

We can



Strengthening Merchandising

FamilyMart employs a three-pronged marketing strategy that focuses on generation, price, and region. It ensures differentiation from other chains by developing full-fledged ready-to-eat food items that are attractive in terms of price, taste, and appearance, as well as other ingeniously original merchandise, such as *tsutsumi jitate* — *en papillote* boxed lunches (featuring main-dish items wrapped in polypropylene-coated paper pouches) and a new type of boxed lunches cooked using superheated steam.

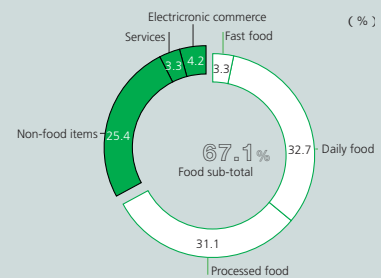
During the year under review, we sold more than 60 million portions of fried chicken, a phenomenal success by the standards of the convenience store industry. Sales of *oden* (Japanese-style stewed hotchpotch) also began developing from the summer, and showed strong growth. In total, fast food sales recorded year-on-year growth of approximately 30%.

Based on that performance, in fiscal 2006 we will take steps to create more attractive sales displays by increasing the proportion of original merchandise to 40%, also carrying out a program for the remodeling of sales displays and product lineups that will include improvements to non-food items and other merchandise in all stores.

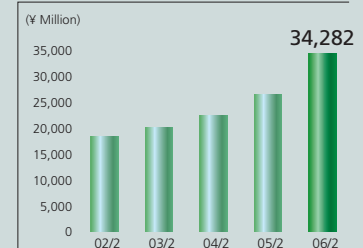
With respect to merchandise procurement, we will achieve major cost reductions by undertaking a radical overhaul of the entire cycle from the procurement of raw materials to supply, through merchandise distribution and other logistics operations. This will help us to achieve our Companywide target of a 29.6% gross profit ratio.

* "Ready-to-eat food" includes such items as fast food, rice balls, sushi, boxed lunches, cooked noodles, delicatessen items, salads, savory and sweet rolls & pastries, and desserts.

Breakdown of Sales by Merchandise Category (non-consolidated) 2006.2



Sales of Fast Food (non-consolidated)



Satisfaction for a wide range of customer age groups

Generation marketing

In line with the concept of offering ranges of merchandise that satisfy not only our core customer segments but also a broader range of consumers, FamilyMart develops and offers clearly targeted merchandise.

As an example, during fiscal 2005 we developed new products and conducted sales promotion campaigns targeted at middle-aged consumers and seniors, particularly those in the baby-boomer generation, who are expected to account for an increasing proportion of demand from here on, and who have more free time and more money to spend than most generations.

In fiscal 2006 we will be widening the range of our ready-to-eat foods to include side-dishes and prepared noodle dishes, thereby extending the range of our merchandise categories across the full spectrum of Japanese cuisine. We will also be developing a new range of dishes targeting working women, based on surveys of our own female staff as well as our customers.

Offering excellent value for money

Price marketing

FamilyMart also assembles product lineups that cater to a wide array of needs, ranging from goods at reasonable prices to high-value-added goods made from the finest seasonal ingredients. Of particular importance is the fact that for high-value-added merchandise we pay attention to developing goods that are not only high in quality but are moderately priced.

Our unique rice balls and a full pasta range made from select ingredients proved highly popular in fiscal 2005, and they are to be followed in fiscal 2006 by the introduction of merchandise such as one-piece sandwiches that can be purchased in combinations with other foods, and desserts such as are sold in specialist dessert stores or high-class cafés. By expanding the variety of our merchandise in this way, we aim to offer a well-balanced range of goods that satisfies a diversity of needs.



Tsutsumi jitate — en papillote dishes

Ensuring that FamilyMart is always rich in products with local flavor

Regional marketing

FamilyMart divides Japan into seven regions, developing and selling products specifically for each of them so as to match local characteristics and needs.

During the year under review, in the Tohoku region (northern Japan) we offered the *Azuma Snow-Hare* range of goods based on local specialties from Fukushima Prefecture. By working with the youth section of the local chamber of commerce and industry to commercialize symbolic local produce, and promoting them through special campaign events, FamilyMart was able to grow the range into hit products that generated overwhelmingly large sales. In April 2006, four items were offered nationwide for a limited period.

Sparked by this success, in fiscal 2006 we will boost to 40% the proportion of priority ready-to-eat food* accounted for by regional products. With “Local products, sold locally,” as our watchword, we will maintain our commitment to catering to the specific tastes of people in different parts of Japan by using locally-grown ingredients to develop merchandise with truly regional color.

*Priority ready-to-eat food includes rice balls, sushi, boxed lunches, delicatessen and cooked noodles.

Enhancing friendly interaction with our customers — surprising and impressing them

At FamilyMart, we believe in going back to the merchandise-based origins of retailing, offering attractive product lineups.

As part of this approach, in fiscal 2006 we will begin the “Famima Wonder 500” project. Under this, the space for two existing gondolas will be made available for the display of product ranges to meet the unique requirements of individual stores, the challenge being to register a five-fold sales increase from that space. We expect this to be recognized as an epoch-making idea that will break the current standardized mold of convenience store merchandise ranges.

