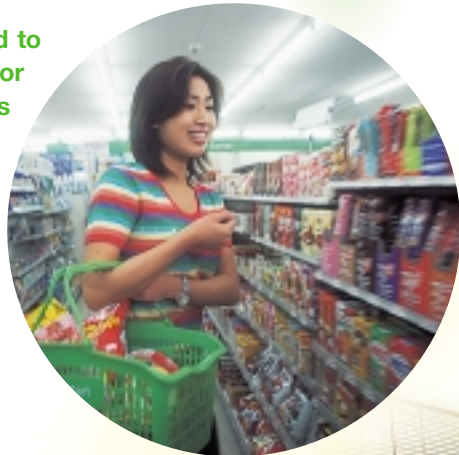


Review of Operations

With the dawn of the 21st century, FamilyMart is dedicated to becoming a “Contending Group” filled with energy and vigor and acting as a wellspring of creativity. In pursuing this goal, FamilyMart headquarters and franchisees will redouble their efforts to work as a single team. Although we have entered a new century, the most essential element of our CVS operations has remained unchanged and that is an unwavering commitment to fine-tuning the precision of our ordering capabilities to maintain a fresh and appealing product mix that satisfies the evolving preferences of each individual customer. At the same time, we are placing high priority on improving our QSC, which underpins our entire CVS operations. To maximize the effectiveness of its store management tools, FamilyMart headquarters will also continue to provide comprehensive support for franchised stores.



Raising the Precision of Our Product-Ordering Capabilities

The overriding aim of our efforts to pursue greater precision in ordering is to completely eliminate losses caused by inadequate stocks and thus create more opportunities for selling products. Improving the precision of our ordering will also play a key role in allowing us to earn the trust of our customers, record higher sales, and secure a base of loyal customers.

☞ As a first step toward enhancing the precision of ordering, in May 2000 we introduced Face-Trend Analysis—which tracks and analyzes information for approximately 400 products by category, delivery number, and other criteria—at each franchised store. Face-Trend Analysis facilitates FamilyMart’s efforts to quickly ascertain fast- and slow-selling products, thereby allowing the Company to order appropriate supplies of products in demand by its customers while eliminating those for which demand is weak.

☞ As another vital tool for enhancing precise ordering capabilities, FamilyMart has been implementing its New Store System, which supports product monitoring, since January 2001. This system allows FamilyMart to order products based on actual sales of individual items instead of in response to overall demand in a general category. By introducing the New Store System, we also aim to create an image in the minds of consumers that FamilyMart stores stock abundant supplies of those products actually desired by customers. Amid evolving and diversifying consumer preferences, FamilyMart is also raising ordering precision by analyzing customer demand for individual products based on a wide assortment of information, including purchasing trends by the day of the week and the time of day as well as weather conditions. This information is collected and sent from FamilyMart headquarters to franchised stores via satellite.

Introducing SATs and Sharing Ordering Responsibilities

FamilyMart has introduced new handheld store activation terminals (SATs) that provide solid support for monitoring individual products within more than 3,800 product categories. SATs help sales staff to ascertain the state of inventories and supplies of individual products both



Strengthening Our Store Management



Hiroyoshi Yada
Senior Managing Representative Director and
Senior Managing Executive Officer

on display shelves and based on actual product sales results. SATs thus serve as a beneficial tool for determining what products should be stocked or eliminated and the appropriate volume of products to be ordered.

- There are various limits on the abilities of store managers to carry out product monitoring and ordering single-handedly. With this in mind, FamilyMart is working to promote a sharing of the ordering burden among store personnel by building a structure that permits all store staff to place product orders.

Maximizing the Capabilities of Store Staff

A key to realizing our goal of dividing the responsibilities for product ordering is to raise the skill levels of our store personnel, who are ultimately responsible for the frontline implementation of QSC. Therefore, staff training is a top management issue at FamilyMart. To facilitate its staff-training activities, in April 2000 FamilyMart began the full-scale implementation of a training program called the Store Staff Total System (SST). SST is a systematic program that emphasizes attracting, educating, motivating, and remunerating staff. Under this program, training is implemented in stages—beginner, intermediate, and advanced stages—to ensure that staff continually raise their skill levels. SST will permit store staff to acquire vital know-how on product ordering among other skills.

