

To Our Stakeholders

great



Junji Ueda
President and Chief Executive Officer

Potential for Growth

Through renewed commitment to our basic principles, we are consolidating our position among the elite companies in the convenience store sector.

I am delighted to report to our stakeholders that FamilyMart's business is now on a firm footing. In fiscal 2007, a robust performance by existing stores lifted us to increased revenues and earnings on both a consolidated and non-consolidated basis. We had designated fiscal 2007 as the year for building a stronger business foundation, enabling us to join the elite in our sector in the near future. In this endeavor, we have focused on supporting franchisees by making investments in system infrastructure ahead of our rivals, while getting the retailing basics right through close collaboration between franchisees and headquarters to give real meaning at the store level to the concept of the "FamilyMart feel."

Our strong earnings performance for the term is the result of solid support from our customers after years of patient, steady effort to build up our business. This is not a flash in the pan, but reflects real change, and we at FamilyMart are now convinced that we can continue to grow. In this message, while looking back over our achievements to date, I would like analyze the underlying reasons and present some thoughts about the future of the Company.

■ Average Number of Customer Visits per Store per Day (total store basis)

Year ended February 29, 2008

856

Year ended February 28, 2007

831

Reaping the Fruit of Years of Steady Effort

Operating Environment and Basic Approaches

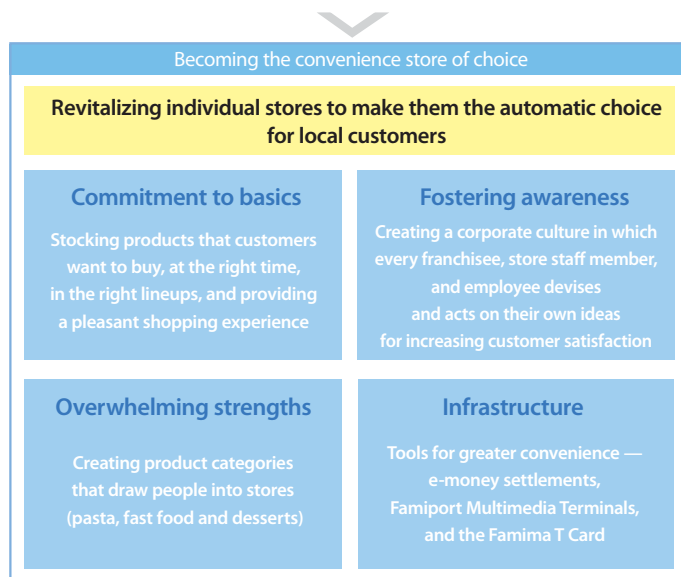
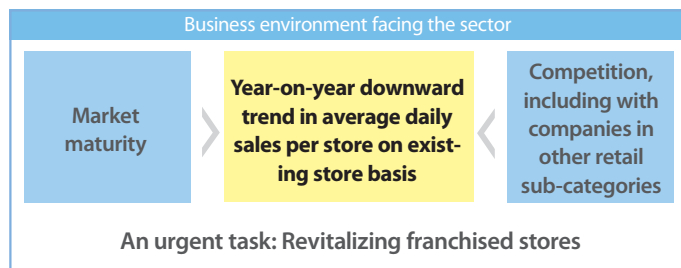
Becoming the Convenience Store of Choice

Fiscal 2007 was another difficult year for the convenience store sector. In central Tokyo, there are a number of cases in which several convenience stores belonging to major chains can be found within the same 10,000 square-meter area, and competition is intensifying both within the sector and with companies outside the industry such as supermarkets and restaurants, both in central Tokyo and in provincial cities. With the total number of convenience stores in Japan now over 40,000, competition for remaining good locations is growing increasingly fierce.

Traditionally, the convenience store business has depended on new store openings for growth. But in recent years, I think that the main concern for chain operators has been finding ways of getting more customers into individual stores in each neighborhood.

