ANNUAL REPORT 2005

Year ended February 28, 2005

Toward the Next 30 Years

LAWSON

Consolidated Financial Highlights

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2005, February 29, 2004 and February 28, 2003

	Millions of Yen			Increase/ (Decrease) (%)	Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005/2004	2005
For the Year:					
Net sales of all stores	**¥1,329,077**	¥1,288,297	¥1,294,042	3.2%	**$12,689,297**
Total operating revenues	**254,395**	245,601	250,334	3.6	**2,428,824**
Operating income	**42,941**	38,087	34,107	12.7	**409,977**
Income before income taxes and minority interests	**36,040**	32,923	17,603	9.5	**344,090**
Net income	**20,435**	18,571	8,861	10.0	**195,102**
Per Share Data (Yen and dollars)**:**					
Net income	**¥198**	¥176	¥82	12.5%	**$1.89**
Cash dividends	**70**	41	41	70.7	**0.67**
At Year-End:					
Total assets	**¥356,310**	¥354,831	¥342,599	0.4%	**$3,401,852**
Total shareholders' equity	**160,282**	154,317	151,864	3.9	**1,530,285**
Store Network:					
Number of stores(2)	**8,077**	7,821	7,625	3.3%	
Franchised stores	**7,731**	7,472	7,291	3.5	
Company-owned stores	**346**	349	334	(0.9)	
Ratio of liquor-licensed stores (%)	**87.9**	75.4	62.1	12.5(3)	
Stores with ATMs	**3,570**	3,127	2,712	14.2	

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2005, of ¥104.74=$1.
2. The number of stores does not include stores of Shanghai Hualian Lawson Co., Ltd.
3. Percentage points.
4. Figures for 2003 and 2004 include data for Shanghai Hualian Lawson Co., Ltd.

Contents

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.

LAWSON 30 Years of Growth

In 2005, LAWSON celebrates its 30th anniversary. Our chain of convenience stores has grown during this period thanks to our unwavering support of customers and our steadfast commitment to providing convenience. In light of increasingly diverse and complex customer needs, however, we have realized that the conventional convenience store business model is no longer adequate to ensure corporate growth. We are utilizing the occasion of our 30th anniversary as an opportunity to turn a new leaf and evolve into a new and different company that transcends the traditional definition of a convenience store operator.

1975

1975
First LAWSON store opens in Sakurazuka, Toyonaka, Osaka

1977
Stores introduce 24-hour operating hours

1981
Stores introduce advance sales of movie theater tickets

1982
Stores begin take-out sales of *oden*

Oden: a popular Japanese hotpot dish that includes *daikon* radish, fish cakes, boiled eggs and *konnyaku* (devil's tongue)

1985

1986
Stores commence sales of *Karaage-kun* crispy Japanese-style fried chicken

1989
Stores launch third-party bill settlement services

1992
LAWSON Green Fund launch

1975 First LAWSON store opens in Sakurazuka, Toyonaka, Osaka

1995

1996
LAWSON TICKET
sales start

1996
First overseas store
opens in Shanghai

1998
LAWSON obtains
ISO 14001, the
international standard
for environmental
management
systems

1998
All stores install
Loppi terminals

2000
LAWSON lists its
shares on the Tokyo
Stock Exchange and
the Osaka Securities
Exchange

2001
First NATURAL
LAWSON store opens

2002
Sales of *Onigiriya*
rice balls begin

2002
LAWSON Pass
services launch

2003
LAWSON ceases use
of artificial food
colorings and
preservatives

2003
All stores
introduce post
boxes

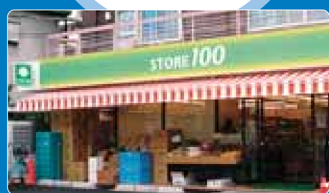
2004
Gohantei debuts

2004
The 8,000th
LAWSON store
opens

2005

2005
LAWSON
celebrates its 30th
anniversary

2005
First STORE*100*
store opens



The occasion of our 30th anniversary presented an opportunity to reexamine our mission. As a result of this, we established a new corporate philosophy. To realize the objectives in our new corporate philosophy, we have pledged to maintain the same, constant values throughout our organization while formulating a new Code of Conduct based on these values to direct our efforts in all actions we take.

