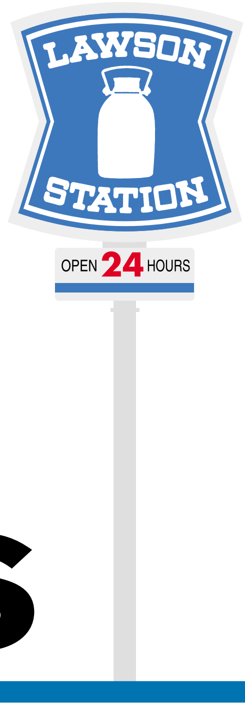
LAWSON

ANNUAL REPORT 2001
Year ended February 28, 2001

Scaling New Heights



Since our establishment in 1975, Lawson has developed its convenience store chain operations with the view to becoming “the ‘hot’ station in the neighborhood,” admired by local communities the length and breadth of Japan. The word “hot” embodies two of our core mantras. Firstly, we are dedicated to providing the “hottest” products and services. Secondly, it means that we try to make our stores “warm,” welcoming locations that serve a town square role in the community. That’s in addition to offering convenience and superior levels of service around the clock.

At present, the convenience store industry presents a wealth of growth opportunities. There is huge scope for opening stores throughout regional Japan and for cultivating new customers. Dramatic change is also defining the market.

Against this backdrop, we added the finishing touches to our nationwide network of Lawson stores in 1997. This unique presence in all 47 prefectures in Japan—we are the only chain that can boast this—gives us a significant competitive edge. We are also a pacesetter in IT in the industry. Capitalizing on these strengths, we are seeking to create more corporate value through growth in sales and greater efficiency in every aspect of our operations from store management, products and services through logistics and information systems.

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Becoming the industry leader is our overriding target. We are fully aware of what we must do to achieve this. While our operating environment is changing dramatically, presenting a host of challenges, we have a clear strategy in hand and we have made a solid start toward our goal.

President's Message

Summary of Operating Environment and Fiscal 2000 Operating Results

Fiscal 2000, ended February 28, 2001, was a watershed in the history of Lawson. In July 2000, we listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange. These listings increased our profile and opened up a new source of funding. The year also saw us shift our focus from our traditional strategy of quantitative expansion to a new ideal—the pursuit of quality.

The Japanese economy in fiscal 2000 was marred by continued stagnation as a path to recovery failed to present itself. With a downturn in consumer spending also evident, the future of the economy remained cloaked in uncertainty. It was also a tough year for the convenience store industry. Supermarkets, the foodservice industry and other sectors are a growing threat, and competition among the major convenience store chains including Lawson, who are monopolizing the market, is intensifying.

In this climate, Lawson adopted an aggressive strategy of opening and relocating stores. We also enhanced product development capabilities and improved product and service quality. At the same time, we worked to maintain sufficient stock at stores and to upgrade the lineup of products and services offered through our Loppi multimedia terminals. As a result, total net sales of Lawson stores including franchised stores amounted to ¥1,277,638 million, an increase of 4.5% year on year. Net income increased by 9.0% to ¥16,368 million, despite higher expenses in opening new stores. The result was attributable to greater efficiency in store operations, including logistics.

Mitsubishi Corporation has become the principal shareholder in Lawson. What impact will this have on your future business strategy?

We continue to engage in a close, friendly relationship with Mitsubishi Corporation, and we are earnestly engaged in open dialogue on Lawson's strategic direction. Focusing primarily on new businesses, we have been making extensive use of the resources provided by Mitsubishi Corp. to boost Lawson's corporate value. We will step up this drive to create greater efficiency and generate higher earnings across the Lawson store network. Areas under the spotlight will include logistics, product development, store expansion and information systems.

Lawson seems to have scope for improving the efficiency of its operations. What areas are you tackling?

We have identified three areas where efficiency must be improved: stores with low average daily sales; the high ratio of Company-operated stores; and regions where we haven't as yet established Lawson as the dominant force. Regarding the first of these areas, we will relocate underperforming stores to locations where we are confident that we can achieve high average daily sales. This will lead to improved profits for franchised storeowners, and ultimately to greater benefits for Lawson. Inefficient Company-operated stores will be closed, allowing us to cut back on expenses, and highly efficient ones will be franchised. By aggressively pushing ahead with this strategy, we will both increase the number of Lawson stores and substantially enhance our efficiency through market dominance. At the same time, we are looking into strategically allying with industry counterparts to share *bento*-box production facilities and distribution centers. The aim here too is to increase efficiency.

What are Lawson's strengths in venturing into new businesses?

In e-commerce and mobile commerce, which include the Internet and NTT DoCoMo's i-mode mobile phone service, our store network facilitates Lawson's existing services—settlement services and product pick-up at stores. We aim to provide these services for a fee to retailers and service providers that sell online. The key element differentiating Lawson from other chains is our nationwide presence. Clients using Lawson services will thus have access to consumers throughout Japan, unlocking a host of new Net business opportunities. Leading companies have already honed in on our strengths. We have, for example, launched joint ventures with NTT DoCoMo, Inc., Matsushita Electric Industrial Co., Ltd. and Mitsubishi Corp. Indeed, Lawson's competitive advantage also lies in being able to tap into these companies' wealth of resources.

What are the specific indicators for assessing Lawson's corporate value?

ROA and ROE are the prime indicators we use for evaluating performance. We place the utmost priority on two themes. One is raising earnings by dealing with inefficient assets. The highest level of asset quality possible underpins our drive to lift earnings. The other theme is making optimal use of funds with which we have been entrusted by shareholders. Our current mid-term business plan sets the targets of improving ROE to at least 12%, and ROA to at least 6%. From the perspective of setting Lawson apart from rivals, we are particularly focused on earnings growth. All departments are subject to this indicator and we have set quantitative and qualitative targets for each. In terms of quantitative targets, the Development Division will raise average daily sales at new stores and improve productivity in store development. The Operations Division will improve store efficiency and grow sales by minimizing opportunity loss. And the Products Division will develop higher-selling products and reduce costs through supply chain management.

Financial Highlights

Lawson, Inc. and Consolidated Subsidiaries
Years ended February 2001 and 2000

	Millions of Yen		Percent change	Thousands of U.S. Dollars[1]
	2001	2000	2001/2000	**2001**
For The Year				
Total net sales of Lawson stores including franchised stores	**¥1,277,638**	¥1,222,880	4.5%	**$10,976,271**
Operating income	**41,279**	40,185	2.7	**354,631**
Income before income taxes and minority interest	**29,846**	33,869	(11.9)	**256,409**
Net income	**16,368**	15,011	9.0	**140,619**
Per Share Data (Yen and dollars):				
Net income[2]	**¥ 148**	¥ 143	3.5%	**$ 1.27**
Cash dividends	**35**	850	105.9	**0.30**
At Year-End				
Total assets	**¥ 387,236**	¥ 339,413	14.1%	**$3,326,770**
Total shareholders' equity	**178,448**	95,932	86.0	**1,533,058**

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2001, of ¥116.40=$1.
2. The data has been restated to reflect the 1 to 50 stock split on April 14, 2000.

Leading the Industry

In recent years, many have taken the view that the convenience store industry has matured, and thus there is scant possibility that it will achieve high growth in the future. My belief in the growth potential of the industry, however, is unwavering. I see potential in expanding into new regions to open stores and in unlocking new customer segments. I am convinced that Lawson will continue to grow as we implement appropriate business strategies.

Six themes will guide Lawson to further growth and take us to the top of the industry.

(1) We will open new stores only where we are confident of high average daily sales, and will close and relocate underperforming stores.

(2) We will strive for superior levels of efficiency in store management and logistics.

(3) We will develop value-added products and enhance product lineups responsive to local communities and cultures.

(4) We will slash costs by adhering to supply chain management principles.

(5) We will improve customer convenience and set ourselves apart from other industry chains by promoting e-commerce and financial services.

(6) We will effectively utilize the resources provided by our most important strategic partner, Mitsubishi Corporation, across our entire business operations.

We are currently pushing ahead with our mid-term business plan. The plan articulates our concept of steadily executing strategies that will define Lawson into the future. We will establish a powerful organizational structure and deliver products and services that imbue value. These actions will help establish Lawson as the new de facto industry standard. Sales growth and improved efficiency will be central themes for bolstering our corporate value. These will enable us to achieve the highest rate of profits in the industry and thereby gain the trust, confidence and appraisal of all Lawson stakeholders.

May 2001

Kenji Fujiwara

Kenji Fujiwara
President and CEO

Scaling New Heights—In Efficiency

Lawson is the only true nationwide convenience store chain in Japan. We have roughly 7,700 stores across Japan, in all 47 prefectures. To enhance the quality of our network, we are pursuing three core initiatives. One is raising average daily sales. The second is relocating and closing stores, thereby crafting a stronger network of higher quality stores. The third precept aims at enhancing the quality of franchisee management.

By creating new stores with high average daily sales and replacing underperforming stores, we will raise the quality of chain management and stabilize the management of franchisees. Two departments are at the forefront of these initiatives: the Development Division, which develops new stores, and the Operations Division, which supports existing and new stores and is pushing ahead with the relocation and closure of unprofitable stores.

SPURRING TOP–LINE GROWTH

Raising the average daily sales at new stores is one of our most pressing issues. With this in mind, new stores must pass a rigid screening process and satisfy certain conditions. Our first action is to survey and analyze the movement of people in and around areas where we plan to open a new store, and to identify specific regional characteristics. Based on this analysis, we run multiple sales simulations. The opening of a new store also hinges upon obtaining tobacco and liquor licenses, as these contribute significantly to raising turnover.

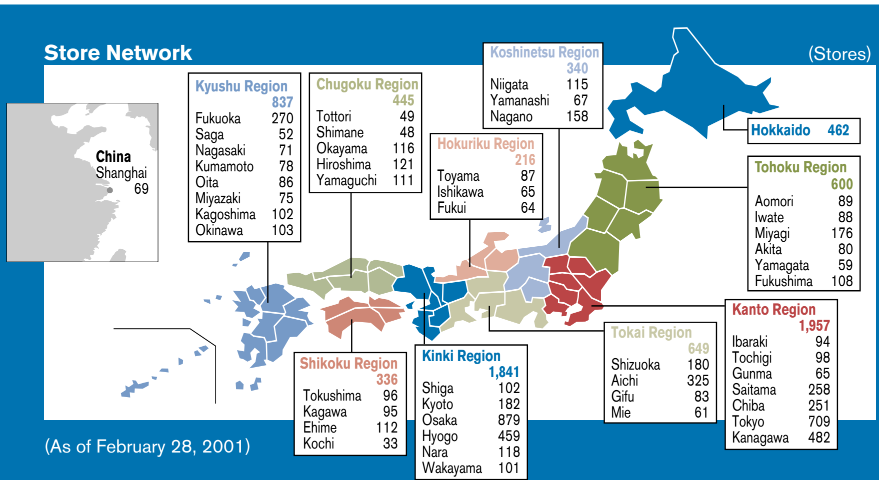
Our recently formulated mid-term management plan calls for new stores to achieve average daily sales in fiscal 2003 of approximately ¥500,000, up from the daily average of around ¥420,000 in fiscal 2000. We will scale new heights under the banner: "From Quantity to Quality." If our rigorous screening process determines that a smaller number of stores are opened than the previous year, we are prepared to let this happen to achieve our goal of raising daily sales. In fact, in fiscal 2001 we expect to open 650 stores, a roughly 10% decline compared to the 725 new openings in fiscal 2000. Thereafter, we will adhere to our policy of not overextending ourselves by opening new stores where the numbers don't justify it. What's more, we have introduced an incentive plan as a central element of our strategy to align the interests of persons in charge of store development with this cause. The result will be to improve the efficiency with which we invest in stores.