We are also conducting feasibility studies for the handling of fresh foods. Currently, we are selling fresh foods at directly-managed stores on a trial basis. In addition, we will use original means such as sales promotion vehicles to win customers, making exhaustive efforts to promote sales on a region-by-region and store-by-store basis.



Special packages for FM Apparel of MUJI



We will radically reform our earnings structure, increasing the proportion of high-margin merchandise

Both FamilyMart and our franchisees aim to achieve sustained growth in earnings, regarding not only daily sales volume but also the gross profit ratio as key indicators.

With the target of gross profit ratio for fiscal 2006 set at 29.6%, we will be making further reforms to the earnings structure to achieve that. We will endeavor to boost sales of ready-to-eat food items and enhance the efficiency of sales, with the goal of increasing the proportion of high-margin original merchandise to 40% of the total.



Original Cosmetics

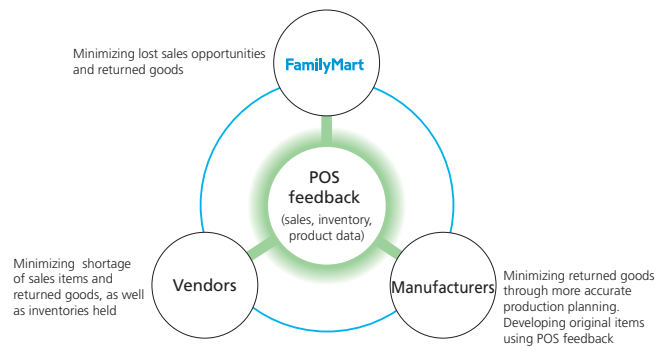
A thorough overhaul of merchandise distribution and other logistics operations will form part of an all-embracing reform of the logistics system

In the distribution sphere, we are committed to sharing ordering and sales information with major suppliers, so as to build demand chain management (DCM) systems that will strengthen our cooperative relationships with them. Through this, we aim to enhance the degree to which we can assemble merchandise ranges in a timely manner to match customer requirements, at the same time raising the accuracy of inventory management.

A notable achievement in fiscal 2005 was that we further enhanced the efficiency of the procurement of the raw materials for ready-to-eat food items, and reduced production losses.

In the course of fiscal 2006 we will press ahead with this reform of goods distribution, requiring suppliers to make drastic cost improvements at all stages from raw-material procurement to supply, thereby making a further contribution to the reform of the earnings structure.

DCM (Demand Chain Management)





FamilyMart has concluded a product license agreement with FIFA to manufacture and sell 2006 FIFA World Cup™ Official Licensed Products. We are poised to offer attractive goods.



Every year FamilyMart sells original goods relating to popular characters and big events, and runs much-talked-about campaigns, as part of its efforts to create stores with a pleasant ambience where customers are treated like members of the family.

In November 2005, FamilyMart became the only chain retailer in Japan to conclude a product license agreement with Fédération Internationale de Football Association (FIFA) for the 2006 FIFA World Cup Germany™. This enables us to develop and sell original Official Licensed Products and to conduct related product sales promotional activities. In consequence, FamilyMart stores throughout Japan can be expected to be transformed into exciting and lively stadiums during the summer of 2006.



Takayuki Yokota

*Managing Director
Merchandising Division*

Pursuing product development to expand profitability

The Merchandising Division is promoting structural reorganization under two themes related to the concept of “manufacturing.”

The first theme is to effect a dramatic rise in the proportion of locally produced items in the category of “priority ready-to-eat food.” By launching sales of products incorporating locally produced ingredients, such as our Azuma Snow Hare series, jointly developed with the youth section of the Fukushima Chamber of Commerce and Industry, and the Sasebo Burger, developed in collaboration with the Sasebo Tourism Association, we have succeeded in raising the proportion of “regional products” to 30%.

During fiscal 2006, regional managers (one in charge of each of seven marketing blocs throughout the country) will be working together with our franchisees and the staff of the food processing plants handling our ready-to-eat food items, and well as with important regional food producers and famous retail establishments, to further widen our cooperative network for product development under the slogan “Local products, sold locally.” In this way, our stores will be able to offer the products that are most popular with local consumers. Additionally, items that have been developed in one region and proved very popular will be sold nationwide and marketed as products of the culture of the regions they come from. Sold through our nationwide network of stores, these items will be vigorously promoted as “regional items on a national menu.”

The second theme is to improve the earnings structure through the achievement of a “distribution revolution.” We plan to promote the Demand Chain Management concept — which centers on a revolution in our method of product distribution — as a tool for the optimization of both the upstream-to-downstream flow of products and the downstream-to-upstream flow of information about customer needs. In this way, we will be able to augment sales of newly emerging product categories, and more speedily and proactively develop original products that will be guaranteed to sell well and earn excellent profits.

From fiscal 2006, the Demand Chain Management Department has been transferred to the Merchandising Division, and cross-divisional initiatives are being taken in various fields ranging from food ingredient procurement to reforming our earnings structure. These efforts are expected to make a major contribution to our Companywide earnings structure reform initiative.