Corporate Philosophy

"Happiness and Harmony in our Community"

Code of Conduct

Acting with utmost consideration for others

The key to realize the objectives in our corporate philosophy, "Happiness and Harmony in our Community," is to act with the utmost consideration for others. In our relationships with any of our stakeholders—customers, shareholders, franchise owners, store crew (part-time workers), fellow employees, as well as with society and the environment—we must consider how our actions can affect our stakeholders in the most positive way possible.

Challenging with innovative ideas and actions

As a leading innovator, we believe in finding new ways to make innovative ideas happen, not in making excuses for not trying. Even if ideas may not be realized, the experience gained is invaluable for future innovation.

Having a strong will to attain the objectives

Even if we act with the utmost consideration for others, create innovative ideas and take decisive action, we cannot realize the objectives in our corporate philosophy without a strong will to attain them. We pledge to remain focused and pursue our objectives with persistence and perseverance.

マチのほっとステーション
LAWSON

Embarking on Another Chapter in LAWSON History

A Message to LAWSON Stakeholders

Three years have passed since I assumed the position of president of LAWSON. In this time, I have recognized that the franchise business is difficult to manage. But I have also come to the firm conclusion that, while Japan may seem saturated with convenience stores, the convenience store industry still has room for growth if the right strategies are applied.

Under the LAWSON Challenge 2004 three-year business plan from fiscal 2002 through fiscal 2004, our efforts focused on disposing of unproductive assets, implementing structural reforms and building bonds of trust with franchise owners, our valued partners in business. Today, the seeds of these efforts have begun to sprout and will soon be ready to bloom throughout the LAWSON store network.

Takeshi Niinami

President and Chief Executive Officer

A New Beginning

In 2005, LAWSON celebrates its 30th anniversary. During our three decades in operation we have sought to provide consumers with ever-greater convenience, in line with our mission as a convenience store chain, while growing our business.

Guided by LAWSON Challenge 2004, a three-year business plan launched in fiscal 2002, ended February 28, 2003, we took decisive steps to dispose of unproductive assets, developed products tailored to meet consumers' needs, formed alliances with companies in other industries and launched new store formats. Our efforts were rewarded with enhanced customer satisfaction and improved financial results.

In light of increasingly diverse and complex customer needs, we have realized that the conventional convenience store business model is no longer adequate to ensure continued corporate growth. The factors behind changing consumer preferences are numerous, including demographic change due to persistently low birthrates and an increase in the number of elderly people, a greater number of women in the workforce, and increasingly varying consumer preferences in urban and rural areas. To address the needs of a new marketplace, thereby encouraging people to visit LAWSON stores, we must rethink our merchandising strategy, change our pricing policy and create brand-new store formats.

We will utilize the occasion of our 30th anniversary as an opportunity to turn a new leaf and evolve into a new and different company that transcends the traditional definition of a convenience store operator and better reflects our pursuit of innovation. To this end, Head Office will take the lead in determining effective store formats and product ranges for the customers in each location.

LAWSON has enjoyed tremendous customer support since its establishment, and we recognize this as one of our most precious assets. At the same time, we also recognize that we cannot be satisfied with the status quo. Sticking to old ideas will hold us back; only by seeking new ways to address challenges can we ensure future growth. Underscoring this conviction, in April 2005 we introduced our next medium-term business plan, LAWSON Challenge 2007, which marks the beginning of a new stage in our development.

A New Corporate Philosophy

The occasion of our 30th anniversary also presented an opportunity for all of us at LAWSON to reexamine our common *raison d'être*. As a result of this, we revamped our corporate philosophy. To realize the objectives implied in our new philosophy, we pledged to maintain the same, unchanging values regardless of changes in our operating environment, and established a new Code of Conduct that will direct our efforts to apply these values to everything we do.

■ Corporate Philosophy

Happiness and Harmony in our Community

■ Code of Conduct

Acting with utmost consideration for others

Challenging with innovative ideas and actions

Having a strong will to attain the objectives

"Our" in this new philosophy is the LAWSON family—franchise owners, crew (part-time workers) and employees. It is also each one of us, our families and friends, and of course our customers and business partners. In a greater sense, it also includes the global environment. While we realize that "Happiness and Harmony in our Community" might sound somewhat exalted, and while there may be a gap between what we are now and what we want to be, we intend to pursue this ultimate objective. In our efforts to implement the strategies of LAWSON Challenge 2007, as in all our corporate activities, we will be guided by our commitment to realizing this philosophy.

