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FY2008 Business Results and Medium-term Management Plan

CircleK Sunkus



-Securities Code- 3337

Circle K Sunkus Co.,Ltd.

General Manager

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(Note) 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.

1. Consolidated Financial Highlights

(Stores, Yen in millions)

	FY2007	FY2008	Y-o-y	Versus Forecast
Stores opened	328	339	+11	-40
Stores closed	386	488	+102	±0
Stores at term-end	5,369	5,238	-131	-40
Total store sales	911,281	902,423	-1.0%	-0.6%
Total operating revenues	194,392	206,373	+6.2%	+0.4%
Gross profit	134,033	135,758	+1.3%	-0.4%
SG&A expenses	110,920	114,662	+3.4%	-0.9%
Operating income	23,113	21,095	-8.7%	+2.6%
Recurring profit	22,110	19,470	-11.9%	+5.2%
Net income	10,237	8,579	-16.2%	+3.2%

2. Factors Behind Differences Between Consolidated Business Results and Forecasts

(Yen in millions)

	Versus Forecast(%)	Versus Forecast
Gross profit	-0.4	-551
SG&A expenses	-0.9	-1,077
Operating income	+2.6	+525
Recurring profit	+5.2	+970
Net income	+3.2	+269

Factors Behind Differences Between Consolidated Business Results and Forecasts

- ***Gross profit:** Average product markup was 28.99% (same as forecast; up 0.02 point year on year)
Because the number of stores opened and the year-on-year decrease in existing store sales each fell short of target, Circle K Sunkus reported lower revenue from franchised stores.
(¥730 million below forecast)
- ***SG&A expenses:** Advertising and sales promotion expenses were ¥388 million below forecast
Reversal of long-term depreciation expenses mainly due to disposal of formerly used POS registers and Edy equipment : ¥586 million below forecast
- ***Net non-operating income (expenses) :** ¥444 million higher than forecast
Loss on cancellation of lease contracts: ¥166 million below forecast
- ***Consolidated subsidiaries:** Operating income at ZERO NETWORKS was ¥243 million higher than forecast.

3. Review of Fiscal 2008 (Non-consolidated)

1

Enhanced Average Daily Sales at New Stores and Reduced Number of Company-owned Stores

- * Average daily sales at new stores : **409,000 yen (+15,000yen y-o-y)**
- * Number of Company-owned stores : **550 (-48 y-o-y)**

	(Stores, Yen)	
	FY 2008	Y-o-y
Stores opened	284	-23
Relocated stores	99	-4
Average daily sales at new stores	409,000	+15,000
Stores closed	459	+102
Company-owned stores	188	+52
Stores at term-end	4,929	-175

*Opened stores with an emphasis on quality
 *Implemented store opening strategies by region

Steps to reduce Company-owned stores
 * Launched an incentive plan for managing multiple stores from the 2nd half
 *“Venture Employee System”:
 Seven candidates achieved independence and opened their own franchised stores.

(1) Completion of integration led to improved gross profit

- * **Integration benefits: Cumulative ¥3360 million improvement in gross profit (from start of integration through FY2008)**
- * **Average product markup for FY2008: 28.99 (+0.02 point y-o-y)**

(2) Enhanced original products: strong sales of integrated brands

Launched original baked goods brand in May 2007



+6% y-o-y (Monthly sales for February 2008)

Launched original dessert brand in November 2007

Cherie Dolce



+41% y-o-y (Monthly sales for February 2008)

3

Strove to Boost Customer Footfall by Launching New Services

1. Launched a new pickup service at stores for products purchased at Internet mail-order sites

- Launched service in May 2007 => Rakuten Books added to service in February 2008

2. Diversified electronic-money payment methods

- Installed new POS registers at all stores in the second half
=> Began accepting the new post-payment formats of QUICPay™ and Visa Touch (Smartplus)



3. *KARUWAZA CLUB* membership reached as many as roughly 340,000

- Began registration of cardless members in April 2007
=> Membership increased by more than 120,000 year on year