STORE RELOCATION AND CLOSURE

Replacement and closure of stores with low daily sales, and enfranchisement of Company-operated stores, is our second theme. Rapid changes in our operating environment necessitate the closing of stores with sluggish daily sales. Of course, we take the care to consult with franchise owners. In such situations, we ask franchise owners, where possible, to manage other stores that have brighter prospects. This approach accomplishes two goals: we keep franchise owners happy, and we enhance the quality of the chain as a whole.

Lawson is the only true nationwide convenience store chain in Japan and has approximately 7,700 stores. Our aim is to enhance the quality of this extensive network.

Store Network



(As of February 28, 2001)

AN EMPHASIS ON THE QUALITY OF FRANCHISEE MANAGEMENT

We are promoting the construction of a network that strikes the perfect chord between franchised and Company-operated stores. This involves lowering the proportion of Company-operated stores with a strategy aimed at cutting costs. As of the end of fiscal 2000, we had 711 Company-operated stores. We are planning to bring that number down to approximately 300 by the end of fiscal 2003. We will use Company-operated stores as training grounds for franchisees and as forums to trial new services and products.

To raise the average daily sales of existing and new stores, we are executing a simple, yet crucial initiative. Our 1,000-strong team of store supervisors are being equipped with greater leadership skills to encourage and support the operations of franchisees. The goal of store supervisors is to raise the sales of each and every store in their jurisdiction. Store supervisors offer

Koji Wada
Executive Vice President
General Manager, Development Division

Lawson's basic strategy with regard to new store development is summed up by the phrase "From Quantity to Quality." To enhance the daily sales of new stores, we are prepared to have the number of new stores added decrease from year to year. Current plans call for 650 new stores to be opened in the fiscal year ending February 2002, 75 fewer than in fiscal 2000.

Number of Stores

	FY98	FY99	FY00	FY01 (Est.)
Store openings	651	712	725	650
Store closures	284	350	420	450
Increase	367	362	305	200

Note: Shanghai Hualian Lawson Co., Ltd. not included.

suggestions on product lineup based on data from Lawson's sophisticated information system, and provide services such as detailed operational analysis and consultation. The quality of these services is steadily improving as we strengthen our training system to build the skills of store supervisors and enhance our information system. We are also delegating more authority to store supervisors. Complementing these activities is Lawson's Head Office, which provides comprehensive support to franchise owners, by supplying them with information on consumer behavior and purchasing habits, and running effective, integrated advertising campaigns.

LETSS—THIRD-GENERATION INFORMATION SYSTEM

Information systems are also at the heart of our efficiency drive. To revamp store-centered operational systems and bolster the network infrastructure to support Net businesses, Lawson is creating a third-generation information system called LETSS (Lawson's Epoch-making Total Strategic Systems). Budgeted at a little over ¥68.7 billion, LETSS is expected to come fully online by 2003. The specific goals of this advanced new system are to:

(1) Improve store operational efficiency by revamping store systems
(2) Enhance the speed and capacity of the network between stores and Head Office by using both satellite and terrestrial links
(3) Improve the Head Office administrative system
(4) Facilitate information exchange with vendors through a store-centered supply chain management system
(5) Strengthen the Net-business infrastructure to grow new businesses

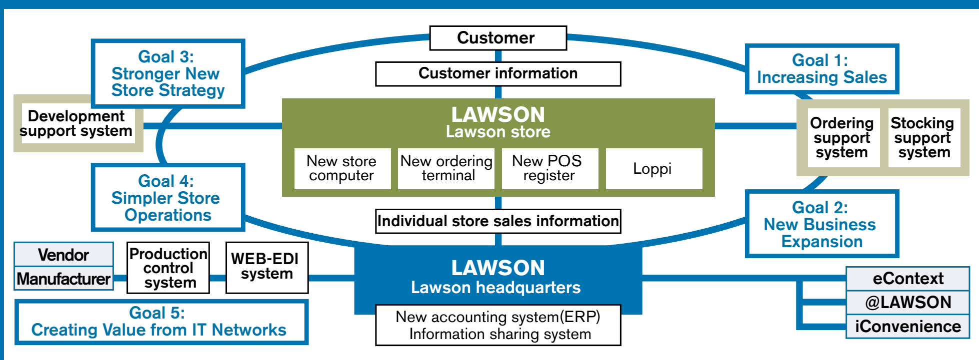
DOMINANCE AND ALLIANCES

Lawson is promoting a strategy of raising efficiency by establishing a dominant presence in all of Japan's 47 prefectures. But this doesn't just involve increasing the number of stores through our own efforts. We intend to spur improvement in efficiency by sharing production and distribution facilities in strategic alliances with other convenience store chains. And, we plan to streamline distribution centers to raise logistics efficiency. Distribution centers handling general merchandise and processed foods will be integrated, thereby reducing their number, and using them in a different capacity. This action will curtail operational costs and transportation expenses. Until now our distribution centers have been used as temporary points through which goods from vendors passed before being sent to stores. Moving forward, distribution centers will serve as storehouses to improve distribution efficiency.

We are championing supply chain management (SCM) to eliminate waste and inefficiencies in all steps, from the procurement of ingredients and manufacturing through distribution to stores of *bento*-boxes, snacks and other foods. This will lower procurement, inventory and distribution

LETSS will raise the quality of Lawson management by enabling us to deliver more efficient and effective support to Lawson stores than ever before.

LETSS—Third-Generation Information System



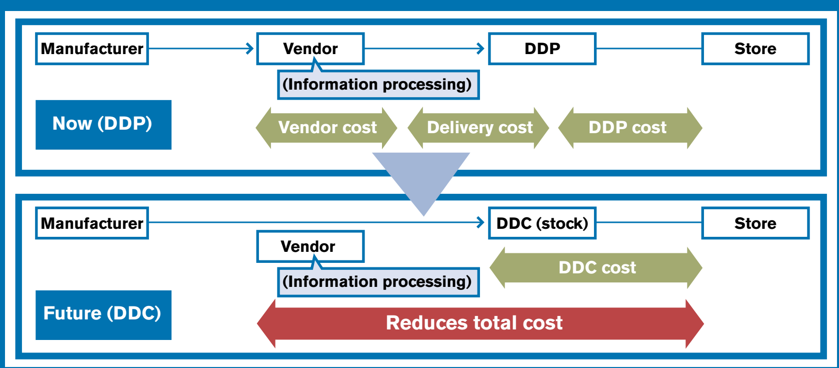
costs, and shorten lead-times. The end result will be enhanced competitiveness and greater customer satisfaction. At the end of August this fiscal year, we will start a pilot project at two *bento*-box factories to configure a standard process, which we plan to phase in to around 100 factories nationwide by the end of fiscal 2002.

TRANSCENDING CONVENTIONAL THINKING

The convenience stores of the future will transcend conventional thinking. As lifestyles change, it is only natural that needs will change. Now more than ever that change is dramatic. That's why we are experimenting with new store formats based on identification and analysis of emerging needs. We have already opened trial stores in universities, research institutes and hospitals. More of these stores will be opened if they prove successful. Other areas where new store formats are planned on a trial basis are in hotels and expressway service stations.

Takao Endo
Senior Managing Director,
General Manager, Store Operation Division

By integrating distribution centers and using them to store inventory, Lawson will dramatically cut logistics costs.



Scaling New Heights

–In Efficiency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カツ弁当
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おにぎり
厳選3品
80円
パスタ
厳選3品
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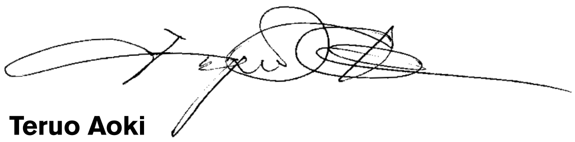
LAWSON
LAWSON

Scaling New Heights—In New Business Initiatives

Convenience store chains now compete for customers by broadening IT-based services. Here, Lawson is the frontrunner. We pre-empted rivals by installing Loppi multimedia terminals nationwide, in March 1998. They won solid support from customers—around ¥40 billion in sales, primarily of concert tickets, are generated through the terminals. We are broadening Loppi services to meet consumer needs. We have added a download service for Nintendo's GameBoy software, a medical examination service, regional information services, local government information, a printing service, credit card services and we act as agents for consumer finance companies, providing a service whereby loan customers can repay their loans at any time. Loppi terminals are so successful that we estimate transactions made through them account for around 10% of all e-commerce in Japan. Through trial and error over the last three years, we have already trumped other convenience stores in Japan, gathering information on what sells online and what doesn't, and determining what is needed to run a successful IT-based business.

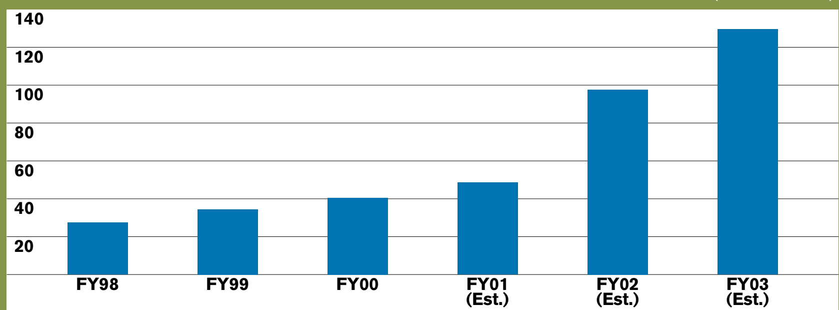
E-commerce will form an integral part of all business. It is especially important to Lawson for two reasons. It enhances customer convenience and it gives us the edge needed to stay ahead of the pack.



Teruo Aoki
Managing Director
General Manager, New Business Strategy Division

Lawson pre-empted competitors by installing Loppi multimedia terminals nationwide. These terminals are showing a steady increase in transaction volumes, particularly in concert ticket sales. In future, we intend to enhance Lawson's dominance in e-commerce and e-business by offering products of higher added value.

Transaction Volumes (Billions of Yen)



Note: 2001 and thereafter are forecasts

Our alliance with Mitsubishi Corp., our principal shareholder, will open up new opportunities.

@LAWSON—THE ONLINE CONVENIENCE STORE

An online service launched in November 1999, @Lawson showcases how we have scaled new heights in new businesses. @Lawson was designed to increase Lawson's brand recognition among PC users. We now see its potential and are positioning it as a comprehensive entertainment site with a growing lineup of killer content. @Lawson also gives customers direct access to all of the entertainment content on our Loppi multimedia terminals.