To this end, operators are seeking out new business approaches. A major difficulty has been translating head office concepts and strategies into positives for the franchisees. In this light, our task as head office is to revitalize franchise stores one by one and make them the automatic store of choice in their neighborhoods. We have been focusing our management resources and energies on this endeavor.

Business Environment and Our Response



Reaping the Benefits of Steady Effort (1)

Commitment to Retailing Basics

What does “innovation” mean to FamilyMart? What our customers want is convenience in terms of proximity and opening hours. But even if a store offers this kind of convenience, it will not appeal to customers if the inside is dirty, staff are unfriendly or if it fails to stock the right products at the right time. Once customers are alienated in this way, they will probably go to another chain, or try another kind of store, even if it means a longer walk. We have concentrated on increasing the number of stores able to get the obvious things 100% right. We are going back to the basics.

Through rigorous attention to service, quality and cleanliness (SQ&C) and by offering our services in a spirit of hospitality, we aim to create retail spaces that our customers can really enjoy using. We need to make them feel that their well-being is what matters to us most.

Reaping the Benefits of Steady Effort (2)

From Awareness-Raising to Promoting the “FamilyMart Feel”

Although we are able to devise a clear vision and strategies on paper, it is not necessarily possible to put these ideas and strategies into practice without insistence on getting “back to basics.” To ensure a rigorous, sustained commitment to retailing basics, the most important thing is transforming the attitudes of executives, employees, franchisees and partners. By having them show this most careful attention to detail, we hope to make FamilyMart stores the friendliest.

I also believe that companies with smooth communications between the highest and lowest levels of the organization are best positioned to survive in the 21st century. Since becoming president, I have worked to strengthen direct communication with FamilyMart franchisees as well as with my own employees. I visit stores in person anytime of the day or night, without prior notification, and talk directly with managers and other senior staff of franchised stores. In addition, I have organized over 70 “Sessions with the President,” in which I talk directly with company staff primarily on the front line, who work with franchisees. During such meetings, no documents are prepared, or notes taken. Employees speak frankly to me about their problems and concerns. I listen to them, tell them my future ideas for the Company, and encourage individual employees to come up with ideas for making things better.

During these sessions, I have often heard employees ask what exactly is meant by “FamilyMart feel.” Here were the seeds of the “FamilyMart feel” campaign, launched on a Companywide basis in fiscal 2005, covering younger and mid-rank staff of all departments. The goal is to get individual employees to

think about what they can do to reinforce the characteristics and strengths of FamilyMart, and then act on those ideas. This policy enabled us to overcome an environment in which some employees felt they were being put upon and ordered around, without guidance or feedback, and provided opportunities for increasing their sense of fulfilment and achievement. I particularly urged managers not to get in the way or stand on the sidelines, but to pitch in. We offer full support. This Companywide initiative covers not only headquarters employees and franchisees, but also business partners and overseas operations such as those in Taiwan.

This campaign has become the driving force of FamilyMart's business.

Reaping the Benefits of Steady Effort (3)

Building Product Dominance

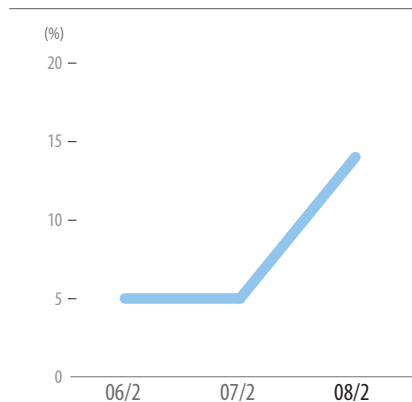
We go to great lengths to ensure that every aspect of our product range has the "FamilyMart feel." In the convenience store industry, we have played catch-up, growing by chasing the leaders. However, even though we have reached the highest levels ourselves by imitative methods, our customers' prejudices make them think our products are still inferior to those of leading chains.