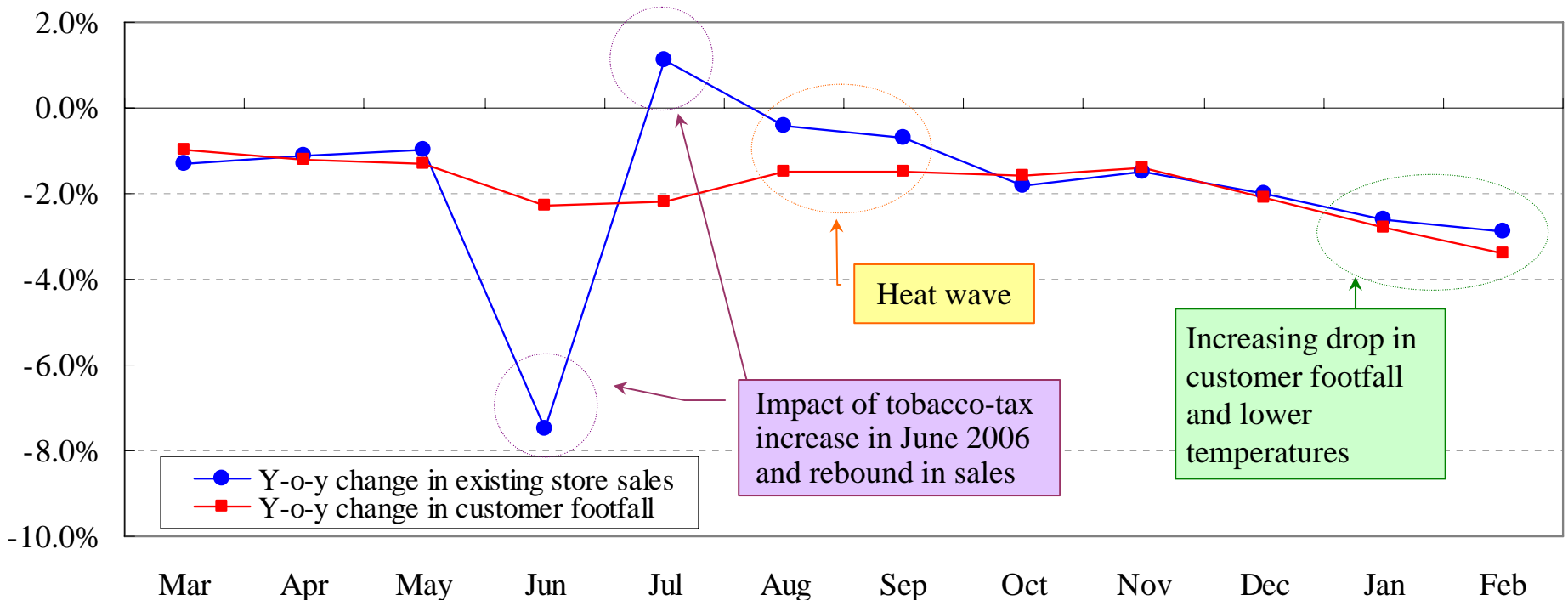
4. Began installing ATMs in the Kansai region

- Launched *Bank Time* ATM services in the Kansai region (six prefectures) from February 2008

4 Change in Existing Store Sales

* Year-on-year change in existing store sales : -1.8%

* Year-on-year change in average customer footfall : -1.8%



FY2008	Hokkaido	Tohoku	Kanto	Chubu Hokuriku	Chukyo	Kansai	Chugoku	Average
Circle K Sunkus	-1.9%	-2.6%	-0.9%	-0.8%	-2.5%	-2.4%	-1.2%	-1.8%

4. Non-consolidated Financial Highlights

(Stores, Yen in millions)

	FY2007	FY2008	Y-o-y	Versus forecast
Stores opened	307	284	-23	-36
Stores closed	357	459	+102	+2
Stores at term-end	5,104	4,929	-175	-38
Total store sales	872,844	860,041	-1.5%	-0.6%
Y-o-y change in existing store sales	-3.3%	-1.8%	-	-0.6%
Average product markup	28.97%	28.99%	+0.02%	±0.00%
Total operating revenues	183,521	189,247	+3.1%	+0.5%
Gross profit	129,221	129,789	+0.4%	-0.4%
SG&A expenses	106,285	108,313	+1.9%	-0.6%
Operating income	22,935	21,476	-6.4%	+0.8%
Recurring profit	21,834	19,702	-9.8%	+2.2%
Net income	10,405	8,648	-16.9%	-3.8%

Note: The year-on-year comparison for average product markup is shown on a percentage-point basis.

