gross profit	66,773	<b>133,300</b>	+0.8%	130,570
SG & A expenses	54,989	<b>109,000</b>	+2.6%	106,310
Operating income	11,783	<b>21,300</b>	-7.1%	24,260
Recurring profit	11,263	<b>19,280</b>	-11.7%	21,070
Net income	4,580	<b>8,990</b>	-13.6%	9,060

### Second Half Assumptions

Store Opened : 170

Store closed : 230

\* Plan to increase store closures in second half to make up for shortfall in store closures in the first half

Existing Store Sales: -0.8% YoY

\* Maintain initial forecast

Average product markup: 28.86%

\* Reduced average product markup forecast by 0.18 of a point from initial projection in light of continuing growth in sales of low-margin offerings, such as tobacco and the *Net Preca* service.

> Second-half SG&A expenses are projected to be ¥2.0 billion higher than initially forecast due to higher personnel, store leasing and other expenses.

> Second-half extraordinary losses are recorded ¥1.3 billion of gain on return of pension asset to the government.

## 7. Forecast of Consolidated Earnings for Fiscal 2008

(Stores, Yen in millions)

	Interim result	FY2008 (forecast)		Initial forecasts for FY2008
			Y-o-y change	
Stores opened	179	<b>379</b>	+51	388
Stores closed	249	<b>488</b>	+102	483
Stores at term-end	5,317	<b>5,278</b>	-91	5,292
Total store sales	463,490	<b>907,930</b>	-0.4%	913,570
Total operating revenues	104,556	<b>205,620</b>	+5.8%	198,400
Gross profit	69,625	<b>136,310</b>	+1.7%	136,766
SG & A expenses	58,058	<b>115,740</b>	+4.3%	113,466
Operating income	11,567	<b>20,570</b>	-11.0%	23,300
Recurring profit	11,108	<b>18,500</b>	-16.3%	20,000
Net income	4,486	<b>8,310</b>	-18.8%	7,600

Consolidated subsidiaries total	
Stores opened	59
Stores closed	31
Stores at term-end	311
Total store sales	42,700
Total operating revenues	17,390
Operating income	-730

(Note)

Total operating revenues, operating income and recurring profits at six consolidated subsidiaries are after consolidated eliminations.

**[Six Consolidated Subsidiaries]**

(Four Area franchisers)  
 Sunkus Aomori Co., Ltd.  
 Sunkus Nishi-Saitama Co., Ltd.  
 SUNKUS KITAKANTO Co., Ltd.  
 Sunkus Nishi-Shikoku Co., Ltd.  
 ZERO NETWORKS Co., Ltd.  
 (Outsourced ATM Operations)  
 99 Ichiba Co., Ltd.  
 (Mini supermarkets that specialize in fresh foods)

- \* Earnings at consolidated subsidiaries are expected to improve due to lower SG&A expenses and other factors.
- \* Full-year operating income for all subsidiaries is projected to exceed initial forecasts by around ¥230 million.

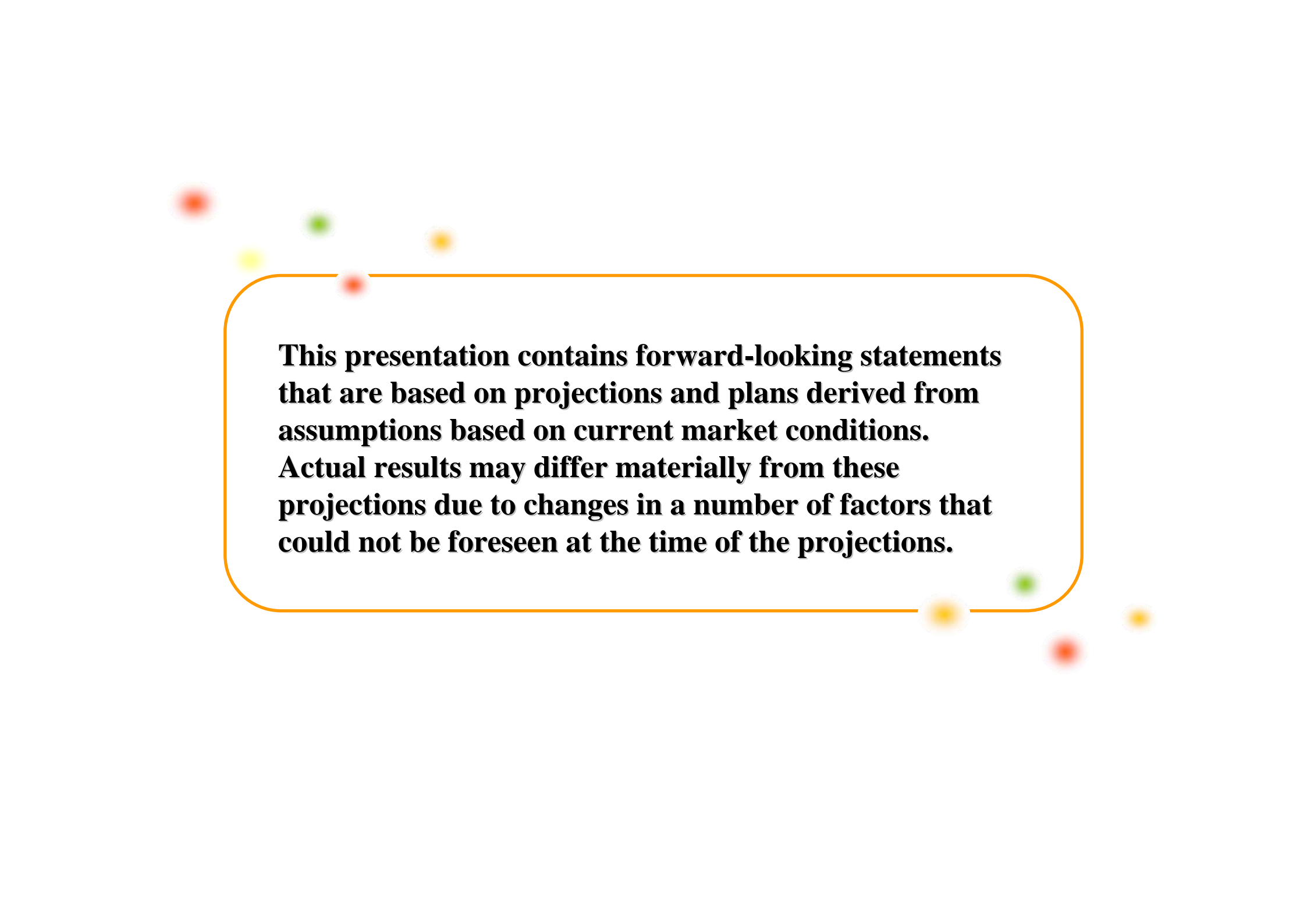
# 8. Shareholder Returns

Basic Company Policy

**Plan to pay 25% of consolidated net income as dividend**  
**- Plans call for raising the dividend payout ratio to 30% -**

**Increase annual dividend by ¥2 per share**

Dividends per Share		
	Fiscal 2007	Fiscal 2008
Interim dividend per share	19 yen	<b>20 yen</b>
Year-end dividend per share	19 yen	<b>20 yen (plan)</b>
Annual dividend per share	38 yen	<b>40 yen (plan)</b>
Payout Ratio	31.7%	<b>40.3% (plan)</b>
Dividends on total equity	2.7%	<b>2.7% (plan)</b>
Acquisition of treasury stock	5.0 billion yen	



**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 materially from these projections due to changes in a number of factors that could not be foreseen at the time of the projections.**