Several partnership alliances enable us to deliver content in an ever-widening array. These alliances include subsidiary Lawson Tickets Co., Ltd., now the No. 2 player in Japan in concert ticket sales; JTB, Japan's largest travel agent, which devises original Lawson travel packages; and Nintendo, in game machines and software sales. Our aim is to grow @Lawson into a premier entertainment site that appeals to young adults.

eCONTEXT—PLATFORM BUSINESS

ECONTEXT, INC., established in May 2000, enables companies to sell products and services on the Internet using an open platform that offers settlement and pick-up facilities at Lawson stores. To advance our open platform strategy, we plan to have 20,000 bases nationwide, adding other convenience store chains, gas stations and other places of business to the locations where customers can pick-up and pay for goods.

iCONVENIENCE—USING YOUR MOBILE PHONE TO SHOP ONLINE

iConvenience, Inc. pioneered mobile commerce by enabling DoCoMo i-mode users—of which there were more than 20 million as of March 2001—to shop using mobile phones. iConvenience is developing new services that will allow users to:

- order products for delivery to Lawson stores;
- print out and download information at Lawson stores; and
- connect their mobile phones to our cash registers to settle payments.

In addition, iConvenience offers Lawson's entertainment products and services to i-mode users.

FINANCIAL SERVICES—A NEW DIMENSION

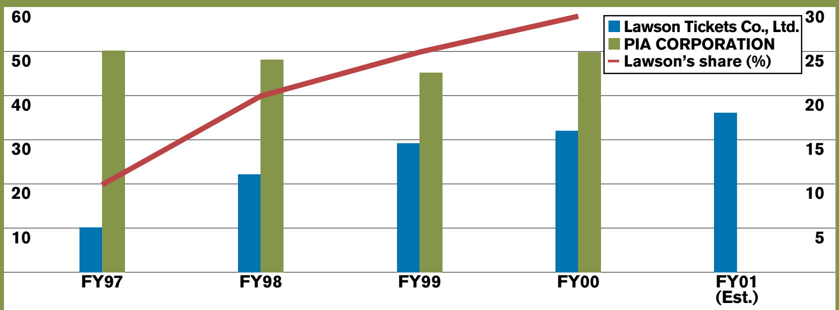
The provision of financial services is designed to increase the frequency of visits to Lawson stores. Our proprietary debit card service, launched in October 2000, increases customer convenience. Credit cards now accepted include JCB, Visa, MasterCard, American Express and Diner's Club. We have agreements with financial institutions to begin installing ATMs in stores this fiscal year.

CREATING VALUE

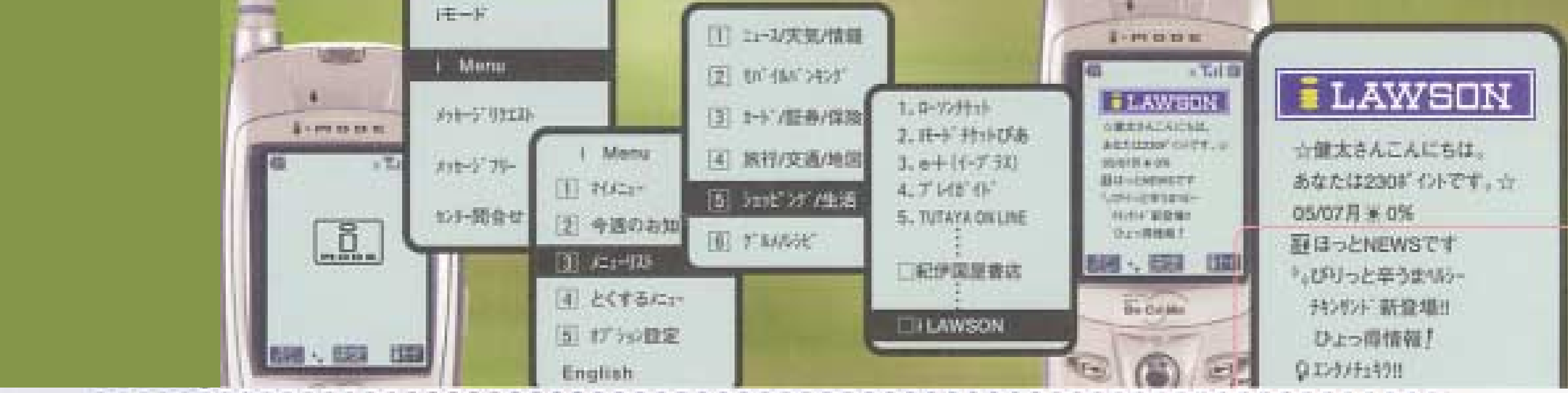
We have advanced into communities under the banner of becoming "the 'hot' station that satisfies all customer needs." We will now champion that role for each individual. By providing the new services profiled above and other new businesses within our stores, we will deepen ties with customers and create new value throughout all our businesses—offline and online.

In concert and event ticket sales, Lawson Tickets has secured a strong number two position nationally. The forecast calls for more growth and a higher market share.

Concert Ticket Sales (Billions of Yen)



Scaling New Heights
–In New Business Initiatives



INTERNET
STORES
@LAWSON
LAWSON TICKET
econtext
iCVS
i-Convenience
Loppi
LAWSON Online Shopping
From the house or office,
it's within reach anytime, anywhere
Killer Net Content
—coming soon

Scaling New Heights—In Product Lineups

The Merchandising Division's focus is on two themes: raising daily sales and lowering costs.

RAISING DAILY SALES

Our objective is to bolster our ability to develop original products and broaden our lineup. Around 70% of Lawson's customers are males in their teens to mid-30s. Many are repeat customers who visit our stores twice or more a day. To drive growth, we must hold on to our repeat customers and attract other shoppers more often.

We have thus defined the roles of Head Office as follows:

(1) To identify social trends on a quantitative and qualitative basis
(2) To gather information on the production technologies and facilities of manufacturers
(3) To develop products for nationwide sale
(4) To provide information to each region

The Merchandising Division is looking to identify consumer lifestyle trends and the scenarios they inspire and assess what products would be a perfect fit for them. The results are then sent to each region.

To bolster product strength we must create products tuned to market needs. We have divided our business in Japan into seven regions and are drastically reforming our organizational structure to expedite decision-making. This includes greater delegation of authority. To deliver products with strong product loyalty in every region, we are analyzing unique regional preferences and other data, the results of which are then fed into the product development network.

FFS—CREATING VALUE-ADDED PRODUCTS

Established in 1999, the Fresh Foods Supply Cooperative (FFS) consists mainly of Lawson's vendors of main and side dishes, prepared noodles and breads. FFS procures ingredients, develops products and assures the quality of original Lawson products. FFS is a lynchpin of Lawson's drive to strengthen product development.

FFS oversees product development and procurement of ingredients for the whole country. By working together, Lawson and FFS can coordinate sales activities and undertake bulk purchasing to keep costs down. Their cooperation makes it possible to develop products offering the best value.

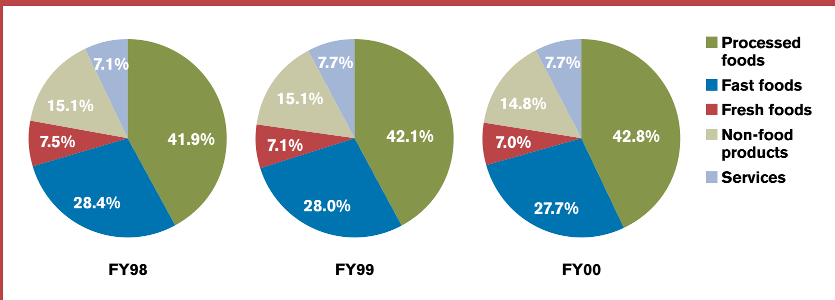
In order to respond actively to the needs of regions, Lawson has also commenced regional operations by means of its regional product departments and FFS member companies working directly together. Complementary strengths—the real-time customer information gathered by Lawson combined with FFS member companies' development and technological strengths—have upped the pace and quality of product development. In addition, Lawson and FFS are implementing a supply chain management (SCM) system to oversee the entire process from procurement of ingredients through manufacturing and sales. This offers an additional means by which costs can be reduced.

PARTNER MERCHANDISING

To deliver products that raise customer satisfaction, we are engaging in partner merchandising. We leverage the brand strength and product develop-

Lawson's product strategy is focused on two themes: raising daily sales and lowering costs. The former will be achieved by developing original products and broadening our lineup. SCM holds the key to achieving the latter.

Net Sales by Product Category



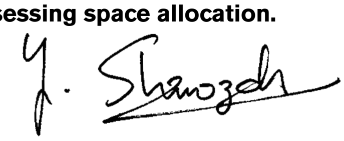
Note: Services includes tickets and home delivery.
Processed foods includes tobacco sales.

ment expertise of major manufacturers to produce a host of products. With Wacoal Corp., we created the underwear brand *raptina*, an industry first. With Shiseido Co., Ltd., we developed a new lineup for skin care and cosmetics made from natural ingredients. We also sell Fancl face powder, a top-selling mail order product. We will develop such products as the basis of new businesses. And, in preparation for the deregulation of liquor licensing in 2003, we are developing original wines, spirits and local sake.

STRIKING THE RIGHT BALANCE

In tandem with product development, we are working to optimize our product lineup. The Merchandising Division has created planograms for franchisees that consider regional characteristics, geographical factors and price zones of products selected from among our own, and from national brands. Product lifecycles are short and the market changes constantly, so we change the planograms frequently, and ensure that this new information is shared on a timely and accurate basis with the Store Operation Division.

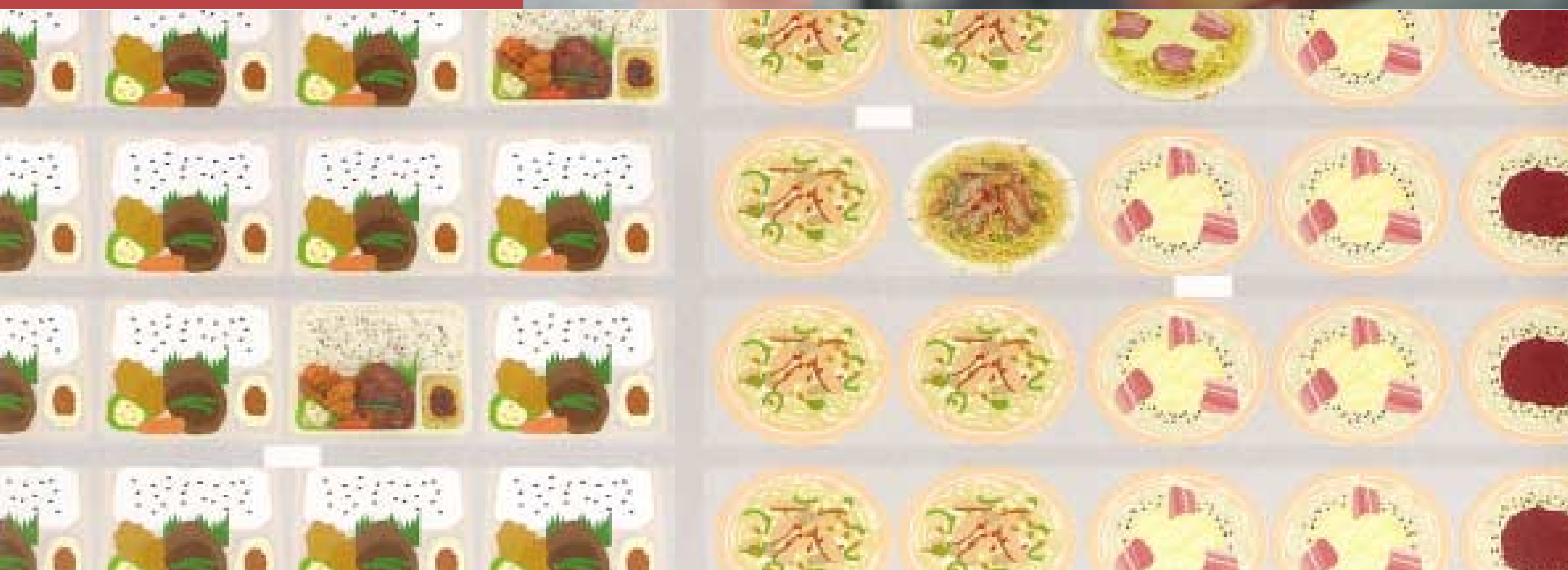
To raise the efficiency with which the limited 100 square meters of floor space in stores is utilized, we are radically reassessing space allocation.