- The implementation of SST has already yielded such significant results as allowing a large number of franchised stores to achieve steady improvements in QSC. As mentioned, SST also promotes a sharing of ordering responsibilities at individual stores, facilitates the collection of various types of information, and helps FamilyMart respond rapidly and accurately to customer needs. In addition, the introduction of SST has generated other benefits, including encouraging staff to take a proactive approach to their jobs as well as promoting a heightened sense of responsibility. In quantitative terms, SST has yielded sales increases that range from 3% to 20% for all product categories at franchised stores.

- FamilyMart is not resting on these achievements and believes that ongoing efforts to attain higher levels of QSC are crucial. Store supervisors, who are vital to the operations of franchised stores, provide support by using their personal experience and utilizing mobile terminals to access data gathered from point-of-sale (POS) terminals and order-related information from data warehouses. Through the previously mentioned measures, FamilyMart intends to build optimal store management strategies as it works hand in hand with franchised stores.





Expanding Our Store Network

Confronted once again with harsh business conditions in fiscal 2001, FamilyMart focused its store network development activities on opening high-quality new stores. Through such efforts, FamilyMart expanded its network of stores by 606 stores, to 7,616 stores at fiscal year-end, comprising 5,812 stores, including those operated by area franchising companies, in Japan and 1,804 stores overseas.

☞ Fiscal 2001 saw FamilyMart make significant strides in expanding its presence in Japan. Following the opening of our first store in Yamaguchi Prefecture—a store in Shimanoseki City—in December 2000, we established a presence in the Shikoku region by opening three stores in Kagawa Prefecture in March 2001. With these new store openings, FamilyMart expanded its presence in Japan to 37 prefectures. Also in March 2001, in Hiroshima, we expanded the areas in which we open new stores. FamilyMart is also vigorously implementing its strategy of achieving dominance in Chugoku, a commercial region that offers ample room for opening additional stores.

Opening New-Style Stores

As part of its innovative store-opening strategy, in cooperation with the National Federation of Agricultural Cooperative Association (*ZEN-NOH*), FamilyMart has been opening new stores attached to self-service gasoline stations. In fiscal 2001, FamilyMart continued to emphasize the opening of new types of stores. As a prime example, FamilyMart opened a new store inside the Mitsui Urban Hotel, situated in the upscale Ginza district of Tokyo. We also opened stores inside the Kansai Airport Washington Hotel (Rinko Town, Osaka) and the Sakuragicho Washington Hotel (Yokohama). In addition, FamilyMart opened a new store in Sunshine City, a mammoth shopping complex in the Ikebukuro section of Tokyo, and this store has continued to report robust results. Other noteworthy store openings during the year included a store inside the Tama City Monorail's Chuo Daigaku/Meisei Daigaku Station. This store has proven to be highly popular among university students.

☞ By making vigorous efforts to open high-quality, innovative stores, we are expanding our customer base for FamilyMart stores while elevating FamilyMart's name recognition level and brand image.

Strategies for Store Development in the 21st Century

Store development is the lifeblood of a CVS chain. Accordingly, increasing and strengthening store development capabilities will be paramount for propelling FamilyMart's ongoing development in the 21st century. As it progresses with its store development activities, in fiscal 2001 FamilyMart will devote its energies toward realizing the objective of such policies as "becoming the number-one store in each region" and "working to become the dominant store."

☞ To support its store development initiatives, FamilyMart has introduced the new FM-GIS. Under this system, each commercial region in Japan is divided into detailed subregions, and FamilyMart will carefully analyze and evaluate the possibilities for opening new stores within each of these subregions. FamilyMart plans to skillfully combine data from this system with the knowledge and experience of staff in charge



Store Development



of store development to achieve synergies that will serve as a basis for making highly precise and accurate judgments for determining the locations of new stores.

