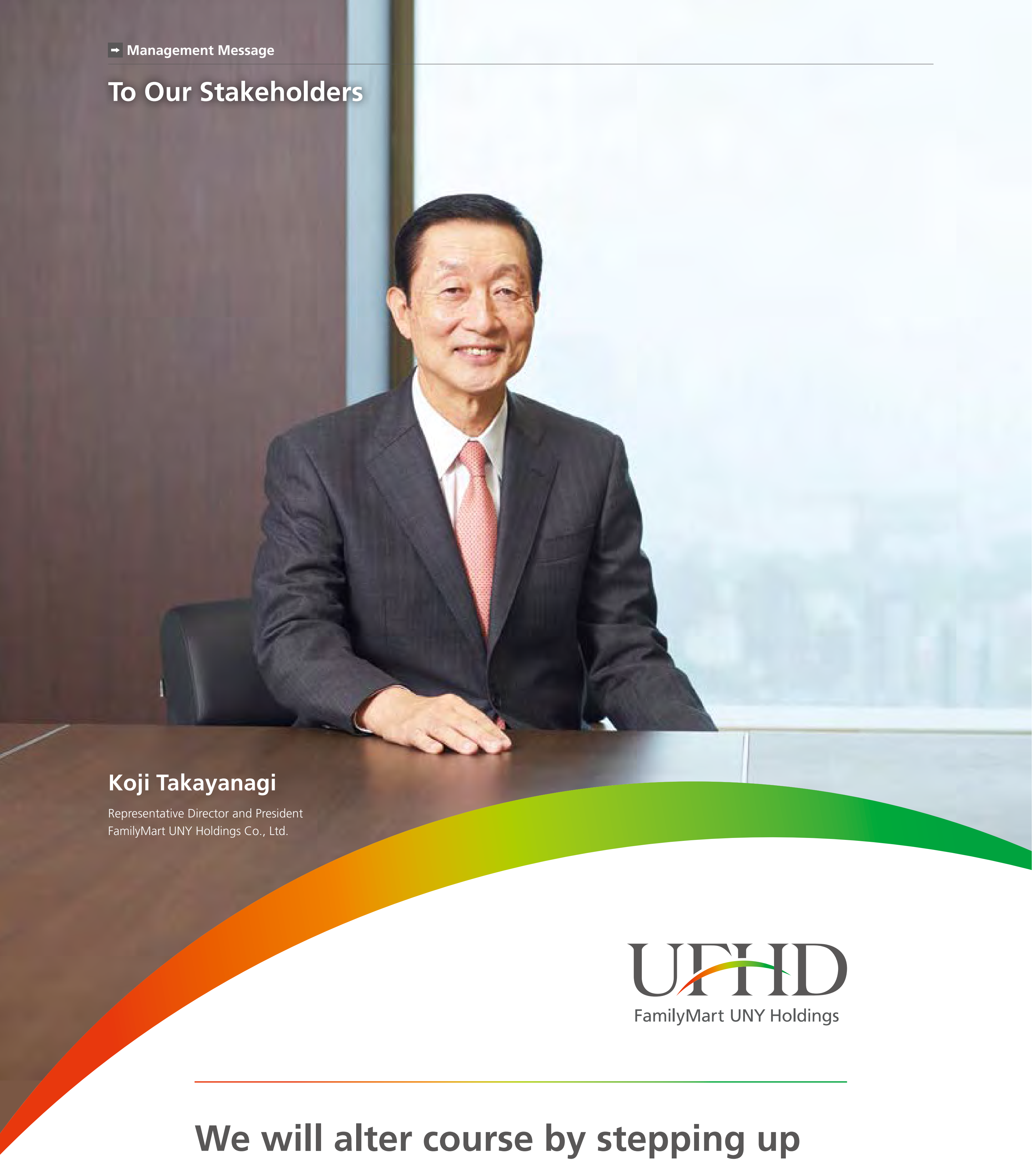
To Our Stakeholders



Koji Takayanagi

Representative Director and President
FamilyMart UNY Holdings Co., Ltd.