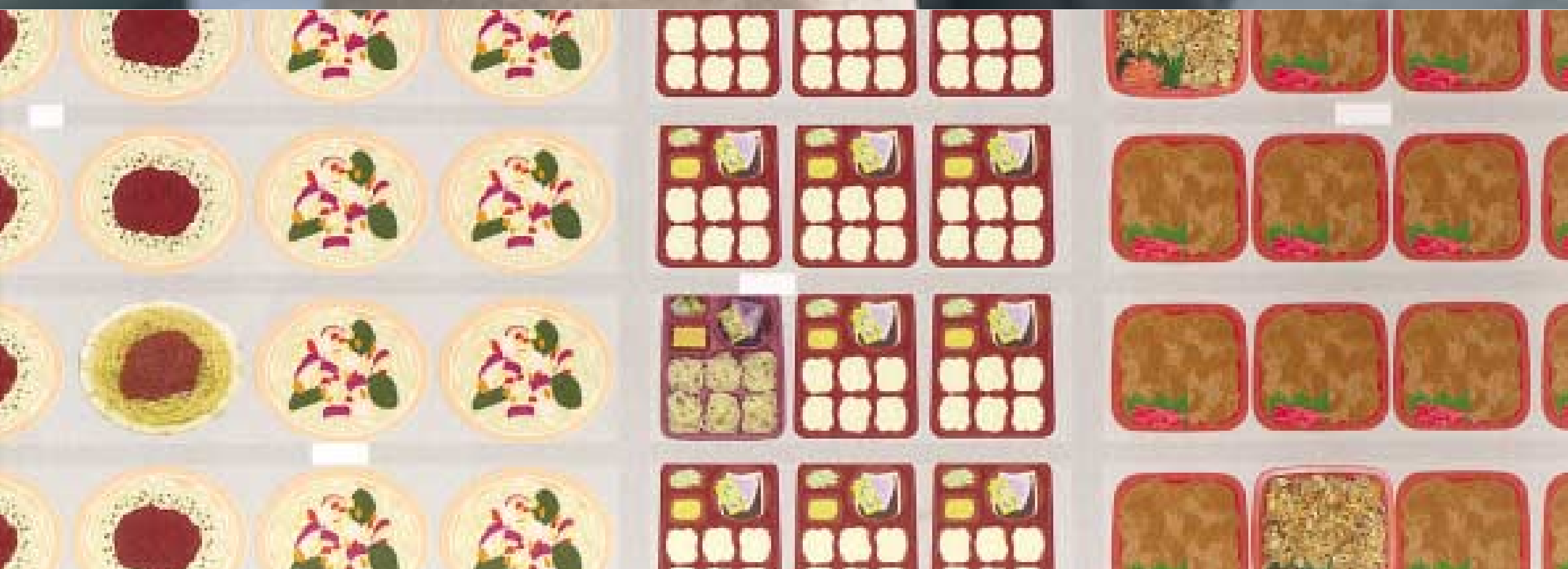
Yoshio Shinozaki
Director
Deputy General Manager
Merchandising Division

Lawson is concentrating its energies into the development of original products. The quality and pace of product development is being stepped up through analysis and application of real-time customer information, combined with the product development strengths of FFS' member companies and major manufacturers.

Scaling New Heights –In Product Lineups




マチのほっとステーション
LAWSON
eco
ECOLOGY LIFE
エコロジーライフ



Directors and Corporate Auditors

From Left (Front): *Executive Vice President,* Koji Wada; *President & CEO,* Kenji Fujiwara; *Chairman,* Yasuo Matsuoka; *Senior Managing Director,* Takashi Sekiguchi

From Left (Back): *Managing Director,* Yoshinori Harigae; *Senior Managing Director,* Takao Endo; *Managing Director,* Makoto Takayama; *Managing Director,* Teruo Aoki

Chairman

Yasuo Matsuoka*

President & CEO

Kenji Fujiwara*
General Manager, Merchandising Division

Executive Vice President

Koji Wada*
General Manager, Development Division

Senior Managing Directors

Takashi Sekiguchi
General Manager, Office of Business Planning

Takao Endo
General Manager, Store Operation Division & Overseas Project Planning & Development

Managing Directors

Makoto Takayama
General Manager, Office of Line Support

Yoshinori Harigae
General Manager, Office of Corporate Planning & Control

Teruo Aoki
General Manager, New Business Strategy Division

Susumu Hasegawa
General Manager, Office of Information Systems

Directors

Kenji Yamakawa
General Manager, Office of Finance & Accounting

Katsuhiko Yamasaki
General Manager, Logistics Division

Shigeru Kiyota
Deputy General Manager, New Business Strategy Division

Ichiro Okuda
Deputy General Manager, Development Division

Isamu Ochiai
Director, Shanghai Hualian Lawson Co., Ltd.

Shunji Tani
Deputy General Manager, Office of Business Planning

Yoshio Shinozaki
Deputy General Manager, Merchandising Division

Takao Kojima
General Manager, Office of Internal Auditing

Eiichi Tanabe
Deputy General Manager, Office of Corporate Planning & Control

Yoshimitsu Futai
Deputy General Manager, Merchandising Division

Hiroshi Tasaka
Professor, Tama University

Full-time Corporate Auditors

Sadao Suzuki

Masaaki Kojima

Part-time Corporate Auditors

Yoshiyuki Sanada

Itsuo Jitosho

Managing Director
Susumu Hasegawa

*Representative director

(As of May 24, 2001)

Five-Year Summary

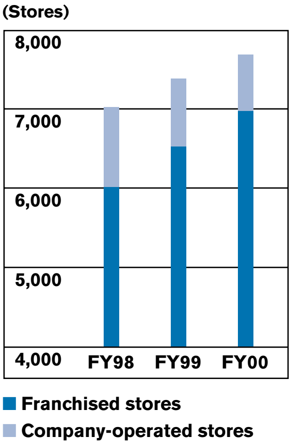
Lawson, Inc. and Consolidated Subsidiaries
Years Ended February

	Millions of Yen					Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	**2001**
For the year:						
Operating revenues:						
Franchise commission						
from franchised stores	**¥ 135,237**	¥ 124,587	¥ 115,087	¥106,829	¥ 95,324	**$ 1,161,830**
Net sales from						
Company-operated stores	**133,178**	155,613	177,070	180,995	178,076	**1,144,141**
Other	**11,803**	11,653	10,559	16,087	13,301	**101,400**
Total operating revenues	**280,218**	291,853	302,716	303,911	286,701	**2,407,371**
Net sales by product category:						
Fast foods	**362,979**	350,702	333,580			**3,118,376**
Daily delivered foods	**90,569**	89,248	87,818			**778,084**
Processed foods	**562,777**	528,188	494,090			**4,834,854**
Non-food products	**261,313**	254,742	243,309			**2,244,957**
Total store sales	**1,277,638**	1,222,880	1,158,797			**10,976,271**
Operating income	**41,279**	40,185	37,073	38,666	35,241	**354,631**
Income (loss) before income taxes						
and minority interest	**29,846**	33,869	26,411	(83,105)	29,220	**256,409**
Net income (loss)	**16,368**	15,011	10,675	(40,586)	13,163	**140,619**
At year-end:						
Total assets	**¥ 387,236**	¥ 339,413	¥ 411,994	¥448,704	¥434,661	**$ 3,326,770**
Total shareholders' equity	**178,448**	95,932	83,124	72,449	56,287	**1,533,058**
Total number of stores[1]	**7,749**	7,432	7,066	6,686	6,266	
Number of employees (Full-time)	**4,170**	4,234	4,418	4,482	4,096	
	Yen					U.S. Dollars
Per share data:						
Net income (loss)[2]	**¥ 148**	¥ 143	¥ 102	¥ (473)	¥ 157	**$ 1.27**
Cash dividends	**35**	850	700	–	1,979	**0.30**
ROE	**11.9%**	16.8%	13.7%	(63.1)%	26.5%	
ROA	**4.5%**	4.0%	2.5%	(9.2)%	3.1%	

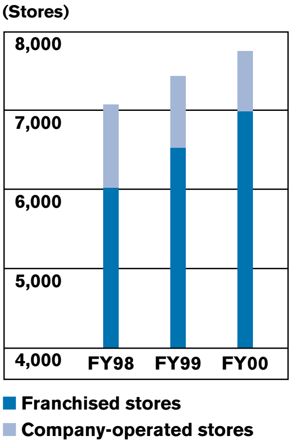
Notes: 1. The "Total number of stores" includes stores belonging to Shanghai Hualian Lawson Co., Ltd., as of its December 31, 2000 balance date.
2. The data has been restated to reflect the 1 to 50 stock split on April 14, 2000.

Management's Discussion and Analysis

Number of Stores (non-consolidated)



Number of Stores (consolidated)



OVERVIEW

Personal consumption in Japan in fiscal 2000, ended February 28, 2001, was lackluster on account of a bleak employment market and stagnant household income levels. Japan's convenience store industry also faced challenges. Although the number of stores increased, sales at existing stores fell below year-ago levels, as a whole. This reflected intensifying competition with other industries, notably eating establishments and fast food chains, which continued to lower prices.

Against this backdrop, Lawson focused on strengthening product development, improving its lineup and establishing a close rapport with customers. The company made headway with its store expansion strategy of becoming the dominant convenience store chain in each of Japan's 47 prefectures. At the same time, Lawson aggressively engaged in e-businesses, leveraging its nationwide store network and proprietary logistics framework. These and other actions were designed to take full advantage of Lawson's strength as the industry's only true nationwide chain. The result was a 4.5% year-on-year increase in net sales to ¥1,277,638 million (US$10,976 million) throughout the Lawson chain. Operating income increased 2.7% to ¥41,279 million (US$354,631 thousand) and net income rose 9.0% to ¥16,368 million (US$140,619 thousand).