- ☞ In fiscal 2001, we adopted a strategy for opening stores in Awajishima that emphasized opening stores with such upgraded features as parking lots. By taking such measures, we are also able to implement our dominant store strategy in advance of competing stores.

Implementing Our Build-and-Scrap Policy and Operating Multistore Complexes

As an essential element of its store development activities, in fiscal 2002 FamilyMart intends to continue implementing its Build-and-Scrap strategy. In keeping with this strategy, FamilyMart plans to discuss measures to improve store performance with the owners of underperforming franchised stores that are facing adverse operating conditions. Measures to be considered include moving store locations. In seeking more advantageous locations, we will emphasize the selection of sites that offer sufficient space for parking lots, which have a significant impact on drawing customers to stores. There are already numerous instances of franchised FamilyMart stores that have surmounted various obstacles and achieved sharp gains in performance merely by moving a short distance to a new location.

- ☞ On another front, to aggrandize the benefits of management know-how gained from operating existing stores, we also engaged in the operation of multistore complexes. Our involvement in multistore complex operations has several advantages, chief among these being the dispersal of risk management for store operations. Also, as we aim for area dominance, multistore operations will serve as a potent weapon for restraining store openings by rival stores. In June 2001, we plan to launch preferential measures for franchised store owners and move to establish a system for more effectively managing multistore complexes.



FamilyMart's Overseas Store Development Strategy

FamilyMart established its first overseas store in 1988 with the opening of a store in Taiwan. In December 2000, FamilyMart reached an important milestone by opening its 1,000th outlet in Taiwan. Amid intensifying competition, FamilyMart has rapidly expanded its store network in Taiwan since the opening of its 500th store there in 1997. In the future as well, FamilyMart will make efforts to establish market dominance, upgrade and strengthen its infrastructure, and aggressively expand its store network. In fiscal 2002, Taiwan FamilyMart Co., Ltd., plans to make an over-the-counter share listing.

In South Korea, FamilyMart has expanded its network to 659 stores since

commencing operations in that country 10 years ago. Despite sluggish personal consumption, FamilyMart expects to record favorable results based on local projections that total sales in South Korea's CVS industry will grow.

FamilyMart opened its first store in Thailand in 1993 and now operates 112 stores in that country. We plan to steadily increase the size of this network and achieve robust sales in the early days of the new century.



In any era, it goes without saying that “selling products is the crux of FamilyMart’s operations.” Accordingly, our most vital tasks are to strengthen our merchandising capabilities along with improving store management capabilities. Based on the catchphrase “products that continually stand out,” we remain committed to offering only products that ensure high levels of customer satisfaction.

Upgrading Our Lineup of *Nakashoku* Products

Our lineup of *Nakashoku* items accounts for one-third of sales and thus plays a vital role in determining overall sales. In fiscal 2001, we continued to take a highly meticulous and discriminating approach to developing *Nakashoku* items. At the beginning of each year, a *Nakashoku* product development team proposes and plans a 52-week menu for *bentos* (box lunches), *onigiri* (rice balls), sushi, prepared noodles, bread, and side dishes. To create *Nakashoku* items, FamilyMart’s product development teams draws on the collective talents of representatives from related manufacturers, chefs, and food coordinators. The team also plans the *Nakashoku* lineup taking into consideration such factors as seasonal availability of foods, ingredient prices, and marketing factors. As underlying objectives, the team aims for the creation of price competitive and flavorful products with distinctive and appealing features. Through such efforts, FamilyMart has created a steady stream of year-round hit products in such categories as *bentos*, *onigiri*, and spaghetti.

