

MESSAGE FROM THE PRESIDENT

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President and Representative Director



Buoyed by its second-phase structural reform, FamilyMart will truly be the leading convenience store chain with respect to quality

Operating results for fiscal 2005 provide firm evidence of FamilyMart's growth capacity

During fiscal 2005, ended February 2006, the Japanese economy sustained its modest recovery, centered on the improvement of corporate earnings. However, despite showing some signs of brightness, consumer spending has not achieved an overall recovery. The convenience store industry in particular continued to suffer from a very harsh operating environment, hit by factors such as unusual weather conditions that included an unprecedented spell of severe cold and massive snowfalls.

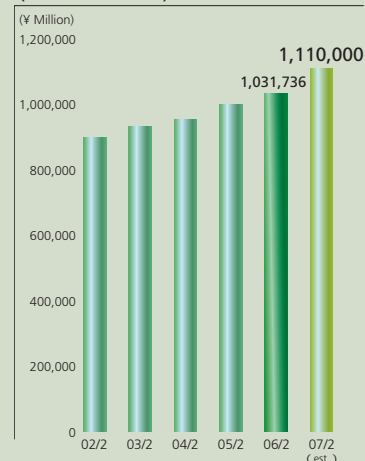
Amid these conditions, under the slogan "FamilyMart, Where You Are One of the Family," the staff at headquarters and at our franchised stores worked in unison to pursue the distinct "FamilyMart's special characteristics" that differentiate us from other chains, creating stores able to give each individual customer the immediate feeling of being warmly accepted.

As a result, in the year ended February 2006, total operating revenues were ¥276,443 million (up by 9.3% year-on-year), operating income totaled ¥32,662 million (up by 5.8%) for a record high, and net income ¥14,195 million (up by 12.5%) on a consolidated basis. This was the fourth successive year in which FamilyMart achieved increases in revenues and earnings, except net income.

On a non-consolidated basis, aggregate store sales topped the trillion yen mark for the first time. As a result of posting a loss on the replacement of the existing store management system with a third-generation system from September 2006, and also of making provisions for overseas operations and other items, net income decreased to ¥10,365 million (down by 20.0%) on a non-consolidated basis. This may appear to be a decline in profit, but in reality it demonstrates the Company's fundamental strength in being able to depreciate these losses in advance and our confidence in solid growth in profitability from fiscal 2006 onwards.

In consequence, the Company will pay a dividend for the term of ¥43 per share, representing an increase of ¥5 per share, in accordance with our initial business plan.

Total net sales of FamilyMart stores (non-consolidated)



Three priority measures and their synergies are underpinning FamilyMart's uniqueness and progress

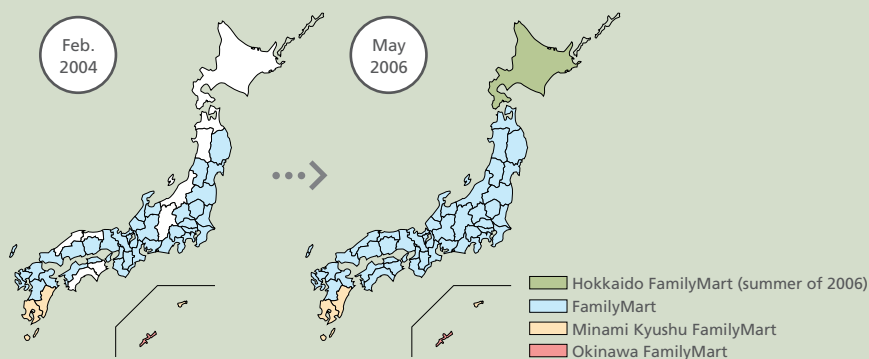
FamilyMart has been implementing the three priority policies of enhancing the competitiveness of individual stores, strengthening merchandising, and creating high-quality stores. Through these, and through their mutual synergies, we are endeavoring to increase profitability.

With regard to the first policy, of enhancing the competitiveness of individual stores, during fiscal 2005 the Company worked closely with franchisees to implement the Store Staff Total (SST) system, which included more than 30,000 store staff achieving their primary qualification in the store staff qualification system. In this way, we were able to raise our SQ&C (service, quality and cleanliness) level still further, enabling us to extend our further hospitality to customers.