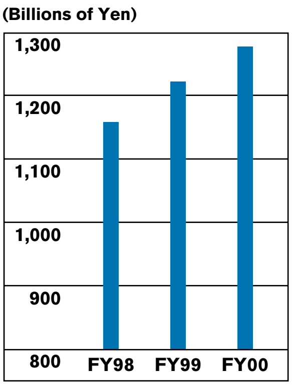
STORE NETWORK

Number of Stores

Lawson is the only Japanese convenience store chain with a presence in all of Japan's 47 prefectures. In fiscal 2000, there was a net increase of 305 in the number of Lawson stores, 57 stores lower than the previous fiscal year's net increase of 362 stores, on account of aggressive relocation and closure of stores with low average daily sales. In contrast to 725 new stores opened, Lawson closed 420 stores, including those that were relocated. Accordingly, the Lawson chain consisted of 7,683 stores as of year-end. In addition, there are 66 Lawson convenience stores in Shanghai, China. The company worked actively to convert its Company-operated stores into highly efficient franchised stores and to close underperforming ones. This led to a year-on-year decrease of 141 Company-operated stores to 711.

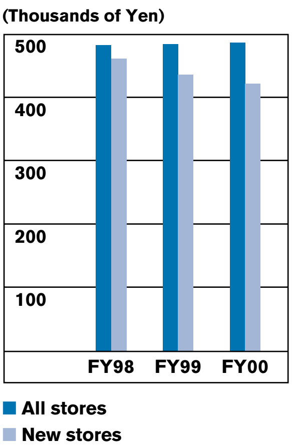
Lawson's future store development policy will focus on a "quality first" approach that sets strict criteria for opening stores. To achieve this, Lawson will reduce the annual number of new stores to around 650. At the same time, the company will redouble its efforts to relocate or close underperforming stores. The cumulative effect will be an approximate annual net increase of 200 stores. Company-operated stores will be closed for strategic reasons or converted into franchised stores. Lawson plans to reduce the number of these stores by 250 during fiscal 2001. By fiscal 2003, Lawson expects to operate only around 300 Company-operated stores primarily for training for franchise owners and trial introduction of new products.

Total Net Sales



*Including franchised-store sales

Average Daily Sales



Becoming a Dominant Force: Regional Store Trends

As it shifts focus from quantitative to qualitative expansion, Lawson is streamlining operations by bolstering its position as a dominant force as Japan's only truly nationwide convenience store chain. This involves reinforcing Lawson's dominance in all of Japan's 47 prefectures. In fiscal 2000, Lawson reached the 100-store mark in 5 prefectures—Fukushima, Shiga, Wakayama, Kagoshima and Okinawa. This brings the total number of prefectures with 100 or more Lawson stores to 24.

By region, Lawson's 7,683 stores nationwide break down as follows: Kanto 25.5%, Kinki 24.0%, Kyushu 10.9%, Tokai 8.4%, Tohoku 7.8%, Hokkaido 6.0%, Chugoku & Shikoku 10.2%, Koshinetsu 4.4% and Hokuriku 2.8%. In fiscal 2000, Lawson stores saw a net increase mainly in Kyushu, Tohoku and Kanto. In Tokyo and Osaka, the number of Lawson stores decreased by 16 and 47, respectively, on account of relocation and closure of underperforming stores.

STORE OPERATION ANALYSIS

Net Sales

Total net sales of Lawson stores including franchised stores were ¥1,277,638 million (US$10,976 million) in fiscal 2000, up 4.5% year on year. Sales increased in all four main product areas–processed foods, fast foods, daily delivered foods and non-food products.

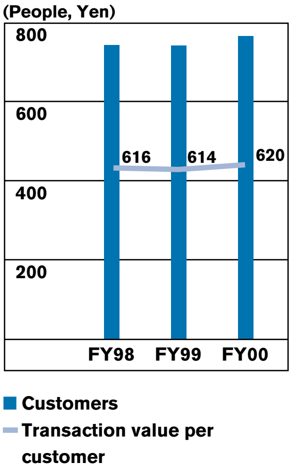
(a) Existing Store Sales

Despite the 4.5% sales increase across the chain, net sales at existing stores fell 1.7%, the third year of consecutive decline. The primary factors were slow consumer spending and intensified competition among convenience store chains.

(b) Average Daily Sales

Average daily sales are a key performance indicator for the management of convenience stores. In the year under review, average daily sales at Lawson stores were ¥486 thousand, up ¥3 thousand year on year. This was attributable to serving an average of 783 customers per day, slightly above the previous year, testifying to improved Lawson store recognition and store loyalty. One way in which Lawson bolstered its ability to attract consumers to stores was expanding services such as bill settlement services, including for public utilities bills. Average daily sales at new stores were ¥421 thousand, ¥14 thousand lower than the ¥435 thousand a year earlier. Lawson will work to increase average daily sales for new stores with a range of measures. These will include strengthening the screening system for new stores at Head Office and revising incentive programs for store management.

Average Number of Customers
Average Transaction Value



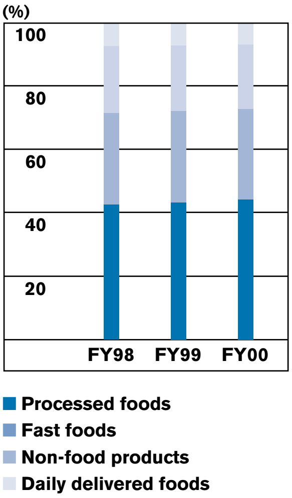
Breakdown of Sales by Product Category

Sales of processed food products increased 6.5% year on year to ¥562,777 million (US$4,835 million) owing to an increase in the number of stores with tobacco and liquor licenses. Sales of processed food products accounted for 44.1% of total net sales. Fast food sales increased 3.5% to ¥362,979 million (US$3,118 million), mainly reflecting continuing strong sales of prepared noodles, including *Nama Pasta*. Sales of daily delivered foods, such as ice cream and desserts, increased 1.5% to ¥90,569 million (US$778 million). Overall, net sales of food products rose 5.0% to ¥1,016,325 million (US$8,731 million).

Sales of non-food products increased 2.6% to ¥261,313 million (US$2,245 million) due to robust sales of toys and health drinks.

	Millions of Yen			
	Year ended February 28, 2001		Year ended February 29, 2000	
	Net sales	% of net sales	Net sales	% of net sales
Processed foods	**¥ 562,777**	**44.1%**	¥ 528,188	43.2%
Fast foods	**362,979**	**28.4%**	350,702	28.7%
Daily delivered foods	**90,569**	**7.1%**	89,248	7.3%
Food total	**1,016,325**	**79.6%**	968,138	79.2%
Non-food products	**261,313**	**20.4%**	254,742	20.8%
Chain total	**¥1,277,638**	**100.0%**	¥1,222,880	100.0%

Breakdown of Sales by Product Category



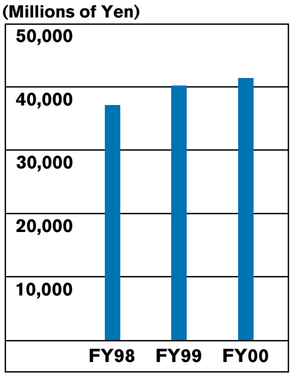
Bill Settlement Services

Lawson initiated bill settlement services in October 1989. In the year under review, the total value of transactions handled by Lawson, mainly consisting of public utilities bills, was ¥652.5 billion, up 23.3% over the previous fiscal year. Handling commissions were ¥5.3 billion, up 11.9% year on year.

Sales through Lawson's Loppi multimedia terminals increased 16.5% over the previous year to ¥39.6 billion on the back of higher concert and travel ticket sales. Loppi sales are forecast to rise 21.2% in fiscal 2001, ending February 28, 2002. During the year under review, Lawson also worked to set itself apart from other convenience store chains by pioneering new business models. For example, Lawson linked a service using NTT DoCoMo i-mode mobile phones to @Lawson, the company's e-commerce site.

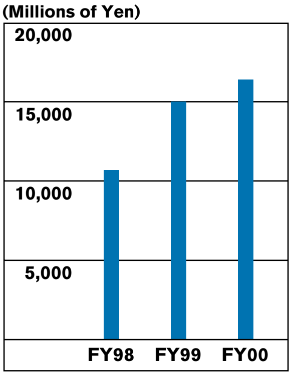
Operating Income

(Millions of Yen)



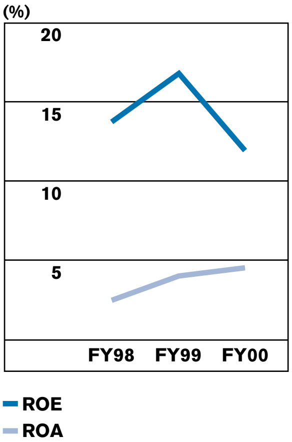
Net Income

(Millions of Yen)



Return on Equity
Return on Assets

(%)



INCOME AND EXPENSES

Total net sales of Lawson stores including franchised stores increased 4.5% to ¥1,277,638 million (US$10,976 million), but operating revenues declined ¥11.6 billion (4.0%) to ¥280,218 million. This decline mainly reflected a ¥22,435 million (14.4%) decrease in net sales from Company-operated stores as a result of conversion to franchised stores and closures. Franchise commissions from franchised stores increased 8.5% to ¥135,237 million (US$1,162 million) in line with a 6.6% rise in sales at franchised stores. Other operating revenues increased 1.3% to ¥11,803 million due to an increase in ticket transaction volumes at subsidiary Lawson Tickets Co., Ltd.

The cost of sales for Company-operated stores decreased 14.6% to ¥98,501 million (US$846,228 thousand). The gross profit ratio for Company-operated stores improved by 0.1 of a percentage point to 26.0%.

Selling, general and administrative expenses increased ¥4,085 million (3.0%) to ¥140,438 million (US$1,206,512 thousand), despite efforts to reduce expenses by relocating or closing underperforming stores. This increase mainly reflects a ¥586 million (4.2%) increase in advertising expenses, primarily related to initiatives to mark the Company's initial public offering, and a ¥1,281 million (8.0%) rise in operating expenses. In addition, the Company recorded a charge of ¥962 million for pension cost, and leasing costs increased ¥3,050 million (9.7%) due to a higher number of properties leased to house new stores.

As a result of the above, operating income increased ¥1,094 million (2.7%) to ¥41,279 million (US$354,631 thousand) and the operating income ratio rose by 0.9 of a percentage point to 14.7%.

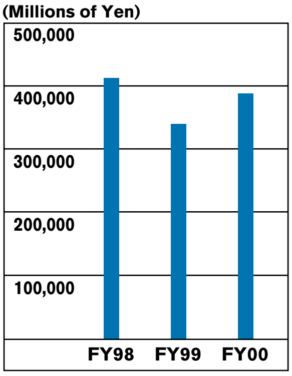
Other expenses amounted to ¥11,433 million (US$98,222 thousand), up ¥5,117 million year on year, despite a ¥1,659 million improvement in net interest expense due to the repayment of debt. The increase in other expenses reflected a ¥494 million charge for IPO-related expenses in July 2000, and a one-time charge of ¥7,011 million for the write-off of unamortized service cost, which resulted from a change in the accounting method for retirement benefit obligations.

