



**Embracing Change
to Reinvent
Convenience Stores**

Motohiko Nakamura
President

The convenience store industry faces an increasingly challenging business environment and Japanese society is experiencing constant change. Circle K Sunkus must now come up with new ideas to meet the challenges before it, and break from past ways of thinking about and doing things so as to reinvent convenience stores. By transforming its earnings structure, Circle K Sunkus aims to restore earnings growth in fiscal 2011, the final year of its Three-year Plan.

Fiscal 2008 in Review

Since my appointment as President in May 2007, I've overseen Circle K Sunkus' efforts to bolster sales capabilities based on a management strategy premised on an "intensive focus on quality." I've done so as both President and Head of the General Operations Headquarters, a post that gives me a strong grounding in frontline operations.

In fiscal 2008, the year ended February 29, 2008, total operating revenue rose 6.2% year on year to ¥206,373 million. However, operating income decreased 8.7% year on year to ¥21,096 million mainly due to a decrease in revenues from franchised stores and higher selling, general and administrative (SG&A) expenses. As a major initiative for fiscal 2008, Circle K Sunkus closed unprofitable stores and Company-owned stores on schedule, resulting in a large increase in spending on store closure expenses. Consequently, net income decreased 16.2% year on year to ¥8,580 million.

In terms of business performance, we regrettably posted lower earnings. However, as a result of reviewing our strategies for opening new stores in each region, we achieved a measure of success with our emphasis on quality, improving average daily sales at newly opened stores by ¥15,000 from the previous fiscal year. In fiscal 2008, Circle K Sunkus completed vendor and logistics integration in all product categories. Leveraging this integration, Circle K Sunkus has taken aggressive merchandising initiatives, developing new original product brands. Of these, the *Cherie Dolce* brand of original desserts is growing into a hallmark Circle K Sunkus product brand. *Cherie Dolce* has garnered a strong customer response thanks to an exceptionally high standard of quality that has revolutionized the image of conventional convenience-store desserts.

We are making a degree of progress in these fields, but we are still far from seeing satisfactory results. Going forward, we are determined to resolutely strengthen sales capabilities in all divisions, with the aim of realizing an even higher standard of quality.

Achieving Our Three-year Plan

Circle K Sunkus formulated a new medium-term management plan called the Three-year Plan beginning in fiscal 2009.

The convenience store industry is facing an increasingly challenging operating climate. Pressing issues faced by Circle K Sunkus include lackluster sales due to lower customer footfall and changes in its earnings structure. In this climate, nothing new can be created nor can we expect growth unless we change how we think about and do things. Our efforts will be focused on transforming our earnings structure. By boldly developing new products and services, and investing heavily in driving future sales and earnings growth, we will take an aggressive stance to moving forward, even as we fortify our defenses through rigorous low-cost operations and the pursuit of greater cost effectiveness. By ensuring that we implement these measures, I want to reaffirm my commitment to restoring earnings growth from fiscal 2011.

I look forward to your continued understanding and support for Circle K Sunkus, as we work to achieve our strategic goal of medium-term growth.

August 2008

Motohiko Nakamura

Motohiko Nakamura, President

INTERVIEW WITH THE PRESIDENT



Q1

How would you describe Circle K Sunkus' business environment and what pressing issues do you face?

The convenience store industry faces an increasingly challenging business environment. Besides intensifying competition transcending traditional business boundaries, soaring raw materials prices are putting pressure on manufacturers to raise prices and consumer sentiment is weakening due to concerns over an economic slowdown. In addition, with the number of convenience stores in Japan now exceeding 40,000, the industry as a whole has reached a saturation point and is said to have matured. In fact, Japan's major convenience stores are all seeing net decreases in the number of their stores. Although the numbers clearly point to a difficult environment, this does not tell the full story—I believe that the industry still harbors opportunities for growth. This thinking has guided me in taking various initiatives since my appointment as President.

Despite this outlook, Circle K Sunkus' earnings structure is changing in various ways. While Type A stores have been declining, the increase in Type C stores is leading to higher investments and operating expenses. Royalty revenues are falling and the number of Company-owned stores is increasing. In addition, sales are declining due to a drop in customer footfall. Therefore, our top priorities are to bolster sales capabilities while responding to changes in our earnings and cost structures.

Q2

What are your medium-term management policies?

I've repeatedly urged employees and franchisees to think about and do things differently than in the past. With Japanese society undergoing so much change, we cannot grow as a company unless we embrace new challenges. That is why we need to go back to the drawing board and come up with new ideas to meet the challenges before us.

Our medium-term management policies are to offer "true value to customers," boldly develop new products and services, promote regional strategies, transform our

earnings structure, and enhance and optimize operating efficiency. We will take an aggressive stance where necessary, such as in developing new services and products and investing heavily in future sales and earnings growth, even as we fortify our defenses through rigorous low-cost operations and the pursuit of greater returns on investments. In this manner, we aim to transform our earnings structure.

Q3

Could you please elaborate on your Three-year Plan?