For that reason, we are now developing product categories with the goal of building an overwhelming competitive advantage with a true FamilyMart feel, rather than relying on clichéd slogans to differentiate us from rivals. In this endeavour, we have focused on pasta, fast food and desserts, lines where we have a real edge compared with other chains, to develop hit products.

By working as a group to promote sales and raise the accuracy of our demand forecasts on an individual store basis, we are confident we have created a distinct public "face" for FamilyMart. There is no doubt that this is creating attractive products, and increasing customer numbers.

For example, our Three-Star Pasta has had a strong impact on sales trends for cooked noodles generally. Traditionally, pasta has not been regarded as a summer product in Japan. But by bolstering year-round sales of pasta products, we ended up increasing sales for the whole cooked noodle category in fiscal 2007 by approximately 15% year-on-year. By leveraging the knock-on effect on other ready-to-eat foods such as salads, sandwiches and pastries, ready-to-eat products have shown full-year growth of 1% year on year (on an existing store basis), despite fierce competition within the convenience store sector in this category.

■ Year-on-year Change in Sales of Noodles (non-consolidated)



Reaping the Benefits of Steady Effort (4)

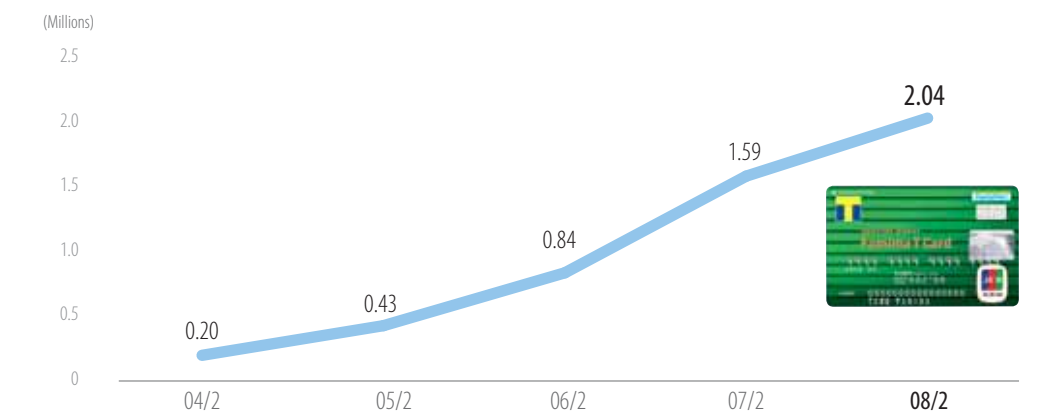
Infrastructure for the Future

To create a stronger business foundation for the chain, we have made aggressive investments to help franchisees with such things as the installation of store equipment and sales promotion. These include approximately ¥31 billion for system infrastructure—overhauls of point-of-sale and Famiport Multimedia Terminal equipment, and introduction of optical fiber networks for future service businesses. We have also expanded the number of stores across Japan where it is possible to use e-money, stealing a march on our rivals in the sector. In this initiative, aimed at increasing customer convenience, we have formed alliances with operators of e-money systems that are already very widespread. Now the iD, Edy and Suica e-money systems can be used at FamilyMart stores, and all three are seeing usage rates climb month by month. We believe that this early commitment to e-money, compared with rival chains, will help increase customer visits.

At the same time, we developed the Famima Card as part of our strategy to consolidate our customer base. In November 2007, we joined the T-POINT program* and launched the Famima T Card. We are already seeing the benefits in terms of greater custom, with increased customer awareness and increases in usage rates and cardholders.

*This program is undertaken in partnership with core entity Culture Convenience Club Co., Ltd., which operates TSUTAYA video/music rental stores. For more information, please see page 62.