☞ Our Kitchen-Fresh Beef Burgers offer a distinctively flavorful taste comparable to those prepared by restaurants specializing in hamburgers. The immensely popular Kitchen-Fresh Beef Burgers do not use additives and use bread that does not get soggy when microwaved. To promote sales of Kitchen-Fresh Beef Burgers, in February 2001 FamilyMart held weekend half-price sales. Testimony to the success of these promotional efforts, FamilyMart sold an average of approximately 500,000 Kitchen-Fresh Beef Burgers a day, a figure considered high even in the hamburger industry. Over a six-week period, FamilyMart also held a limited-supply sale of Bon Curry Bread. During this campaign, FamilyMart sold out its entire supply of approximately five million loaves of Bon Curry Bread.

☞ In the second half of fiscal 2001, FamilyMart posted a 20% increase in sales of prepared noodles from the same period of the previous fiscal year. We achieved this increase by offering special noodles with a wide selection of sauces matched to the tastes of consumers in specific geographic regions.

Vigorously Targeting the Growing Market for *Nakashoku* Items

Young consumers and middle-aged men account for the lion’s share of *Nakashoku* item sales. However, a recent survey* revealed that amounts spent per month on *Nakashoku* items in all consumer segments were growing rapidly. Particularly noteworthy was an approximately 80% increase in spending on *Nakashoku* items over the past several years by homemakers and senior citizens. To respond to the expected growth of this market, in fiscal 2002 FamilyMart will focus even more closely on the development of its *Nakashoku* lineup and intends to introduce 400 new *Nakashoku* items, including 100 types of *bentos*.

* Food Service Industry Research Center



Strengthening Our Merchandising Capabilities



Masaaki Matsumaru
Director and Executive Officer

- Our *Nakashoku* product development team, which has compiled an extensive record of achievement, plans to revamp its organizational structure to further bolster its product creation capabilities. Also, in close collaboration with various manufacturers, this team plans to create new value by jointly developing original items, including sauces, seasonings, and side dishes.



Introducing Appealing New *Nakashoku* Items

For our favorably acclaimed *Tobikiri Gohan* series, we have reviewed the frequency with which we introduce new menus as well as the number of products offered in this series. Specifically, during the year we created more than double the number of variations offered in fiscal 2000. We also devised new concepts in our *Shiki no Gohan* series of seasonal *bentos*. As two new pillars of our offerings in prepared noodles, we introduced Double Sauce Items, including *Tororo* and *Daikon Oroshi* sauces.

- FamilyMart is also going to great lengths to enhance the flavor of its sandwiches, which account for more than 70% of sales of prepared bread products. These efforts are focused on upgrading the quality and flavor of our bread and ingredients as well as enhancing the quality of our popular Kitchen-Fresh Beef Burger.

- In cup-packaged noodles, which make up approximately 50% of processed food sales, FamilyMart will continue to develop distinctive PB cup-packaged noodles. In confectioneries and candies, FamilyMart is offering *Muji Ryohin* confectioneries in various sizes according to the needs of customers. In spring 2001, FamilyMart launched sales of a new type of ice cream containing melted cheese as an ingredient. The first such ice cream in the industry to be developed through a tie-up with a prominent ice cream manufacturer, this product has already become a mainstay in our lineup of original desserts.

Bolstering Our Lineup of Everyday Merchandise

We plan to fortify and increase our lineup of everyday merchandise in fiscal 2002, in line with our goal of raising the percentage of sales of such merchandise to 30% of total PB sales, up from 15% in fiscal 2001. To achieve this objective, we will make a full-scale launch of our original makeup series for women in their 20s and 30s. We will also review all sizes, colors, and patterns in our ALL DAYS POSi line of popular, high-quality apparel and miscellaneous merchandise that project a sense of simple elegance. FamilyMart also intends to expand its lineup of ALL DAYS POSi merchandise. In cooperation with Sanrio Co., Ltd., FamilyMart is also selling Hello Kitty goods, mainly special-sale items, on a four-to-six-week cycle.

- FamilyMart does not intend to stand pat on its achievements in merchandising and will continue to tackle new challenges to ensure it remains on a growth path.