For strengthening merchandising, we employed three marketing strategies — generation, price, and regional marketing. To give the customer the immediate feeling of being warmly accepted, we have laid down eight product concepts, offering merchandise and product ranges quite different from those of other chains. Of particular note was the achievement of phenomenal sales over a one-year period of more than 60 million portions of fried chicken, which have proved popular with customers, while *oden* (Japanese-style stewed hotchpotch) and French fries have also evolved into standard-bearers of FamilyMart merchandise. These developments enabled sales of fast food products to achieve an unprecedented 30% year-on-year growth.

In respect of the third priority strategy, creating high-quality stores, during the year the Company achieved the largest total

Our Store Network



of new store-openings, numbering 606. These included stores to reinforce our dominance in regions in which we already have a presence, and others to launch into new regions, including the prefectures of Shimane, Nagano, Niigata, and Akita. In fiscal 2006, we will open our first stores in Aomori and Hokkaido, and as a result, we will truly achieve a nationwide store network in Japan.

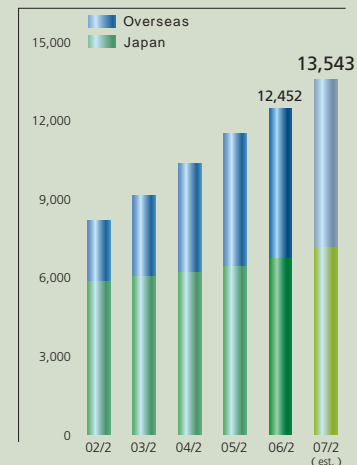
In addition, we accelerated our opening of stores overseas as part of our steps to realize our target of creating a global network of 20,000 stores. We have expanded our chain networks in various countries, including opening the first Famima!! store in California in July 2005. This resulted in a year-end total of 5,718 stores overseas, which combined with stores within Japan amounted to a global total of 12,452 stores.

FamilyMart will lead the transition period in 2006 by reforming the internal physical infrastructure of store operations

In fiscal 2005, there was no recurrence of the severe summer heat suffered in the previous year, and the most severe winter weather for over a decade. Sales were also hit by the termination of highway toll-card sales in September. As a result, the average daily sales of existing stores sagged year-on-year, as did the average daily sales of new stores. However, weather-related and other external factors alone cannot explain this, suggesting that major changes in consumption trends were underway.

As a result of factors such as changes in the population structure, the increasing diversity in customer preferences, and the growth of IT business such as Internet shopping, customers are holding back their spending until they find goods and

Number of stores



services that offer them real value. Accordingly, past experience of success and accepted wisdom are becoming increasingly irrelevant. Retailing is entering a major period of transition, and convenience stores are certainly no exception.

Nevertheless, in spite of the difficult operating environment FamilyMart has been achieving year-on-year increases in the average number of customers visiting its stores and in sales of ready-to-eat foods. This can only be attributed to the strength underpinned by the three priority measures that we have been implementing continuously and by the raising of the consciousness of Company employees and of franchisees. This shows that the transition period has the potential to be a springboard that will propel FamilyMart sharply forward.

Other chains are currently trying to diversify their formats, for example as fresh food convenience stores or ¥100 shops. FamilyMart, however, will continue to focus on its basic convenience store format and make efforts to enliven its product displays. We believe that the true key to success is to go back to the basics of retailing, assemble an array of attractive merchandise, ensure thorough SQ&C, and enhance the quality of every individual store.

This transition period is a real opportunity for FamilyMart. FamilyMart, which is composed of as many as 6,734 stores* within Japan as of the end of February 2006, will achieve steady growth over the years to come. FamilyMart will also introduce the concept of "wide-variety" deliveries as a new business into its existing stores in line with any changes in the business environment of each store, both on an industry and individual store basis, with the aim of enhancing the profitability of every store.

* This includes the stores of two domestic area franchisers.



Four reforms will be started to create a structure for ongoing revenue and earnings growth

In fiscal 2006 FamilyMart will mark the 25th anniversary of its establishment, and will become a truly national chain network encompassing all of Japan from Hokkaido to Okinawa.