■ Number of Famima T Card Holders (including Famima Card holders and holders of cards without credit functions)



To the Next Growth Stage

FamilyMart's Edge

Confidence in Growth Prospects

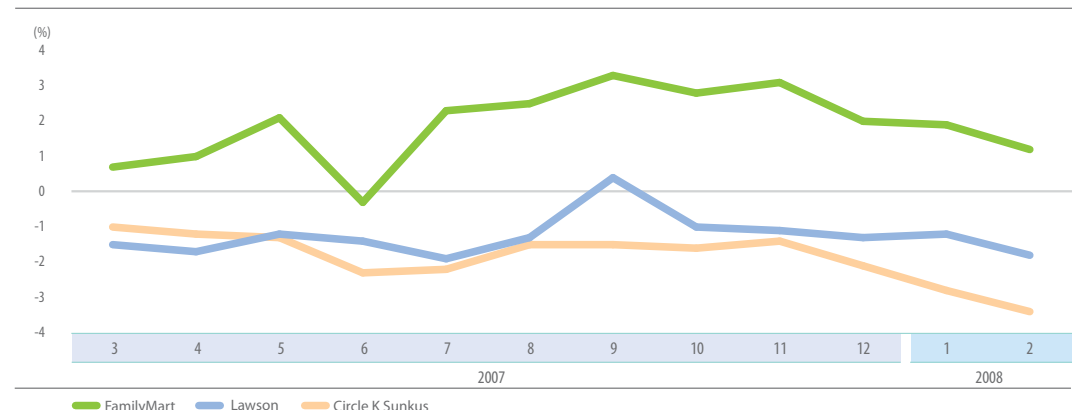
In the six years since I was appointed president, I believe the tide really has turned in our favor as we address the problems that remain, both great and small. In particular, fiscal 2007, when the fruits of our efforts over the years set in motion a virtuous circle, was a time in which the growth in customer numbers, and in average daily sales per store (existing store basis) became apparent in our numerical data. As a result of steady progress in fixing what obviously needed to be fixed, I am confident that we have at last created firm foundations for our business, and that we can continue to grow in the future.

I believe that FamilyMart has now gained two major advantages over its rivals. The first is the combined strength of franchisees and headquarters. Future growth will depend not only on headquarters drawing up and implementing strategies, but also on franchisees themselves fully understanding these strategies and putting them into practice: this is the key point.

Through our campaign to promote the "FamilyMart feel" we are further deepening the sense of unity between franchise stores and headquarters, and making our business stronger, store by store. These bonds cannot be created overnight, but I believe this unity will be one of our greatest strengths as we pursue future growth.

Secondly, regarding future prospects, we have already established a network of hubs for service businesses, typified by the Famiport Multimedia Terminals. I believe the main battleground for competition

■ Year-on-year Change in Number of Customers on an Existing Store Basis (non-consolidated)





in the future will shift to service businesses. FamilyMart has already completed the groundwork for this, and I believe we now have a major advantage over rival chains.

Issues to Be Addressed

Measures to Maintain a Profitable Network

We recognize that many issues remain to be addressed. Competition over store-openings is no longer the most critical issue. The most serious problem facing the industry is a lack of franchisees. I believe that the decline in the number of stores will weaken their brand value and the network as a whole. I see this as a business opportunity for FamilyMart. By keeping store openings consistently ahead of closures under our scrap-and-build policy, we ensure a net increase in stores. Specifically, we have prepared packages aimed at helping franchisees realize their business expansion ambitions through measures such as the multiple-store promotion system and franchise contract “step-up” systems, to encourage store managers with real commitment to join us. We have also been early to roll out corporate franchise contracts. In future, by making further improvements to the terms of our franchise contracts, we hope to respond to change in our market, positioning us as a chain that can attract franchisees with the prospect of higher earnings.

Also raised as an issue last fiscal year was average daily sales per store of new stores. We have succeeded in boosting sales by ¥19,000 per day (year-on-year basis) to ¥425,000, but we are going to aim still higher. In fiscal 2008, through the Metropolitan-Area Development Department under the Store Development Division, we will strengthen our information-gathering mechanism for premises in the Tokyo area, and encourage large corporations to take on franchise contracts.