The World's First EC Franchise System

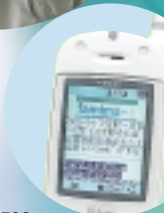
Fiscal 2001 witnessed FamilyMart's full-fledged foray into e-commerce with the launch of its E-Retail business. Specifically, in October 2000 we inaugurated famima.com Co., Ltd., an Internet shopping site with approximately 30,000 items. In contrast to other CVS shopping sites, famima.com is not based on centralized management from headquarters. Instead, franchised stores have their own on-site virtual stores, where they record and manage their own retailing activities. The foundation of the famima.com site is our proprietary e-commerce business model, "The FamilyMart EC Franchise System," under which each franchised store handles and accepts famima club membership registrations from customers. When a customer subsequently purchases an item on the famima.com site, the franchised store that handled the registration is credited with the sale. By combining virtual shopping with physical stores, franchised stores can significantly upgrade their store management capabilities. FamilyMart has submitted a patent application for this innovative business model.



A New Development from famima.com

As of April 2001, there were approximately 400,000 famima club members throughout Japan, and FamilyMart aims to increase this to two million members in fiscal 2003. At the same time, FamilyMart has launched a site compliant with i-mode Internet protocols, famima-i. In tandem with the establishment of this site, FamilyMart launched *Fami Kore Pia*, a free-of-charge magazine containing information on various subjects. *Fami Kore Pia* is an upgraded magazine published with the editorial cooperation of PIA Corporation and incorporates contents gleaned from famima.com as well as famima-i. The surging use of mobile phones has been accompanied by a steady increase in the number of i-mode users utilizing *Fami Kore Pia* and famima-i.

➡ From April 2001, we initiated a home food delivery service through a trial tie-up between famima.com and a company that specializes in home delivery food services to senior citizens. This tie-up reflects FamilyMart's determination to make inroads into highly promising senior citizen markets.



Installing Famiport Multimedia Kiosks (MMKs) and ATMs in Our Stores

In December 2000, we began introducing Famiport MMKs in our stores. These MMKs boast a diverse range of functions that include providing customers with information and allowing them to order and arrange for delivery of coupons and tickets for travel and entertainment events as well as other related products. Using MMKs, customers can also download digital music and obtain prints from digital cameras. FamilyMart plans to expand the range of products and services available through these MMKs. For example, in fall 2001 customers will also be able to use MMKs to apply for insurance with The Tokio Marine & Fire Insurance Co., Ltd. We foresee an almost unlimited range of potential for Famiport MMKs, including the handling of such government administrative tasks as issuing resident verification certificates as well as issuing airline tickets.

➡ FamilyMart is also installing ATMs in its stores. As of April 2001, ATMs in FamilyMart stores handled transactions for 21 banks and have commenced 24-hour service for several of these banks. FamilyMart plans to have installed ATMs in 3,500 stores by spring 2002.



Applying the Strengths of Our Physical Operations to Our Virtual Business

As we undertake our E-Retail business, we are using the strengths of FamilyMart's physical stores to support the e-commerce businesses of companies with which FamilyMart has formed tie-ups. Our e-commerce payment collection agency service permits those customers unwilling to