Income before income taxes and minority interests decreased ¥4,023 million (11.9%) to ¥29,846 million (US$256,409 thousand). Net income, however, increased ¥1,357 million (9.0%) to ¥16,368 million (US$140,619 thousand) due to a decrease in the statutory tax rate in Japan and an increase in profits at Lawson Tickets. Net income per share, which takes into account the effects of stock splits, increased ¥5 (3.5%) to ¥148 (US$1.27).

ROA increased 0.5 of a percentage point to 4.5%, but ROE decreased by 4.9 percentage points to 11.9% due to an increase in shareholders' equity from the issue of common stock.

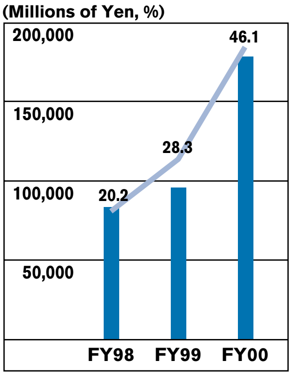
Total Assets

(Millions of Yen)



Shareholders' Equity & Equity Ratio

(Millions of Yen, %)



■ Shareholders' equity
— Equity ratio

FINANCIAL POSITION

Current assets rose ¥39,025 million to ¥177,681 million (US$1,526,469 thousand) due to a ¥36,355 million combined increase in cash and cash equivalents and marketable securities. This reflected the investment of some of the funds from the Company's initial public offering in marketable securities.

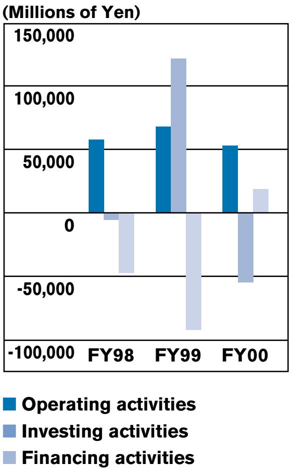
In fixed assets, property and store equipment increased ¥4,332 million to ¥89,065 million (US$765,163 thousand) on account of capital expenditures for new stores and other assets. Investments and other assets increased ¥4,466 million to ¥120,490 million (US$1,035,138 thousand). This was mainly attributable to a ¥6,793 million rise in lease deposits to ¥91,169 million (US$783,239 thousand), as the Company leased more properties for new stores, and a ¥2,832 million combined increase to ¥9,008 million in long-term prepaid expenses and other assets due to the purchase of software to bolster Lawson's store support system.

Accordingly, total assets stood at ¥387,236 million (US$3,326,770 thousand) as of February 28, 2001, up ¥47,823 million from a year ago.

Current liabilities decreased ¥25,717 million to ¥134,328 million (US$1,154,022 thousand) owing largely to a ¥27,897 million year-on-year combined decrease to ¥20,390 million (US$175,172 thousand) in short-term borrowings and current portion of long-term debt as the Company took steps to reduce its borrowings. Consequently, the current ratio improved 45.7 percentage points to 132.3%, and working capital amounted to ¥43,353 million, up ¥64,742 million.

Long-term liabilities decreased ¥10,143 million to ¥72,979 million (US$626,967 thousand), mainly on account of a ¥20,390 million decrease in long-term debt to ¥3,140 million, as the Company worked to reduce borrowings. On the other hand, the Company recorded a cumulative effect of ¥7,973 million liability for employees' retirement benefits. This stemmed from the change in the method of accounting for retirement benefit obligations. Total liabilities decreased ¥35,860 million (14.7%) to ¥207,307 million (US$1,781 million). Of this amount, interest-bearing debt—short-term borrowings and long-term debt, including the current portion—amounted to ¥23,530 million (US$202 million), a ¥48,287 million (67.2%) decrease from a year ago.

Cash Flows



Shareholders' equity increased ¥82,516 million to ¥178,448 million (US$1,533,058 thousand). This comprised ¥69,150 million in capital procured from the issuance of new shares and net income of ¥16,368 million, offset by ¥3,002 million in cash dividends. The shareholders' equity ratio thus improved 17.8 percentage points from 28.3% to 46.1%. Taking into account the effect of stock splits, shareholders' equity per share increased from ¥914.51 to ¥1,553.07, up ¥638.56 (69.8%).

CASH FLOWS

Lawson's financial policy is to procure sufficient capital and maintain a sufficient level of liquidity for its operating activities. Fundamentally, investment to expand operations, including new stores and renovations, is carried out within the limits of cash provided by operating activities.

Operating activities provided net cash of ¥52,793 million (US$453,548 thousand), a decrease of ¥14,997 million (22.1%) compared to the previous year. Factors contributing to this decline included a ¥5,754 million increase in income taxes paid, and a ¥2,591 million deterioration in cash turnover, the net result of an increase in accounts receivable of ¥8,171 million and a decrease in accounts payable.

Investing activities used cash of ¥54,696 million (US$469,897 thousand). This reflected ¥19,453 million for the purchase of marketable securities, as the Company utilized some of the funds procured from its IPO. In addition, ¥21,058 million was used to acquire property and store equipment, and ¥6,785 million represented an increase in lease deposits from the opening of new stores. The main elements of capital expenditures were ¥21.3 billion for investment in new stores, ¥5.9 billion for renovation and other work on existing stores, and ¥4.8 billion in a new store system. Free cash flow—the difference between net cash provided by operating activities and net cash used in investing activities—was ¥17,550 million (US$151 million), excluding investments in financial assets.

Financing activities provided net cash of ¥18,707 million (US$160,713 thousand). This chiefly consisted of ¥68,656 million in proceeds from issuance of common stock, net of stock issuance cost, offset by ¥48,301 million in the repayment of borrowings and ¥3,002 million for cash dividends paid.

As a result of these cash flows, cash and cash equivalents at the end of the year totaled ¥128,655 million (US$1,105,283 thousand), up ¥16,902 million (15.1%) from a year ago.

Consolidated Balance Sheets

Lawson, Inc. and Consolidated Subsidiaries
February 28, 2001 and February 29, 2000

ASSETS	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 1) 2001
CURRENT ASSETS:			
Cash and cash equivalents	**¥128,655**	¥111,753	**$1,105,283**
Time deposits	**1,013**	30	**8,703**
Marketable securities (Note 6)	**19,453**		**167,122**
Accounts receivable:			
Due from franchised stores (Notes 4 and 10)	**6,075**	5,929	**52,191**
Other	**12,873**	12,221	**110,593**
Allowance for doubtful accounts	**(74)**	(68)	**(636)**
Inventories	**2,577**	2,991	**22,139**
Deferred tax assets (Note 13)	**1,404**	1,099	**12,062**
Prepaid expenses and other current assets	**5,705**	4,701	**49,012**
Total current assets	**177,681**	138,656	**1,526,469**
PROPERTY AND STORE EQUIPMENT–At cost (Note 5)**:**			
Land	**20,933**	20,489	**179,837**
Buildings	**74,180**	64,961	**637,285**
Furniture, fixtures and equipment	**90,095**	85,745	**774,012**
Total	**185,208**	171,195	**1,591,134**
Accumulated depreciation	**(96,143)**	(86,462)	**(825,971)**
Net property and store equipment	**89,065**	84,733	**765,163**
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 6 and 8)	**7,408**	7,306	**63,643**
Investments in affiliated company	**84**		**722**
Long-term loans receivable	**2,928**	1,711	**25,155**
Long-term prepaid expenses	**1,201**	4,217	**10,318**
Lease deposits (Notes 7, 8 and 15)	**91,169**	84,376	**783,239**
Deferred tax assets (Note 13)	**10,265**	16,832	**88,187**
Other assets	**7,807**	1,959	**67,070**
Allowance for doubtful accounts	**(372)**	(377)	**(3,196)**
Total investments and other assets	**120,490**	116,024	**1,035,138**
TOTAL	**¥387,236**	¥339,413	**$3,326,770**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	2000	Thousands of U.S. Dollars (Note 1) 2001
CURRENT LIABILITIES:			
Short-term borrowings (Note 8)		¥ 124	
Current portion of long-term debt (Note 8)	¥ 20,390	48,163	$ 175,172
Accounts payable:			
Trade for Company-operated and franchised stores (Notes 9 and 15)	60,260	62,776	517,698
Due to franchised stores (Note 10)	4,617	4,182	39,665
Other (Note 15)	13,797	13,530	118,531
Income taxes payable (Note 13)	5,833	4,617	50,112
Money held as agent	24,831	21,495	213,325
Accrued expenses and other current liabilities	4,600	5,158	39,519
Total current liabilities	134,328	160,045	1,154,022
LONG-TERM LIABILITIES:			
Long-term debt (Note 8)	3,140	23,530	26,976
Liability for employees' retirement benefits (Notes 3 and 11)	13,746	4,881	118,093
Liability for directors' and corporate auditors' retirement benefits (Note 11)	203	130	1,744
Guarantee deposits received from franchised stores	55,020	53,640	472,680
Lease deposits from lessees	870	941	7,474
Total long-term liabilities	72,979	83,122	626,967
MINORITY INTEREST	1,481	314	12,723
SHAREHOLDERS' EQUITY (Notes 12 and 16)**:**			
Common stock, ¥50 par value–authorized, 419,600,000 shares in 2001 and ¥500 par value–authorized, 8,392,000 shares in 2000; issued and outstanding, 114,900,000 shares in 2001 and 2,098,000 shares in 2000	58,507	30,877	502,637
Additional paid-in capital	41,520		356,701
Retained earnings	78,421	65,055	673,720
Total shareholders' equity	178,448	95,932	1,533,058
TOTAL	¥387,236	¥339,413	$3,326,770

Consolidated Statements of Income

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
NET SALES REPORTED BY FRANCHISED STORES	**¥1,144,717**	¥1,073,422	**$9,834,338**
OPERATING REVENUES:			
Franchise commission from franchised stores	**¥ 135,237**	¥ 124,587	**$1,161,830**
Net sales from Company-operated stores	**133,178**	155,613	**1,144,141**
Other	**11,803**	11,653	**101,400**
Total	**280,218**	291,853	**2,407,371**
COST AND OPERATING EXPENSES:			
Cost of sales for Company-operated stores (Note 15)	**98,501**	115,315	**846,228**
Selling, general and administrative expenses (Notes 11, 14 and 15)	**140,438**	136,353	**1,206,512**
Total	**238,939**	251,668	**2,052,740**
Operating income	**41,279**	40,185	**354,631**
OTHER INCOME (EXPENSES):			
Interest expense–net (Note 15)	**(888)**	(2,547)	**(7,629)**
Loss on disposal of property and store equipment	**(2,723)**	(2,769)	**(23,393)**
Write-off of unamortized service cost (Note 3)	**(7,011)**		**(60,232)**
Gain on sales of investments in securities		886	
Loss on sales of investments in affiliated companies		(1,269)	
Loss on write-off of investments in securities		(742)	
Other–net	**(811)**	125	**(6,968)**
Other expenses–net	**(11,433)**	(6,316)	**(98,222)**
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	**29,846**	33,869	**256,409**
INCOME TAXES (Note 13)**:**			
Current	**7,226**	4,236	**62,079**
Deferred	**6,262**	14,686	**53,797**
Total	**13,488**	18,922	**115,876**
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARIES	**10**	64	**86**
NET INCOME	**¥ 16,368**	¥ 15,011	**$ 140,619**