I believe that building up franchise numbers through soft membership terms and lower store-opening standards will only increase the number of low-quality stores, and drag down the overall chain. By supporting managers with real commitment, from the development stage to store-opening in locations with high earnings potential, FamilyMart is constructing a store network that generates excellent earnings.

Medium-Term Vision and Plans for Fiscal 2008

Consolidating our Position in the Sector and Preparing for the Next Stage

The convenience store sector in Japan has embarked on the next stage of its growth. We believe we will see dramatic changes in the competitive environment within the next five years. This will result from an inevitable screening out of weaker players rather than any realignment at the top of the industry. The victors will then enjoy a next phase of growth. To ensure that FamilyMart is one of them, we plan to draw on the strengths we have built up to realize average daily sales per store of ¥500,000 and a gross profit ratio of 30% within the next few years.

Hence we regard fiscal 2008 as the critical year for cementing our position as one of the leaders in our sector. We aim to thrive in fierce competition by ensuring a sustained, rigorous commitment to getting the basics of retailing right. Furthermore, in recent years, as the traditional concept of the family is eroded by demographic and social change, convenience stores are increasingly expected to share the

burden of providing infrastructure for daily living. In fiscal 2008, we aim to make convenience stores into mechanisms for supporting family life in all its forms, lending a helping hand to women who work, baby-boomers and senior citizens. This will position us for profit growth in fiscal 2008 and beyond, assuring sustained and stable growth in years ahead.

* For more information, please see page 56~65, "Initiatives for Further Growth"

■ Medium-term Goals and Basic Strategy for Fiscal 2008

Medium-term goals
Daily sales of ¥500,000, gross profit ratio of 30%
Basic strategy for fiscal 2008
A year that will position us as a sector leader
<i>"Where You Are One of the Family"</i> A helping hand for the family

The Next Growth Strategy

Building a Network of 20,000 Stores Around the World

We intend to further consolidate our business footing in Japan and develop our next growth strategy, the Pan-Pacific Plan. This plan envisages a network of 8,000 stores in Japan and 12,000 stores overseas for a global total of 20,000 stores.

Although our China plans are pivotal to the Pan-Pacific Plan, and our China business is outperforming profit targets, we are developing the optimal business model for that country cautiously. Once we have identified the ideal format, the potential in the major cities alone means that several thousand stores can be opened. Our past experience suggests that, when a franchise business is launched in a new

territory, some 200 stores need to be up and running for the venture to turn a profit. In that light, we are still at the preliminary investment stage in both the China and the United States markets.

Two overseas markets that have moved beyond that stage, and are contributing steadily to the bottom line, are Taiwan and South Korea. The Taiwan market is reaching maturity, but we have managed to increase profits through rigorous attention to service, quality and cleanliness, as well as adaptation of our “FamilyMart feel” campaign to the Taiwan market, following similar success in Japan. In December 2007, we completed the acquisition of business rights for some 160 stores of Nikomart, and expect further positive benefits from this move in years ahead.

In the overseas markets in which we have set up operations, we expect South Korea to show particularly vigorous further growth. We are consolidating our leadership position in that market, where our results have been very strong.

At the same time, in Thailand, we have been steadily overhauling operations at Siam FamilyMart Co., Ltd., with progress more or less as planned.