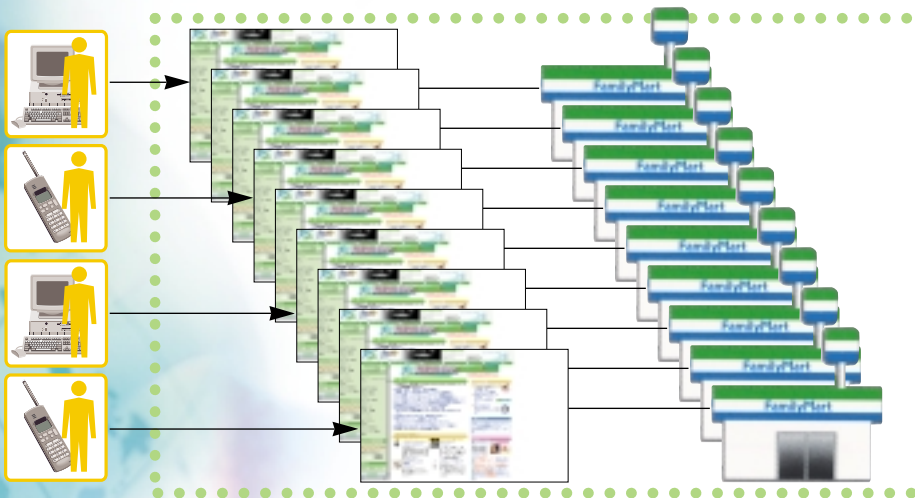
Developing Our E-Retail Businesses

provide credit card information on the Internet to make cash payments at any FamilyMart store. FamilyMart's Open Cash on Delivery (OCOD) Service also allows customers to pay cash for purchases made on the Internet as well as pick up these items at FamilyMart stores.

- These services, coupled with Famiport MMKs and ATMs installed in stores, are underpinning FamilyMart's efforts to attract new customers. In addition, famima.com members are visiting stores to make payments and collect ordered merchandise, which is also fueling an increase in store sales.

FamilyMart EC Franchise System

Customers (members) can visit the virtual store of their choice.



This on-line franchise system is designed to allow easy access to every store in the FamilyMart network through a single on-line site, famima.com.

FamilyMart

FamilyMart headquarters handles each virtual store as it does actual franchised stores and provides management guidance in this area.

MBE Japan Opens an Outlet in Sunshine City

Mail Boxes Etc. franchises serve as business centers to meet demand for business-outsourcing services and in the small office/home office (SOHO) market. MBE Japan, Inc., has concluded a master franchise agreement with Mail Boxes Etc. USA, Inc., of the United States. MBE Japan, established as a wholly owned FamilyMart subsidiary, is developing its network of directly owned and franchised outlets. In March 2001, MBE Japan received an investment from ITOCHU Pulp & Paper Corp.

In February 2001, the MBE Sunshine 60 outlet, a directly managed outlet, was opened in the Ikebukuro district of Tokyo. The MBE Sunshine 60 outlet offers one-stop business solutions by providing a

significantly upgraded range of services that includes sales of airline tickets through a tie-up with Pacific Tour Systems Co., Ltd. The outlet is also carrying out trials of various services targeted at non-Japanese customers, including

PC rentals that integrate software allowing the use of various Asian languages. The offering of such services highlights MBE Japan's commitment to further developing its business.





Toward Optimal Logistics

Since fiscal 1997, FamilyMart has made steady strides in implementing its Logistics Infrastructure Plan. This plan was devised based on the concepts “product shipments by temperature range,” “independent deliveries in each region,” and “mixed-lot deliveries.” The Logistics Infrastructure Plan is aimed at ensuring that strong-selling merchandise arrives at stores prior to peak demand periods. Strenuous efforts to guarantee timely deliveries to our stores are yielding significant results and represent a key strategy for further enhancing our outstanding merchandising capabilities and raising the level of precision ordering at franchised stores.

- ☞ Shipping products by temperature range involves preserving products at their respective optimal temperatures between the production plant and store to ensure products reach customers at the pinnacle of freshness. Carrying out independent deliveries within each region requires the establishment of logistics bases that can autonomously supply each geographic region to ensure stable just-in-time (JIT) deliveries of products demanded by customers. Mixed-lot deliveries entail the handling of products with different temperature requirements at the same distribution centers and using trucks partitioned according to temperature while working to raise the efficiency and preciseness of deliveries. By combining these three concepts, we have upgraded our distribution capabilities in a number of key areas.

Reform of Our Logistics Network Yields Significant Results

In fiscal 1997, FamilyMart operated 204 delivery centers for handling products according to their respective temperature requirements. In its unending quest to enhance efficiency, FamilyMart had streamlined these facilities into 89 centers as of fiscal 2001. FamilyMart has also made important headway in constructing integrated distribution centers that combine delivery centers with production facilities for *bentos* and desserts. By fiscal 2001 year-end, we had 14 of these centers and plan to open two more in fiscal 2002. Our Toda, Fukushima, and Tohoku centers use delivery vehicles equipped with global positioning system (GPS) units that allow these centers to promptly dispatch alternate delivery vehicles when a primary vehicle is caught in traffic or in the unlikely event of a mechanical breakdown. By utilizing GPS, we have achieved a 99.9% JIT delivery rate, defined as deliveries within 15 minutes of scheduled arrival.