Key Themes of LAWSON Challenge 2007

LAWSON Challenge 2007 features four key themes, which will guide our efforts to achieve 10% growth in earnings per share (EPS) and return on equity (ROE) of 15%. These themes will also support our efforts to resolve the social and environmental issues associated with the conventional convenience store business model, an important prerequisite to fulfilling the objectives in our new corporate philosophy.

1. Innovation
2. Customer satisfaction and employee satisfaction
3. Improved productivity
4. Corporate social responsibility (CSR)

Innovation means our ability to embrace challenges and try innovative ideas and approaches.

LAWSON Challenge 2004 prompted innovation in product development, exemplified by such highly successful brands as the *Onigiriya* series of rice balls and the *Gohantei* series of boxed lunches. Through LAWSON Challenge 2007, we aim to extend the scope of innovation still further. We will develop new products with a focus on dietary health, freshness and pricing geared to ensure value for money, as well as new store formats and breakthrough technologies. These efforts will help attract the attention of women and the elderly—two key customer segments that the conventional convenience store format has failed to capture. We will also endeavor to address critical social problems associated with the conventional convenience store model, notably, issues arising from late-night convenience store operating hours and food waste.

Ensuring the satisfaction of our customers and our employees is another ongoing objective.

In today's changing environment, we must constantly ask ourselves what we can do to make customers happy they chose LAWSON. We are confident that as long as customers continue to appreciate our stores, we will continue to grow. This depends on our ability to learn from the past and embrace the challenges of redefining ourselves for the future. Accordingly, we have used our 30th anniversary as an opportunity to reevaluate the roles our stores play in the community. Going forward, we will continue to focus on innovation to ensure our ongoing relevance to our customers' lifestyles.

Improving productivity means employees concentrate on tasks that create value.

LAWSON's hourly productivity—that is, its gross profit per man hour—still has room to improve. We must focus on tasks that create greater value to achieve this objective. Toward this end, we will seek to standardize the tasks of our supervisors. We will also strive to enhance the efficiency of product development and merchandising by establishing and promoting projects that involve all sections of the company, transcending traditional boundaries.

CSR means that we proactively fulfill our social responsibilities—crucial to realizing our corporate philosophy of "Happiness and Harmony in our Community."

The success of our store operations is due to the support of customers, business partners and the people of the communities in which we operate. To "bring fresh ideas," we must carefully consider the needs of these various people and translate this consideration into action. If each LAWSON store strives to realize our corporate philosophy, people will be happy they have a LAWSON store in their neighborhood. This, in turn, will contribute to the success of LAWSON stores. There is an old Japanese saying—"For the seller, for the buyer, for the people"—that effectively sums up the idea that if the store, the customer and the community are satisfied, business will be successful. We are confident that by striving continuously to realize "Happiness and Harmony in our Community," and play a useful role in the lives of our customers, business partners and the communities in which we operate, we will fulfill our responsibilities to society and continue to grow.

LAWSON Challenge 2007

Reviewing the LAWSON Challenge 2004 Three-Year Business Plan

Establishing a foundation for stable growth over the medium to long term means taking action. Over the past three years, I have done so, working diligently to ensure that the structural reforms illustrated in the chart below were actually executed and not merely left as proposals on a desk gathering dust. Since becoming president of LAWSON, I have tirelessly explored the store network, visiting each location and promoting dialogue with franchise owners, our supervisors and other people working on the front lines.

To earn local trust and foster motivation among store crews, I implemented far-reaching structural reforms at Head Office and reviewed the systems that underpin product innovation, store development and store support.

These efforts revitalized employees' attitudes to their jobs and created an atmosphere bursting with the kind of innovative spirit that leads to new products and new store formats.