During the Three-year Plan, Circle K Sunkus will make large investments as part of a more aggressive approach to management. The largest investments will be made in fiscal 2009. We are budgeting for total investments of ¥42.8 billion that fiscal year, including leasing expenditures. Earnings are projected to decrease in the first and second fiscal years of the Three-year Plan because of increased spending accompanying this large investment. Some shareholders and other investors have questioned the necessity of going as far as to reduce earnings to

make such heavy capital investments. However, these investments centered on our new store information system are essential to realizing new services and generating higher sales and earnings into the future. I'm convinced that these early investments are crucial to surmounting the competition in the coming years. I will do my utmost to lead Circle K Sunkus to restored earnings growth in fiscal 2011, the plan's final year, by transforming our earnings structure.

Consolidated Three-year Plan

(stores, percent, millions of yen)

| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
|------------------------------------|-------------|-------------|-------------|
| Store openings | 355 | 399 | 444 |
| Store closures | 282 | 300 | 315 |
| Total stores at period-end | 5,311 | 5,410 | 5,539 |
| YoY 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 revenue | 206,160 | 216,480 | 233,280 |
| Operating income | 17,000 | 16,090 | 17,500 |
| Net income | 6,620 | 6,430 | 7,360 |

Note: The Three-year Plan does not reflect the impact of growth in tobacco sales due to the introduction of "age verifying cigarette vending machines" compatible with taspo cards from fiscal 2009.

Q4**What initiatives will Circle K Sunkus take in fiscal 2009, the first year of its medium-term management plan?**

Our first step in fiscal 2009 was a bold reorganization looking out to three years from now. Because we believe that a stronger focus on regions and individual stores is crucial to rising above the increasingly intense competition, we newly established regional divisions. We have clarified the roles and responsibilities of the heads of regional divisions, all of whom are executive officers, and have handed authority to them, with the aim of promoting speedy execution of regional strategies and managing earnings by region.

As part of efforts to offer “true value to customers,” we launched the *Yume WAKU2* project in March to develop stores that are better appreciated by customers. On the product development front, Circle K Sunkus plans to develop and foster new flagship products from scratch, while continuing to provide reliable, safe and great-tasting products. We will also work even harder than before to

capture synergies with the UNY Group, with the aim of enhancing profitability. Furthermore, Circle K Sunkus will begin making the aforementioned large investments in advanced services. Beginning with the full-scale launch of ATM services in the Kansai region, the Company will successively install multi-use copy machines and in-store multi-media terminals, among other initiatives.



With the roll out of “Bank Time” ATMs at approximately 900 Kansai region stores, ATM services will be available at over 60% of the Company’s stores as of July 31, 2008.

Q5**Could you please tell us more about the new *Yume WAKU2* project?**

Never has it been more important for us to have a project that allows all members of our organization to share a common goal and work as one to achieve it. The *Yume WAKU2* project is designed to bring all Circle K Sunkus employees and franchised stores together to develop stores that are better appreciated by customers. The project is also part of efforts to deliver a real sense of excitement (*WAKU WAKU*) to customers.

The first step of the project was to launch a newly designed joint uniform for Circle K and Sunkus stores in June. To ensure that we welcome customers to stores with a higher level of customer service and optimal product lineups, besides just new uniforms, we held forums in various locations nationwide from April to encourage Circle K Sunkus employees and franchised storeowners to share a

common vision for enhancing customer satisfaction. We also began an initiative where we develop products based on ideas submitted by franchised stores. Through this project, we will continue striving to maximize “true customer value” by taking on new challenges.



To develop stores that are better appreciated by customers, we aim to enhance store operations that allow us to welcome customers to optimal stores in every respect, including customer service and product lineup.

Q6**What is your vision for Circle K Sunkus?**

I constantly encourage employees and franchisees to hold high aspirations on the job. My own aspiration—and aim—is to break from past ways of doing things to reinvent convenience stores. I want to realize one aspect of Circle K Sunkus' vision—"Becoming a Truly Exciting (*WAKU WAKU*) Enterprise" so that customers come to feel that there is something different and exciting about Circle K and Sunkus stores. We will do this by offering better products and services, and conducting various campaigns that convey a sense of excitement (*WAKU WAKU*). In the process, we must not forget the willingness to embrace new challenges as a company. I'm convinced that this will lead to higher customer footfall and improved sales and earnings.



Our new uniforms feature a red, white and blue mosaic pattern, and embody the sense of excitement that we are trying to create at stores. Red is our corporate color, while white and blue express cleanliness and sincerity, respectively.

Q7**Finally, please explain your approach to shareholder returns.**

I regard shareholder returns as an important management priority for Circle K Sunkus.

Our basic policy is to maintain stable dividends, while carefully monitoring our medium-term earnings outlook, capital expenditure plans and financial position, with the aim of paying out at least 30% of net income as dividends. Despite lower earnings in fiscal 2008, we raised the annual dividend per share to ¥40, ¥2 higher than in fiscal 2007. As a result, the dividend payout ratio was 39.1%, surpassing our target.

As mentioned earlier, we are projecting lower earnings for fiscal 2009 because we will bear a considerable cost burden as investments in information systems get fully under way. However, we will not reduce our dividend for fiscal 2009. Because we view shareholder returns as an important management priority, we plan to maintain the annual dividend per share at ¥40 based on the aforementioned basic policy.

Going forward, we will continue to decide on shareholder returns while keeping a close eye on our medium-term earnings outlook and financial position.