5. Factors Behind Year-on-year Changes in Non-consolidated Results

(1) Total operating revenues ¥189,247 million (+¥5,725 million; +3.1% y-o-y)

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
Franchise commission from franchised stores	-1.2%	-1,229	Year-on-year change in existing store sales : -1.8% Net decrease of 175 stores
Net sales of Company-owned stores	+9.6%	+6,869	Increase in number of operational Company-owned stores during the fiscal year

(2) SG&A expenses ¥108,313 million (+¥2,027 million; +1.9% y-o-y)

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
Personnel expenses	+1.7%	+322	Higher employee salaries accompanying an increase in “Venture Employee System” participants
Advertising and sales promotion expenses	+1.4%	+137	Stronger sales promotions such as incentive-point collection campaigns
Store leasing expenses	+4.1%	+1,544	Surging rent for new stores and an increase in opening of Type C stores
Equipment leasing expenses	-10.6%	-865	Expiry of lease contracts for former store information system
Depreciation and amortization	-0.7%	-58	Decrease in amortization of software
Other	+3.8%	+947	Higher management consignment fees due to increase in number of management-consigned stores, etc.

(3) Non-operating income ¥1,373 million, Non-operating expenses ¥3,147 million

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
Non-operating income	+23.1%	+257	Increase of ¥125 million in interest income
Non-operating expenses	+42.0%	+930	Loss on cancellation of lease contracts rose ¥913 million due to the closure of 102 more stores than in the previous fiscal year.

(4) Extraordinary gains ¥1,536 million, Extraordinary losses ¥6,040 million

(Yen in millions)

	Y-o-y change	Y-o-y change	Factors
Extraordinary gains	+50.0%	+512	Recorded gain of ¥1,339 million on the return of the substitutional portion of the employees' pension fund associated with the former Sunkus company
Extraordinary losses	+30.3%	+1,404	Higher store closure expenses reflecting closure of 102 more stores than in the previous fiscal year *Loss on disposal of property and equipment : Up ¥905 million *Loss on cancellation of lease contracts: Up ¥342 million Impairment loss on fixed assets: Down ¥262 million to ¥2,441 million

6. Medium-term Management Plan

Operating Environment of Industry

- Intensified competition with industry insiders and outsiders
- Concerns about an economic slowdown and weaker consumer sentiment
- Pressure from suppliers to raise prices due to surging materials costs
- Launch of taspo cards
- Amendment of the Pharmaceutical Affairs Law
- Mandatory medical checks for metabolic syndrome

Circle K Sunkus

- Changes in earnings structure (Falling percentage of Type A stores, decrease in royalty income and increase in Company-owned stores)
- Declining sales due to drop in customer footfall
- Large investments in store information system

Medium-term Management Policies

- 1 Offer “true value to customers” => Develop stores that are better appreciated by customers**
- 2 Boldly develop new products and services**
- 3 Promote regional strategies and monitor progress toward earnings by region**
- 4 Transform our earnings structure**
- 5 Enhance and optimize operating efficiency
=> Standardize franchise agreements and introduce a new type of franchise agreement**

7. Three-year Plan

1 Consolidated Targets

(Stores, Yen in millions)

	FY2009	FY2010	FY2011
Stores opened	355	399	444
Stores closed	282	300	315
Stores at term-end	5,311	5,410	5,539
Y-o-y change in existing store sales	-1.0%	+0.5%	+0.5%
Average product markup	29.04%	29.04%	29.09%
Total store sales	898,280	924,290	959,360
Total operating revenues	206,160	216,480	233,280
Operating income	17,000	16,090	17,500
Recurring profit	15,800	14,900	16,100
Net income	6,620	6,430	7,360

(Note) Y-o-y change in existing-store sales and average product markup are non-consolidated.

2

Consolidated Capital Expenditures Budget

* Capital expenditures (includes leases)

(Yen in millions)

	FY2009	FY2010	FY2011
New store investments	12,703	14,266	15,658
Existing store investments	1,437	1,466	1,478
System investments	12,515	3,600	2,003
Head office investments	435	428	431
Capital expenditures (1)	27,090	19,760	19,570
Leasing Expenditures (2)	15,710	9,270	7,400
Total Investments (1)+(2)	42,800	29,030	26,970

8. Shareholder Returns

[Basic Company Policy]

Until FY2008

Aim to pay out 25% of consolidated net income in the form of dividends, and to raise the dividend payout ratio to 30% in the future



FY2009 and thereafter

Aim to pay out at **least 30%** of consolidated net income in the form of dividends and maintain a stable dividend

Share buybacks will be considered while carefully monitoring capital investment plans and the Company's financial position

Status of Shareholder Returns

(Yen)

	FY2007	FY2008	FY2009
Interim dividend per share	19	20	20
Year-end dividend per share	19	20	20
Annual dividend per share	38	40	40
Payout ratio	31.7%	39.1%	50.6%
Dividends on total equity	2.7%	2.7%	2.6%
Share buybacks	5.0 billion	-	-