	Yen		U.S. Dollars
	2001	2000	**2001**
PER SHARE OF COMMON STOCK (Notes 2.n and 16)**:**			
Net income	**¥ 148**	¥ 143	**$ 1.27**
Cash dividends	**35**	850	**0.30**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Thousands	Millions of Yen		
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings
BALANCE, MARCH 1, 1999	2,098	¥30,877		¥52,247
Net income				15,011
Cash dividends, ¥1,050 per share				(2,203)
BALANCE, FEBRUARY 29, 2000	2,098	30,877		65,055
Net income				16,368
Stock split (Note 12)	102,802			
Public offering of common stock (Note 12)	10,000	27,630	¥41,520	
Cash dividends, ¥517 per share				(3,002)
BALANCE, FEBRUARY 28, 2001	**114,900**	**¥58,507**	**¥41,520**	**¥78,421**

	Thousands of U.S. Dollars (Note 1)		
	Common Stock	Additional Paid-in Capital	Retained Earnings
BALANCE, FEBRUARY 29, 2000	$265,266		$558,891
Net income			140,619
Public offering of common stock (Note 12)	237,371	$356,701	
Cash dividends, $4.44 per share			(25,790)
BALANCE, FEBRUARY 28, 2001	**$502,637**	**$356,701**	**$673,720**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
OPERATING ACTIVITIES:			
Income before income taxes and minority interest	¥ 29,846	¥ 33,869	$ 256,409
Adjustments for:			
Income taxes paid	(6,009)	(255)	(51,624)
Depreciation and amortization	14,812	15,136	127,251
Provision for employees' and directors' and corporate auditors' retirement benefits	8,938	894	76,787
Provision for (reversal of) allowance for doubtful accounts	1	(1,320)	9
Loss on disposal of property and store equipment	1,892	2,073	16,254
Loss on write-off of investments in securities		742	
Loss on sales of investments in securities and in affiliated companies		383	
Other—net	2,244	3,013	19,278
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(800)	7,371	(6,873)
Decrease in inventories	423	113	3,634
Increase in prepaid expenses and other current assets	(702)	(245)	(6,031)
(Decrease) increase in accounts payable	(1,828)	763	(15,704)
Increase in money held as agent	3,336	3,034	28,660
(Decrease) increase in accrued expenses and other current liabilities	(668)	590	(5,739)
Increase in guarantee deposits received from franchised stores	1,380	1,655	11,856
Decrease in lease deposits from lessees	(72)	(26)	(619)
Total adjustments	22,947	33,921	197,139
Net cash provided by operating activities	52,793	67,790	453,548
INVESTING ACTIVITIES:			
Purchases of marketable securities	(19,453)		(167,122)
Proceeds from sale of investment in a subsidiary		6,590	
Acquisitions of investments in securities and affiliated company	(249)		(2,139)
Proceeds from sales of investments in securities		16,371	
Purchases of property and store equipment	(21,058)	(20,047)	(180,911)
Collection of short-term loans receivable		131,373	
Increase in lease deposits	(6,785)	(8,365)	(58,290)
Other	(7,151)	(4,164)	(61,435)
Net cash (used in) provided by investing activities	(54,696)	121,758	(469,897)
FINANCING ACTIVITIES:			
Decrease in short-term borrowings	(138)	(40,916)	(1,186)
Repayment of long-term debt	(48,163)	(49,402)	(413,771)
Proceeds from issuance of common stock, net of stock issuance costs	68,656		589,828
Cash dividends paid	(3,002)	(2,203)	(25,790)
Proceeds from minority shareholders	1,354		11,632
Net cash provided by (used in) financing activities	18,707	(92,521)	160,713
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	98	(41)	842
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,902	96,986	145,206
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	111,753	14,767	960,077
CASH AND CASH EQUIVALENTS, END OF YEAR	¥128,655	¥111,753	$1,105,283

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 28, 2001 and February 29, 2000

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different from International Accounting Standards in certain respects as to application and disclosure requirements. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Effective July 26, 2000, The Daiei, Inc. ("Daiei") is no longer the parent company as a result of the issuance of new shares of Lawson, Inc. ("Company")'s common stock through a public offering in connection with the listing of stock on the Tokyo Stock Exchange and Osaka Securities Exchange as well as sale of shares held by Daiei and its subsidiaries.

Daiei owned 31,199 thousand shares of common stock of the Company (representing 27.2% of the Company's total shares) at February 28, 2001 and 1,139 thousand shares of common stock of the Company (representing 54.3% of the Company's total shares) at February 29, 2000.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116.40 to $1, the approximate rate of exchange at February 28, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Companies").

Under the control or influence concept, those entities in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of the Company's investments in consolidated subsidiaries and affiliated companies over its equity in the net assets at the dates of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

b. Franchise Agreement and Basis of Recognizing Franchise Commission—The Company operates principally in a single industry commonly classified as the convenience store business with its own stores and franchised stores. The Company allows each independent franchisee to operate relatively small-sized convenience stores using specific designs and the Lawson brand names, and provides related managerial or technical know-how under a franchise agreement. Under the agreement, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchisor. In return, such franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's annual gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the annual gross margin earned by each franchised store and the applicable commission percentage. According to the franchise agreement, a franchised store may pay additional guarantee deposits of twice the average monthly sales amounts of respective stores and pay a lower commission percentage.

The term of a franchise agreement is effective for 10 years from the commencement date of a new store's operation as a franchised store, and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

The franchise agreement provides that the franchised store shall make a cash payment to the Company in the amount of ¥3 million upon commencement. Upon receipt of such payment, ¥1.5 million is credited to income of the Company as "Operating revenues–franchise commission from franchised stores" for services related to the opening of the Lawson store. The remaining amount received by the Company is credited to "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures and equipment designed for the Lawson stores. In some cases, franchisees may also be provided with the land or buildings of the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

***c. Cash and Cash Equivalents*—**Cash and cash equivalents include cash on hands, demand deposits and short-term investments, which mature or become due within three months of the date of acquisition and which are readily convertible into cash and are exposed to insignificant risk of changes in value.

***d. Inventories*—**Inventories are stated at cost determined by the retail method as generally applied in the retail industry.

***e. Marketable and Investment Securities*—**Current and non-current marketable securities are stated at the lower of cost or market. Other investments are stated at cost less a valuation allowance representing impairment of certain investments that is deemed to be other than temporary. Cost is determined by the moving-average method.

***f. Property and Store Equipment*—**Property and store equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and structures and from 2 to 20 years for furniture, fixtures and equipment in accordance with the Japanese tax laws.

***g. Amortization*—**Amortization of intangible assets and deferred charges included in "Other assets" in the accompanying consolidated balance sheets is computed on the straight-line method over the period set forth in the Japanese Commercial Code (the "Code") and Japanese tax laws. Stock issuance costs are charged to income as incurred.

***h. Liability for Employees' Retirement Benefits*—**With regard to the unfunded retirement benefits plan, the Company provides for employees' retirement benefits at 100% of the amount which would be required if all employees voluntarily terminated their services at the balance sheet date and with regards to the funded contributory trusted pension plan, the costs of such retirement benefits obligations are recorded based on the projected benefit obligations determined by an accepted actuarial method less the fair value of the related plan assets (see Note 3).

***i. Liability for Directors' and Corporate Auditors' Retirement Benefits*—**The provisions are calculated to state the liability at 100% of the amount that would be required if all directors and corporate auditors resigned as of each balance sheet date.

***j. Leases*—**All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

k. Income Taxes—The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

m. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translation are included in other current liabilities in the accompanying consolidated balance sheets.

n. Per Share Information—The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation were 110,873 thousand shares for 2001 and 104,900 thousand shares for 2000.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

Fully diluted net income per share is not disclosed because the Company did not have any convertible bonds, bonds with warrants or stock option which resulted in a dilutive effect.

3. ACCOUNTING CHANGE

Prior to March 1, 2000, with regard to the unfunded retirement benefits plan, the Company provides for employees' retirement benefits at 100% of the amount which would be required if all employees voluntarily terminated their services at the balance sheet date and also with regards to the funded contributory trusted pension plan, the amounts contributed to the fund were charged to income when paid. Effective March 1, 2000, however, the Company changed its method of accounting for the costs of such retirement benefits obligations, which are recorded based on the projected benefit obligations determined by an accepted actuarial method less the fair value of the related plan assets. The effect of this change was to decrease income before income taxes and minority interests for the year ended February 28, 2001, by ¥7,973 million ($68,497 thousand) which included a cumulative effect of ¥7,011 million ($60,232 thousand). This cumulative effect was presented as "write-off of the unamortized service cost" in the 2001 consolidated statement of income.

4. DUE FROM FRANCHISED STORES

Under the franchise agreement, the Company is responsible for providing architectural and designing services with respect to the franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Company generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the franchise agreement, the Company, as a representative for all franchised stores, pays amounts payable to the vendors on the stores' behalf. When the merchandise is received by each franchised store, the Company records the cost of the merchandise in the "Accounts receivable–due from franchised stores" account since such costs shall be subsequently recovered from respective franchised stores.

The "Due from franchised stores" account represents net amounts recoverable from the franchised stores.

5. PROPERTY AND STORE EQUIPMENT

Property and store equipment at February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Used by franchised stores:			
Land	¥ 1,836	¥ 1,368	$ 15,773
Buildings	60,139	49,683	516,658
Furniture, fixture and equipment	71,667	67,582	615,696
Total	133,642	118,633	1,148,127
Accumulated depreciation	74,904	65,957	643,505
Net	58,738	52,676	504,622
Used by Company-operated stores and other:			
Land	19,097	19,121	164,064
Buildings	14,041	15,278	120,627
Furniture, fixture and equipment	18,428	18,163	158,316
Total	51,566	52,562	443,007
Accumulated depreciation	21,239	20,505	182,466
Net	30,327	32,057	260,541
Net property and store equipment–total	¥ 89,065	¥ 84,733	$ 765,163

6. MARKETABLE AND INVESTMENTS SECURITIES

Marketable securities consisted of one-year discount debentures, Japanese national government bonds and others.

Carrying amounts and aggregate market values of non-current marketable securities at February 28, 2001 and February 29, 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Carrying amount	¥ 7,333	¥ 7,296	$ 62,998
Aggregate market value	13,412	14,583	115,223

The differences between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consists of non-marketable equity securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

7. LEASE DEPOSITS

Under certain circumstances, the Company leases land and/or buildings for its owned Lawson stores or for franchisees to operate as franchised stores. The leases are based on long-term, cancelable lease agreements with owners. In connection with such agreements, the lessor requires leasehold deposits equivalent to approximately several months' rent, which are non-interest bearing and refundable only when the leases are terminated.

Lease deposits at February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Lease deposits for franchised stores	¥70,200	¥62,222	$603,093
Lease deposits for Company-operated stores and other	20,969	22,154	180,146
Total	¥91,169	¥84,376	$783,239

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at February 29, 2000, consisted of loans payable to a bank by a consolidated foreign subsidiary and the annual interest rate was 7.03%.