Stronger Product Development Capabilities

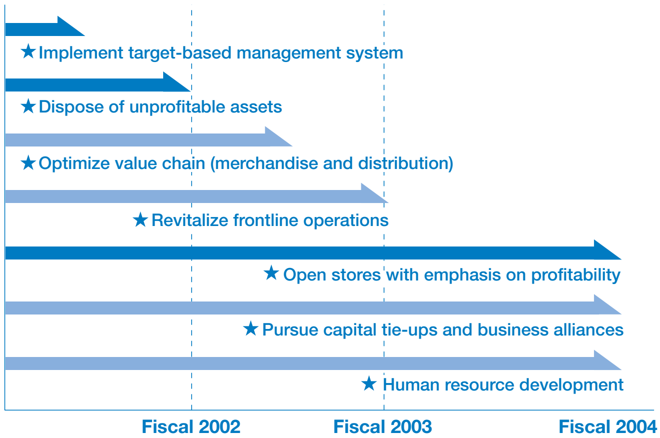
The debut of *Onigiriya*, a rice ball series made with top-quality ingredients and advanced production methods, generated considerable interest in the convenience store industry. LAWSON also attracted attention with *Gohantei*, a boxed-lunch series that, with all products priced at ¥500, reflects our one-coin price strategy. The series has enjoyed steady sales since its introduction, proof that customers appreciate *Gohantei*'s good value.

To support these new brands, we enhanced our supply chain, a two-year effort that included a realignment of our supplier network, to increase the efficiency of raw materials procurement.

Improved Store-Operating Skills

In March 2003, we introduced a regional headquarters system that not only prevents overemphasis on the standardization of chain store operations—a situation that can have a negative influence on business—but also fosters individual characteristics in each store matched

Achievements through LAWSON Challenge 2004



to its neighborhood. The system has expedited decision making at a level closer to and more in touch with customers and has afforded greater flexibility in cooperative efforts among store operating, store development and product divisions to reach overall objectives. As a result, LAWSON promotes "Happiness and Harmony in our Community," with stores and displays that match the individual characteristics of each location.

Enhanced Support Structure for Stores

The ongoing efforts represented by our Three Challenge Practices—a blueprint aimed at ensuring merchandise assortments tailored to individual stores, cleanliness and courteous service—are essential if stores are to strengthen their marketing capabilities. To ensure implementation of these practices,

in fiscal 2004 we initiated the "Mystery Shopper" program, whereby inspectors disguised as ordinary shoppers visit LAWSON stores and from a customer's perspective evaluate the locations on such points as quality, service and cleanliness. Based on these evaluations, stores found with issues are instructed to focus on improving quality, service and cleanliness levels using plans tailored to their particular problems. Inspections conducted since the beginning of fiscal 2005 have shown noticeable improvements in service and cleanliness evaluations.

To provide support for store franchise owners and crew—including part-timers and temporary employees—of stores that have room for improvement based on feedback from a Mystery Shopper inspection, we have established training centers in seven locations nationwide, thereby completing our structure for evaluating and improving store management and positioning us to ensure ever-higher levels of service quality.

Strategies of LAWSON Challenge 2007

Strategy 1

Improve Merchandise Assortment

A wide assortment of merchandise means customers always find what they are looking for at a LAWSON store. Stores must prioritize quality, which means the product line itself.

We believe the most important strategic achievement of LAWSON Challenge 2004 was the forging of stronger bonds of trust between franchise owners and LAWSON's Head Office. As a result, franchise owners are now more receptive to Head Office policies and our supervisors' advice, and address outstanding problems with renewed enthusiasm.

During LAWSON Challenge 2007, we will strive to increase customer satisfaction and, through this, expand franchise owners' profits with a nonstop focus on the attainment of ever-higher levels of quality, service and cleanliness.

Specifically, we will address problems identified through the Mystery Shopper program by endeavoring to improve the assortment of merchandise, thereby enhancing the operating efficiency of individual stores. We will also strive to minimize lost opportunities resulting from stores selling out of popular items by practicing order-and-verification processes to improve ordering precision.

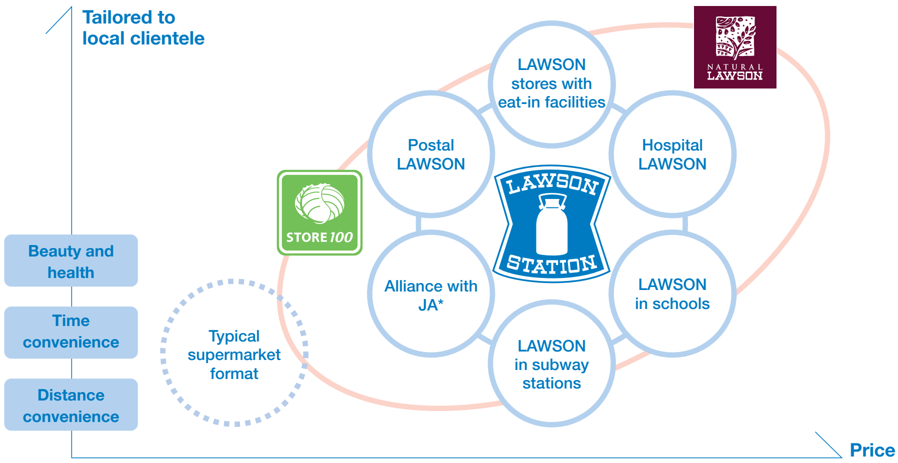
Strategy 2

Promote Three Formats

We offer three different store formats to respond to the increasingly diverse needs of Japanese customers.