As a national chain, we must have a certain business scale. In fiscal 2006, we will devote maximum effort to achieving principal management targets on a non-consolidated basis of ¥30.4 billion for operating income; a year-on-year rise of 0.5% in the average daily sales of existing stores; 650 for new stores opened; ¥470,000 for the average daily sales of new stores; and 29.6% for the gross profit ratio. These will also be milestones leading towards our previously announced goal of creating a global network of 20,000 stores by the end of February 2009.

To meet these targets, in fiscal 2006 FamilyMart will inaugurate its second-phase structural reform, which will have four cornerstones: (1) Remodeling our sales displays and product lineups, (2) Strengthening our earnings structure, (3) Improving our cost structure, and (4) Rethinking our corporate culture. We will tackle these reforms throughout the Company, establishing a firm financial structure that will give us growth in both revenues and earnings, making fiscal 2006 a year of preparation to take us through to the next stage.

Remodeling our sales displays and product lineups

Creating exciting sales areas

To increase the frequency with which customers visit our stores, it is important to enhance their attractiveness.

To ensure the merchandise that customers want is always part of our product lineup, increasing the accuracy of ordering

is an obvious task to address. It is also essential to go the extra mile, having the enthusiasm to provide something that exceeds the customer's expectations, such as surprise, excitement or stress relief. We will continue to pursue FamilyMart's unique business profile by deploying the three marketing strategies we have been implementing hitherto, for example by offering merchandise targeted at the baby-boomer generation, and merchandise tailored to the diverse needs of different regions of the country.

As part of those efforts, from fiscal 2006 all stores are due to implement the "Famima Wonder 500" project, through which the space for two existing gondolas will be made available for the display of unique and innovative product ranges, going beyond the uniform product lineups of conventional convenience stores, the challenge being to increase sales from that space fivefold. Once this project gets into full swing, we expect to see ideas taking shape that will sweep away old-fashioned ideas and established concepts. By establishing "FamilyMart's special characteristics," we expect to give the convenience store industry as a whole a fresh image.

What is more, we have already begun creating fresh food sales corners within our existing stores, after careful designing and testing by a special project team. We have selected 1,000 stores in Japan's three major metropolitan areas for the introduction of these fresh food sales corners, as these stores are expected to display effective synergies with their existing business and thereby generate sure earnings. Out of the total of 1,000 stores, fresh food corners are scheduled to be opened at 400 within fiscal 2006.

Strengthening our earnings structure

Assuring profit growth potential and maximizing shareholder value

With regard to the reform of the earnings structure, since fiscal 2005 we have been sharing targets with franchisees and business partners, and we are working together to tackle structural reform. Through this we hope to maximize profitability, first achieving the 29.6% gross profit ratio set out in the plan for fiscal 2006, and then reaching 30.0% at an early date through the radical reform of all processes from the production of ingredients through goods distribution and other logistics work.

As part of these initiatives, in fiscal 2006 we will continue our efforts to increase the percentage of high markup products, with the cooperation of our suppliers, so as to improve the earnings of our franchisees.

In addition, fiscal 2006 will see the planned introduction of a third-generation store management system that will integrate store-operation equipment such as POS registers, store controllers, and Famiport Multimedia Kiosks. The building of an optical-fiber network incorporating state-of-the-art IT technologies will upgrade store information systems and make possible a variety of services to proactively cater to the increasingly diverse needs of customers.

Linked with the introduction of this system, FamilyMart will take steps to enhance the efficiency of ordering and other store operations and to reform its business practices, the aim being to assure profit growth capacity for the future and to create a base to give strong support for the target of creating a global network of 20,000 stores.

Improving our cost structure

Concentrating management resources to enhance store competitiveness

Improving our cost structure is an essential prerequisite for the radical reform of our earnings structure.

The Cost Structure Improvement Committee has been revived to serve as the body to oversee the implementation of a no-holds-barred reform of the cost structure. Of particular note is that in order to secure the chain's competitiveness amid the current harsh operating environment, it is necessary to revise headquarters business expenditure exhaustively, and to refocus financial resources on support for franchisees.