Long-term debt at February 28, 2001 and February 29, 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Loans from banks, other financial institutions, due serially through 2003 with interest rates ranging from 1.79% to 3.15% (2001 and 2000)	**¥23,530**	¥71,693	**$202,148**
Less current portion	**(20,390)**	(48,163)	**(175,172)**
Long-term debt, less current portion	**¥ 3,140**	¥23,530	**$ 26,976**

Annual maturities of long-term debt at February 28, 2001, were as follows:

Year Ending February 28	Millions of Yen	Thousands of U.S. Dollars
2002	¥20,390	$175,172
2003	3,140	26,976
Total	¥23,530	$202,148

The following assets were pledged as collateral for a portion of long-term debt amounting to ¥2,500 million ($21,478 thousand) at February 28, 2001.

	Carrying Amounts at February 28, 2001	
	Millions of Yen	Thousands of U.S. Dollars
Investments in securities	¥2,994	$25,722
Lease deposits	985	8,462
Total	¥3,979	$34,184

As is customary in Japan, the Company maintains deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

9. ACCOUNTS PAYABLE—TRADE FOR COMPANY-OPERATED AND FRANCHISED STORES AND OTHER

The balances of "Accounts payable–trade for Company-operated and franchised stores" represent the amounts payable to vendors for merchandise purchased by Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for Company-operated stores and franchised stores and makes collective payments to vendors (see Note 4 above).

Accounts payable–trade for Company-operated and franchised stores and others at February 28, 2001 and February 29, 2000, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Accounts payable–trade for franchised stores	**¥54,736**	¥55,832	**$470,241**
Accounts payable–trade for Company-operated stores and other	**19,321**	20,474	**165,988**
Total	**¥74,057**	¥76,306	**$636,229**

10. ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to the franchised stores is recorded as "Accounts receivable–due from franchised stores" as described in Note 4 above.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable–due from franchised stores." In the accompanying consolidated balance sheets, such excess balances are presented as "Accounts payable–due to franchised stores."

11. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payment from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

Directors and corporate auditors are not covered by the above plan. The amounts of the liability for directors' and corporate auditors' retirement benefits represent management's estimates of the amounts which would be payable to them if they were to retire at each balance sheet date. The amounts payable to directors and corporate auditors upon retirement is subject to the approval of the shareholders in accordance with the Code.

Total expenses for the retirement plans were ¥1,880 million ($16,151 thousand) and ¥1,718 million for the years ended February 28, 2001 and February 29, 2000, respectively, including the provisions for retirement benefits for directors and corporate auditors.

12. SHAREHOLDERS' EQUITY

On April 14, 2000, the Company made a stock split by way of a par value split (from ¥500 to ¥50) and of a free share distribution at the rate of 5 shares for each outstanding share, resulting in an increase in the number of issued shares from 2,098 thousand shares to 104,900 thousand shares, by resolution of the shareholders meeting held on December 16, 1999.

At the general shareholders meeting held on May 26, 2000, the Company's shareholders approved a stock option plan for the Company's directors and key employees, and the issuing of new shares for such stock options.

The plan provides for granting options to purchase up to 1,792 thousand shares of the Company's common shares in the period from May 27, 2002 to May 25, 2007. The options will be granted at the price of ¥7,500. The Company plans to issue the new shares for proceeds of ¥13,440 million ($115,464 thousand) upon exercise of all stock options.

On July 25, 2000, the Company completed a public offering of 10,000 thousand shares of common stock at the price of ¥7,200 per share. The amount of ¥27,630 million ($237,371 thousand) was credited to common stock and the remaining amount of ¥41,520 million ($356,701 thousand) was credited to additional paid-in capital in accordance with the Code requirements.

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. The Company's reserve amount, which is included in retained earnings, totals ¥520 million ($4,467 thousand) as of February 28, 2001 and ¥220 million as of February 29, 2000, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

The Company may transfer portions of legal reserve to reduce the deficit upon resolution of the shareholders. If the total amount of legal reserve is transferred, additional paid-in capital may then be transferred to reduce the deficit also by resolution of the shareholders under the Code.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥500.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 42.0% for the year ended February 28, 2001 and 47.7% for the year ended February 29, 2000. On March 31, 1999, a tax reform law was enacted in Japan which decreased the normal effective statutory tax rate from approximately 47.7% to 42.0% for the year ended February 28, 2001 for the Company. The change resulted in a decrease in deferred tax assets and an increase in income taxes—deferred by approximately ¥2,433 million for the year ended February 29, 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets at February 28, 2001 and February 29, 2000, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deferred tax assets:			
Marketable securities	**¥ 2,823**	¥13,260	**$ 24,253**
Land	**1,168**	1,168	**10,034**
Employees' retirement benefits	**4,974**	1,292	**42,732**
Tax loss carryforward	**541**	1,045	**4,648**
Other	**2,589**	2,215	**22,242**
Total	**12,095**	18,980	**103,909**
Valuation allowances	**426**	1,049	**3,660**
Total	**¥11,669**	¥17,931	**$100,249**

The actual effective tax rates differed from the normal effective statutory tax rate for the following reasons:

	Year Ended	
	2001	2000
Normal effective statutory tax rate	**42.0%**	47.7%
Increase (decrease) in tax rate resulting from:		
Permanently nondeductible expenses	**2.4**	0.7
Inhabitants taxes—per capita	**1.0**	0.9
Effect of tax rate change		7.2
Other—net	**(0.2)**	(0.6)
Actual effective tax rates	**45.2%**	55.9%

14. LEASES

The Company leases certain store facilities, machinery, computer equipment, office space and other assets.

Total lease payments under finance leases for the years ended February 28, 2001 and February 29, 2000, were ¥6,452 million ($55,430 thousand) and ¥6,324 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 28, 2001 and February 29, 2000, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Leased to franchised stores:			
Furniture, fixtures and equipment:			
Acquisition cost	**¥27,746**	¥26,520	**$238,368**
Accumulated depreciation	**14,149**	14,281	**121,555**
Net leased property	**¥13,597**	¥12,239	**$116,813**
Obligations under finance leases:			
Due within one year	**¥ 4,685**	¥ 4,320	**$ 40,249**
Due after one year	**9,342**	8,444	**80,258**
Total	**¥14,027**	¥12,764	**$120,507**
Used by Company-operated stores and other:			
Furniture, fixtures and equipment:			
Acquisition cost	**¥ 4,501**	¥ 5,389	**$ 38,669**
Accumulated depreciation	**3,412**	3,728	**29,313**
Net leased property	**¥ 1,089**	¥ 1,661	**$ 9,356**
Obligation under finance leases:			
Due within one year	**¥ 630**	¥ 812	**$ 5,412**
Due after one year	**514**	934	**4,416**
Total	**¥ 1,144**	¥ 1,746	**$ 9,828**

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥5,831 million ($50,095 thousand) and ¥5,614 million for the years ended February 28, 2001 and February 29, 2000, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥598 million ($5,137 thousand) and ¥681 million for the years ended February 28, 2001 and February 29, 2000, respectively.

The minimum rental commitments under noncancelable operating leases at February 28, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	**2001**
Due within one year	**¥ 596**	**$ 5,120**
Due after one year	**6,668**	**57,285**
Total	**¥7,264**	**$62,405**

15. RELATED PARTY TRANSACTIONS

Transactions of the Companies with Daiei, affiliates of Daiei (20% or greater equity ownership), directors and principal shareholders for the years ended February 28, 2001 and February 29, 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Purchases	**¥210,603**	¥211,451	**$1,809,304**
Rental expenses	**396**	442	**3,402**
Lease payments	**738**	998	**6,340**
Operating expenses–other	**708**	526	**6,082**
Interest income		1,099	

Purchases include amounts related to purchases by the franchised stores.

Effective January 30, 2001, Isao Nakauchi, representative director, retired, and transaction with his companies are no longer considered as related party transactions and the above amounts are aggregated from March 1, 2000 to January 30, 2001.

The balances due to or from Daiei, affiliates of Daiei (20% or greater equity ownership), directors and principal shareholders at February 29, 2000, was as follows:

	Millions of Yen
	2000
Lease deposits	¥ 4,859
Accounts payable–trade for Company-operated and franchised stores	15,831
Accounts payable–other	58

16. SUBSEQUENT EVENTS

a. The following appropriation of retained earnings at February 28, 2001, were approved at the shareholders meeting held on May 24, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Transfer to legal reserve	¥ 207	$ 1,778
Cash dividends, ¥18 ($0.15) per share	2,068	17,766

b. At the general shareholders meeting held on May 24, 2001, the Company's shareholders approved a proposal to amend the Articles of Incorporation to allow management, by resolution of the Board of Directors, to repurchase and cancel the Company's common stock. The Company is authorized to repurchase, at management's discretion, up to 9 million shares of the Company's common stock for the purpose of canceling the shares and charging such amounts to retained earnings.

Independent Auditors' Report

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Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of Lawson, Inc.:

We have examined the consolidated balance sheets of Lawson, Inc. and consolidated subsidiaries as of February 28, 2001 and February 29, 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lawson, Inc. and consolidated subsidiaries as of February 28, 2001 and February 29, 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for retirement benefits obligations, as discussed in Note 3.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 24, 2001

Corporate Data

Company name
Lawson, Inc.

Address
Tokyo Headquarters:
4-9-25 Shibaura, Minato-ku, Tokyo 108-8563
Tel: +81-3-5476-6800

Osaka Headquarters:
9-1 Toyotsu-cho, Suita-shi, Osaka 564-0051
Tel: +81-6-6380-4491

Representative directors
Chairman, Yasuo Matsuoka
President & CEO, Kenji Fujiwara
Executive Vice President, Koji Wada

Employees
4,170 (Consolidated)

Business activities
Franchise chain development of Lawson convenience stores

Total net sales
¥1,277.6 billion (Consolidated) (Fiscal 2000)

Number of stores
7,683 (in Japan, as of February 28, 2001)

Operating region
All 47 Japanese prefectures; Shanghai, PRC (joint venture)

Investor Information

Established
April 15, 1975

Capital
¥58,506,644,000

Authorized shares
419,600,000

Shares outstanding
114,900,000

Shareholders
66,989

Major Shareholders

Shareholder	Shareholdings (Shares)	Shareholdings (%)
The Daiei, Inc.	24,306,800	21.15
Halcon Cayman Ltd.	22,980,000	20.00
Management Securities Trust Depository Nomura Trust and Banking Co., Ltd.	11,490,000	10.00
M.C. Retail Investment Co., Ltd.	9,109,300	7.92
Japan Trustee Services Bank, Ltd. (trust account)	2,673,200	2.32
Higashi Washinomiya Chuo Kaihatsu Co., Ltd.	2,480,000	2.15
Mitsubishi Trust and Banking Corporation (trust account)	2,406,100	2.09
Daiei Holding Corp.	2,053,500	1.78
Boston Safe Deposit PSDT Treaty Clients Omnibus	1,283,800	1.11
State Street Bank and Trust Company	1,247,200	1.08

Stock Exchange Listings
Tokyo Stock Exchange (1st Section)

Osaka Securities Exchange (1st Section)

Stock transfer agent
The Chuo Mitsui Trust and Banking Company, Limited

1-7-1 Kyobashi, Chuo-ku, Tokyo 104-8345, Japan

(As of February 28, 2001)

Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of Lawson and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in the Japanese convenience store industry, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

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