One of the reasons that standard format LAWSON stores have become a favorite stop for customers over the past 30 years is that we always strive to enhance convenience. By offering convenience to customers with only a limited time to spend in our stores through extended

LAWSON's Three Store Formats



*JA: National Federation of Agricultural Cooperative Associations

LAWSON

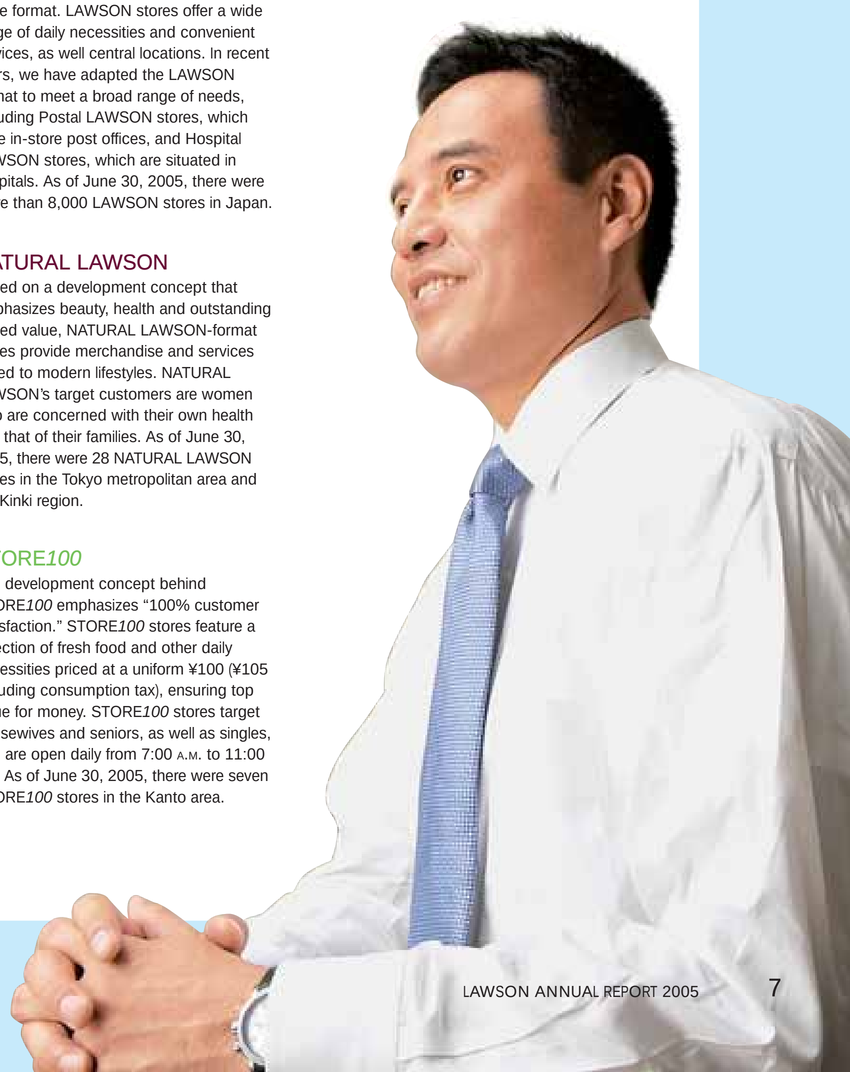
This is the regular LAWSON convenience store format. LAWSON stores offer a wide range of daily necessities and convenient services, as well central locations. In recent years, we have adapted the LAWSON format to meet a broad range of needs, including Postal LAWSON stores, which have in-store post offices, and Hospital LAWSON stores, which are situated in hospitals. As of June 30, 2005, there were more than 8,000 LAWSON stores in Japan.