Additionally, in March 2006 the Internal Control Promote Project Office was established. This will conduct thorough analyses, from a CSR and BPR standpoint, of the way in which business is conducted at headquarters, and will take resolute steps to rationalize and enhance the efficiency of business processes.

The reform of the cost structure implemented by these two organizations will have ramifications throughout FamilyMart, and it is hoped that it will lead to the building of a slim, yet resilient management structure that will help us to thrive in the future.

Gross Profit ratio
(non-consolidated)



Rethinking our corporate culture

Becoming a company of lively and frank exchange of opinions

The rethinking of our corporate culture will underpin all of these reforms.

In my view, the companies that will be successful in the 21st century are those in which there is a lively and frank exchange of opinions. Accordingly, we will build a focused personnel system and a very open corporate culture in which the entire Company takes on very demanding challenges, and where every employee works with passion to attain his or her individual goals and their performance is appropriately reflected in their assessments, so as to motivate them still more.

Of course, it is also important to rethink our relationships with our franchisees and the motivation we provide them with. From fiscal 2006, we have introduced the new-type 2FC-N franchise contract, designed to increase motivation for the growth of franchisees and reward their management efforts. Additionally, to improve the support structure for staff training, our Store Staff Total (SST) system is being promoted throughout the Company to ensure that as many store staff as possible obtain primary, intermediate, or advanced qualifications in the store staff qualification system.

Through these efforts, we will go back to basics, and all employees will ask themselves "What can I do to help?" so as to realize the hospitality our customers demand. We are putting our efforts into training our staff to put our service concepts into action.



We aim to establish the FamilyMart brand in a way that maximizes shareholder value

To translate this vision into reality, fiscal 2006 will be a very important year, as it marks the start of our second-phase structural reform. Our management goals, on a consolidated basis, include total operating revenues of ¥307.5 billion (up by 11.2% year-on-year), operating income of ¥33.4 billion (up by 2.3%), and net income of ¥16.1 billion (up by 13.4%).

In fiscal 2006, which marks the 25th anniversary of the Company's establishment, to show our gratitude to the customers who have so loyally supported us up to now, and to demonstrate our sincere desire to serve them in the future, we are continuing our efforts to create stores that give each customer the immediate feeling of being warmly accepted, under the slogan of "FamilyMart, Where You are Always One of the Family."

We have boiled down the essence of our various ideas regarding our business to the single statement that, in the retailing business, "hospitality is everything." We aim to set ourselves apart from our rivals in everything: not only in the operation of our stores, but also in product development, store and sales space design, sales promotion campaigns, and all other corporate activities. As well as aiming to be a "family mart" that everyone likes, and where they feel at home, employees and franchisees will join together in implementing our second-phase structural reform, so as to establish a solid structure for growing both revenues and earnings and be the leading company in its industry for quality.

In fiscal 2006, we announced the Policy (Actions against Corporate Acquisition) toward Large-Scale Purchases of FamilyMart Shares. Also, from the perspective of corporate management we wish to ensure proper corporate governance by strengthening our compliance structure and by rationalizing our business activities as we strive to maximize shareholder value.

Regarding share repurchases, at a meeting held on May 19, 2006, the Board of Directors of FamilyMart approved a resolution to acquire the Company's own shares up to a maximum of 5 million shares (equivalent to 5.1% of all issued shares), provided that the purchase cost does not exceed a maximum of ¥20,000 million. The purpose of this resolution is to give the management of the Company greater flexibility in raising capital.

We look forward to receiving the support and goodwill of all of our shareholders and investors as we pursue these endeavors.

FamilyMart will charm customers worldwide with typical Japanese hospitality

Taking advantage of being the only major convenience store chain to deploy a brand originating in Japan, FamilyMart will build a network in the Pan-Pacific region encompassing East Asia and the United States. To do this, we will step up the opening of stores under a cooperative structure in which we join with area franchisers overseas.

Already, the abundant range of merchandise, including ready-to-eat food items characterized by freshness and quality, and meticulous service, are becoming renowned for the clear difference that they show from local convenience stores. When we have acquired the reputation of being a unique Japanese convenience store bursting with hospitality, the global network that FamilyMart is building will have evolved into a chain of "family marts" in the literal sense, that is, of stores where customers feel as if they are at home.

J. Heda
President and Representative Director