UFHD
FamilyMart UNY Holdings

We will alter course by stepping up the creation of new retail formats based on brick-and-mortar stores.

Looking Back on a Year of Two Integrations

More than a year ago, I became president of FamilyMart UNY Holdings Co., Ltd. At the time, my most important mission was to lay organizational foundations that would maximize management integration synergies. With this in mind, I have been focusing efforts on two types of integration. First, we are proceeding with brand integration on an unprecedented scale in the CVS business. Second, we are maximizing synergies within the Group by combining the strengths of operating companies. Efforts to integrate brands in the CVS business are progressing well, including the rebuilding of supply chains. Our goal is to convert all Circle K and Sunkus stores to FamilyMart stores by November 2018. Further, integration of the Group, including the cultivation of solidarity among personnel, is on the whole proceeding as planned.

In fiscal 2017, we cemented the foundations of new growth by bringing forward measures to address concerns. For example, we closed underperforming stores ahead of schedule. Also, in August we formed a capital and operational tie-up with Don Quijote Holdings Co., Ltd., which operates discount stores under the Don Quijote brand. Thus, in fiscal 2017, the year ended February 28, 2018, we made strategic moves for future growth.

Thanks to the aforementioned initiatives, in fiscal 2017 net profit attributable to owners of parent surpassed our initial forecast of ¥24.0 billion by ¥9.6 billion to reach ¥33.6 billion, establishing the foundations for earnings in the current fiscal year and beyond.

Entrenching the "*Everyday IMPROVE*" Mind-Set

As a large entity accounting for sales of approximately ¥4 trillion, the Group must develop even more cohesively and accelerate its responses to the dizzying pace of change in competitive conditions and consumer behavior. For this reason, we have set out *Everyday IMPROVE* as the slogan of the medium-term management plan. To ensure that sales floors—the front line of retail operations—are always fresh and appealing places that customers enjoy visiting, we have to improve and innovate continually. Further, accumulating small, day-to-day improvements will enable major transformations. As their behavior changes, the attitude of each employee will change. This change will transform the organization and enable us to continue providing customers with value. Please expect to see us *IMPROVE*.

18/2 Results, 19/2 Numerical Targets (Consolidated, IFRS)

(¥ billion)

	18/2	19/2
PL		
Group sales*	3,728.8	3,682.5
Operating revenues	1,275.3	1,270.2
Core operating income	66.2	77.3
Net profit attributable to owners of parent	33.6	40.0
BS		
Interest-bearing liabilities	502.1	500.0
Shareholders' equity	543.2	570.0
Ratios		
D/E ratio (times)	0.9	0.9
ROE (%)	6.3	7.2

* Calculated using the non-consolidated operating revenues (JGAAP) of FamilyMart (including those of franchised stores) and UNY

Leveraging and Strengthening Brick-and-Mortar Stores

When formulating growth strategies, we will not prevail against our competition if we target a corporate profile that is premised on continuing established approaches to the retail business. Amid Japan's shifting demographic composition and the emergence of competition that transcends business categories, business models based on growing earnings through expansion of store networks and the sale of goods are beginning to lose traction. To cater to the changes in consumer behavior and the diversification of demand due to expansion of the e-commerce market, coupled with the evolution of leading-edge technologies, we must be willing to take on out-of-the-box ideas that revolutionize business formats. We have set out *Everyday IMPROVE* as a slogan because maintaining this mind-set is the most important way of heightening competitiveness in the current conditions.

One of our advantages is that we have brick-and-mortar stores. The greatest assets of the FamilyMart UNY Group are its stores, which are points of contact with customers and local communities, and its networks, which provide products and information to each store. The Group's growth strategy entails capitalizing on the unique capabilities of brick-and-mortar stores while strengthening these capabilities even further to achieve differentiation and create revolutionary new business formats that are based on brick-and-mortar stores.

Accelerating Pursuit of New Growth

Achieving *complete integration* was the main focus of the initiatives set out in the medium-term management plan announced in April 2017. As I have already mentioned, however, given that we have made a certain amount of progress with the brand integration of the CVS business and integration among organizations, in fiscal 2018, the year ending February 28, 2019, we are moving into a phase of *Accelerated Pursuit of New Growth*. While leveraging and strengthening brick-and-mortar stores, we are beginning full-scale efforts to establishing foundations for earnings growth.