- ☞ In fiscal 2001, we focused on rationalizing our delivery system for frozen foods and also introduced “stock-and-through” delivery to promote smoother deliveries. Supporting this “stock-and-through” delivery are the western Kanto, eastern Kanto, and Chubu stock centers, which commenced operation during fiscal 2001.

- ☞ The reform of its logistics infrastructure has improved several areas of FamilyMart’s distribution, including reduced delivery times, decreased number of delivery runs to each store, and significantly shorter lead times from ordering to delivery.

- ☞ FamilyMart is also improving delivery vehicle load ratios. In fiscal 2001, an average of 10 trucks were required to make deliveries to each store daily, down from 22 trucks in fiscal 1991. Besides reducing delivery costs and workloads at each store, fewer truck deliveries contribute to environmental protection by lowering the volume of exhaust emissions and cutting energy usage.



CVS-Style Environmental Protection



Aiming to Become an Environment-Friendly CVS

FamilyMart has obtained ISO 14001 certification for all its business offices and stores. We are now implementing specific measures based on the slogan "Let each person love nature and protect the environment." Examples of measures taken include using containers and wrapping that do not emit toxic gases when incinerated, introducing environment-friendly staff uniforms and such sales promotion materials as flags, and utilizing delivery vehicles that place minimal burden on the environment.

☺ FamilyMart once again demonstrated its commitment to protecting the environment in fiscal 2001 when it commenced operation of a waste material recycling system in the 23 wards of Tokyo as well as in Kyoto. FamilyMart also opened a new outlet in Nagoya that uses the CVS industry's first integrated heat storage system.

☺ Also in fiscal 2001, FamilyMart opened a new Eco-Shop in Sendai that integrates a solar power system and energy conservation system. This store became FamilyMart's 10th Eco-Shop, following the opening of the first in 1997. Also in fiscal 2001, we added 14 new items to our We Love Green lineup of environment-friendly PB daily-use merchandise and now offer 30 such items.

☺ Details about the previously mentioned activities are explained in the *FamilyMart Environmental Activity Report*. This publication is distributed to consumers, various types of organizations, and companies. The 2000 version of this report included, for the first time, a section on environmental auditing, which made public FamilyMart's expenditures and results in its environment protection efforts.

☺ To publicize its environmental activities, FamilyMart holds We Love Green concerts. At these concerts, FamilyMart solicits donations for protecting the natural environment of Oze and distributes the funds to the Oze Protection Committee Organization. To show its gratitude for these funds, this organization sent a letter of appreciation to FamilyMart. In addition, FamilyMart was presented with the Clean Consumer Award from Green Consumer Tokyo Net and the Tokyo Chamber of Commerce. FamilyMart was presented with this in recognition of its promotion of an environment-friendly CVS chain and its development of We Love Green products.

☺ In the future, FamilyMart intends to carry out its operations in the 21st century in a manner consistent with maintaining the natural beauty of the Earth.



Cooperating with Save the Children and Helping Promote the Spread of Donor Cards

In cooperating with Save the Children Japan (SCJ), FamilyMart has placed donation boxes in each of its stores since July 1993. SCJ is an independent self-supporting nongovernmental organization that provides assistance for improving the education and lifestyles of children, mainly in Asian countries. As of February 2001, thanks to the goodwill of its patrons, FamilyMart stores had collected a cumulative total of ¥283 million in donations since 1993.

☺ In April 1999, FamilyMart placed organ donor cards in all its stores. By doing so, FamilyMart is providing people willing to become organ donors with the opportunity to obtain a donor card.