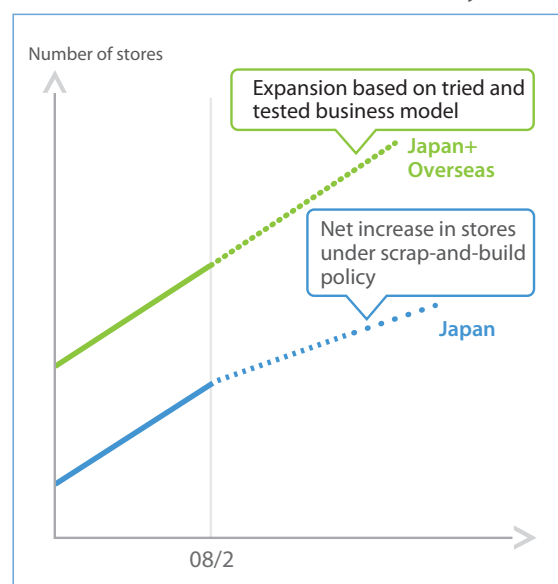
In fiscal 2008, which we have earmarked as a year for solving various problems in the different overseas markets we operate in, we have finally begun the expansion of our global network while consolidating our revenue base in Japan. As a result, in the year ending February 2009, we plan to increase the number of overseas stores by 640 to 7,328, bringing the total of stores in Japan and overseas to 14,740.

FamilyMart Stores in Japan and Overseas (including area franchise stores)

	08/2	09/2* (Est.)	Increase of
Japan	7,187	7,412	225
Taiwan	2,247	2,359	112
South Korea	3,787	4,187	400
Thailand	507	571	64
China	136	198	62
United States	11	13	2
Total (overseas)	6,688	7,328	640
Total	13,875	14,740	865

*The figures for 09/2 do not include the TOMONY stores.

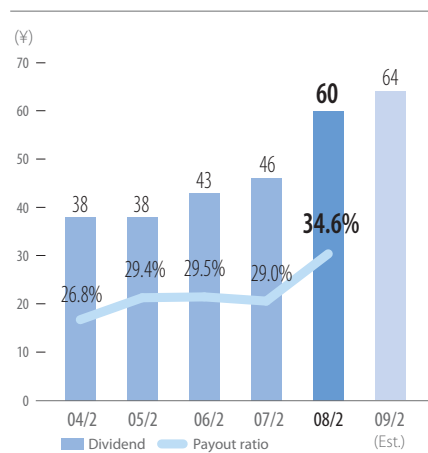
Growth in Stores in Fiscal 2007 and Beyond



Distribution of Profits to Shareholders and Capital Policies

A Clear Stance on Distribution of Profits to Shareholders

Cash Dividends per Share and Payout Ratio



FamilyMart regards the distribution of profits to shareholders as a matter of highest priority. Our basic policy is one of making stable dividend payments, taking earnings performance into due consideration. Up to now, we have used the payout ratio on a non-consolidated basis as the benchmark, but with the increased profit contribution of overseas subsidiaries in particular, we foresaw further imbalance in the consolidated-to-parent ratio and in fiscal 2007 adopted the payout ratio on a consolidated basis as the benchmark. We have increased the target ratio from 30% to 35%. We plan to rethink our dividend payments on the basis of the new benchmark.

For fiscal 2007, the Company has decided to pay a dividend of ¥60 per share, up ¥14 over the previous term, for the third consecutive year of increase.

We plan to raise the annual dividend for fiscal 2008 by ¥4 per share to ¥64.

Regarding appropriation of retained earnings, we will adopt a positive stance on distribution of profits to shareholders, and will retain sufficient earnings to finance investment to promote overseas store-openings and business alliances, as well as to ensure an adequate level of reserves. Stock buybacks (acquisition of own shares) will be carried out when necessary to ensure prompt implementation of capital policy.

Raising Enterprise Value

Aiming for Sustainable Growth

We aim to maximize our enterprise value by consolidating our business footing, positioning ourselves for sustainable growth, and paying rigorous attention to the basics — resolving the obvious issues through the obvious solutions.

Another issue will be the increased pressure faced by all convenience stores to meet societal obligations in areas such as food safety and combating global warming and other environmental problems. Our goal is to become a company which is supported by all of its stakeholders, and which meets all its societal responsibilities, through an exemplary corporate commitment to better quality management systems, reduction of carbon dioxide emissions, and recycling of food products. I would like to thank our stakeholders for their continued support for our endeavours.

President and Chief Executive Officer