Our goals are to have a strong presence as a chain and outstanding retail capabilities. To achieve these goals, first of all we must rigorously improve existing stores. I see our priority tasks for the immediate future as strengthening store capabilities in the CVS business further and establishing fresh differentiation in the GMS business as a *new lifestyle creation retail business*. In addition, customers' purchasing information obtained through loyalty cards and the information infrastructure that we have established to use this information for product development and marketing are important management resources that we have accumulated through points of contact with customers at brick-and-mortar stores. We are considering the *creation of new revenue-generating businesses* that leverage these management resources to create high added value and which go beyond the boundaries of product sales. In light of these plans, we have earmarked ¥140.0 billion for investment in *Accelerated Pursuit of New Growth* in fiscal 2018. We will concentrate efforts on *improving the quality of existing stores* and *creating new revenue-generating businesses.*

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Improving the Quality of Existing Stores

Brand integration in the CVS business and management integration have established a network of brick-and-mortar stores that underpins the business. In other words, we have secured scale. While resolutely keeping this scale, we will focus on boosting the competitiveness of existing stores. We will implement a build-and-scrap (B&S) strategy to establish stores in optimal locations and introduce strategic new fixtures to improve store environments. Moreover, we will proactively reform store layouts with a view to increasing store capabilities. At the same time, we will raise the quality of the network even further by only opening new stores that are highly profitable.

Focusing on products that encourage customers to visit stores, we are also enhancing the quality of ready-to-eat items. As part of this effort, we are implementing capital investment to add value to products. For example, we are introducing new coffee machines to the CVS business. In addition, we are moving forward with the prepared dish project, which laterally introduces to the GMS business successes from *structural reform in ready-to-eat items.*

In conjunction with these measures, we will accelerate investment designed to increase the efficiency of store operations and reduce workloads. We will renew cash registers, product shelves, and other store equipment. The aim of such renewals is to enhance labor productivity by simplifying work processes and shortening the time they take. A further aim is to allow store staff to concentrate on realizing high-quality store operations and cordial customer service, which are the forte of brick-and-mortar stores.

Creating New Revenue-Generating Businesses

Outside the merchandising area, we are considering the creation of businesses that are highly compatible with brick-and-mortar stores and that can become new earnings mainstays. We envision businesses that can take maximum advantage of stores as points of contact with customers and the supply chains that underpin the store network. Specifically, strong candidates are financial services businesses related to settlement and loyalty points, businesses that use logistics networks to service e-commerce, and other businesses that can utilize the current store network and infrastructure to enhance customer convenience. Regarding financial services businesses, in fiscal 2017 we reorganized Group companies to consolidate the financial services-related capabilities of our CVS and GMS businesses. With our sights set on the new potential of financial services, we plan to prepare concrete strategies during 2018.

To Our Stakeholders

Utilizing the Resources of Other Industries

In the retail industry, competition is transforming rapidly. Competition that existed between chains is becoming competition between business formats, while online and brick-and-mortar businesses are becoming rivals. On the other hand, I get the distinct feeling that there is burgeoning potential for business collaborations across industry boundaries. I think that in competitive conditions where speed is of the essence there will be a constant rise in cases where we find opportunities for new growth by securing expertise or resources that we do not have through business alliances with partners in other industries. For example, the integrated stores that our CVS business operates can swiftly cater to the diversifying needs of customers by offering them the product and service lineups of other types of business in combination with the convenience of our stores. Other examples of using the mutually complementary management resources of other types of businesses to establish foundations for accelerated growth strategies are the strengthening of our relationship with Don Quijote Holdings Co., Ltd., through a capital and operational tie-up and becoming a consolidated subsidiary of ITOCHU Corporation, the Company's largest shareholder.

Learning from Retailers with Different Approaches

At this point, I would like to explain the capital and operational tie-up with Don Quijote Holdings. While Don Quijote Holdings is also a retailer, its approach to store management differs greatly from that of our chain. The company delegates significant responsibility for purchasing and pricing to Don Quijote stores. Unlike the chain stores of the GMS business, Don Quijote stores attract a broad customer group by offering an array of different products at each store and creating individualistic sales floors, which reflect the strong commitment of store staff to earnings generation that is based on selling all products in stock. We decided to form an operational tie-up with Don Quijote Holdings because the potential for creating synergies through the use of each company's management resources and building a new business format that transcends existing retailing categories was very attractive.

In February and March 2018, we opened six double-branded MEGA Don Quijote UNY stores in the Chukyo area around the city of Nagoya and in Kanagawa Prefecture. At all of these stores, sales and customer numbers are favorable. More than these successes, however, the fact that UNY employees are absorbing know-how is a major boon. Experiencing the Don Quijote approach to day-to-day store management firsthand is inspiring the employees who volunteered to participate in the opening and operation of double-branded stores. While monitoring the results of the six stores, we will actively incorporate the Don Quijote approach into the management of UNY stores.

Combining Merchandising with Enhanced Store Capabilities

In April 2018, ITOCHU Corporation, the Company's largest shareholder, announced its intention to implement a tender offer for shares in the Company. We approved this tender offer as we concluded that becoming ITOCHU's subsidiary would contribute to enhancement of our corporate value over the medium to long term. Upon completion of the tender offer, ITOCHU will become our parent company and hold the majority of our voting rights. However, we intend to continue independent business management as a listed company that also benefits minority shareholders.

For many years, ITOCHU has been collaborating with us in a broad variety of operational areas, including functions related to supply chains for ready-to-eat items, store management, and information systems. In considering new businesses outside the merchandising area, such as financial services and businesses that service e-commerce, we believe that it makes sense to use ITOCHU's trading company capabilities and networks rather than only relying on our own resourcefulness. Therefore, the Group will advance businesses based on optimized cooperation.

Leveraging Strong Stores to Sustain Growth

Looking over the initiatives that I have described so far as a whole, we are steadily establishing the tangibles for new growth, including store networks and organizations, strategies, and operational collaborations. Going forward, however, we need to strengthen intangibles. The prime movers in the creation of new ideas are not organizations but people. To shift from an earnings model focused on procuring and selling products to one that adds functions to sales floors, we should not only rely on external resources but also actively foster and hire personnel with a variety of different mind-sets and fields of expertise. I feel that, at the same time as inculcating the *Everyday IMPROVE* mind-set, we have to develop systems and workplace environments that promote a corporate culture that is conducive to new ideas and take on ambitious challenges. In addition, the FamilyMart UNY Group's businesses must cater to the needs of society and address its issues. In my view, leveraging our assets—in other words, brick-and-mortar stores rooted in local communities—to continue providing new value aimed at addressing social issues will sustain not only our development but that of society at large.

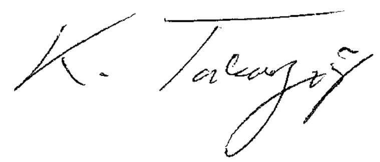
As for our earnings growth scenario, taking into account the *creation of new revenue-generating businesses*, the medium-term management plan sets a target of ¥60.0 billion for profit for the year attributable to owners of the parent in fiscal 2020. In fiscal 2018, partly thanks to the bringing forward of measures to address concerns, which I mentioned earlier, we will steadily advance management strategies with a view to achieving profit for the year attributable to owners of the parent of ¥40.0 billion.

As for the distribution of profits, given that it views returning profits to shareholders as an important management task, the Company maintains the basic policy of distributing profits to shareholders on a stable and continuous basis commensurate with its consolidated operating performance. Guided by this basic policy, we target a consolidated payout ratio of 40%. For fiscal 2018, we have set an annual dividend of ¥127 per share, up ¥15 year on year. Going forward, we will continue to invest aggressively to grow earnings while proactively advancing returns to shareholders.

As we pursue new growth, I would like to ask all of our stakeholders for their continued support of FamilyMart UNY Holdings.

June 2018

Representative Director and President
FamilyMart UNY Holdings Co., Ltd.



Dividend per Share and Payout Ratio