NATURAL LAWSON

Based on a development concept that emphasizes beauty, health and outstanding added value, NATURAL LAWSON-format stores provide merchandise and services suited to modern lifestyles. NATURAL LAWSON's target customers are women who are concerned with their own health and that of their families. As of June 30, 2005, there were 28 NATURAL LAWSON stores in the Tokyo metropolitan area and the Kinki region.

STORE*100*

The development concept behind STORE*100* emphasizes "100% customer satisfaction." STORE*100* stores feature a selection of fresh food and other daily necessities priced at a uniform ¥100 (¥105 including consumption tax), ensuring top value for money. STORE*100* stores target housewives and seniors, as well as singles, and are open daily from 7:00 A.M. to 11:00 P.M. As of June 30, 2005, there were seven STORE*100* stores in the Kanto area.



operating hours and attractive, efficient displays of key products, we have been able to expand the chain to more than 8,000 stores.

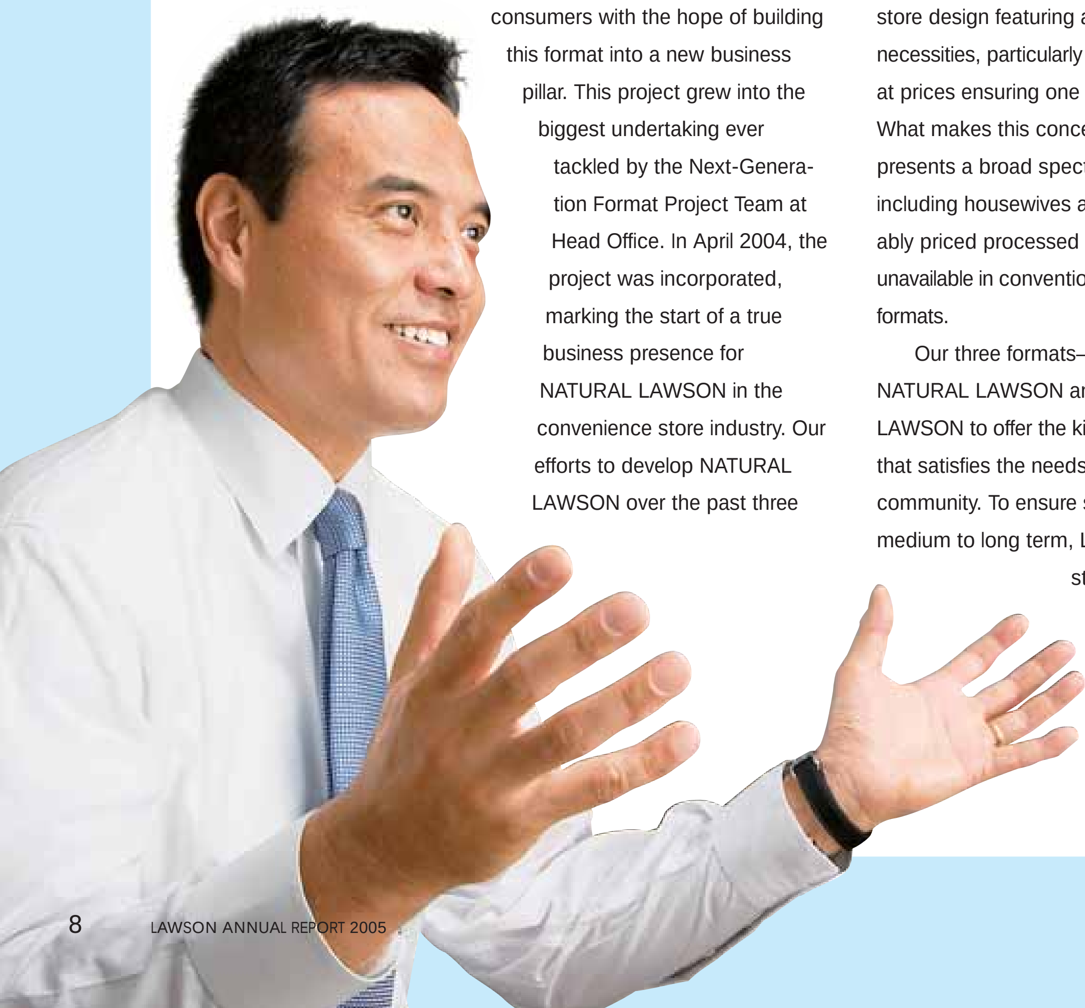
However, the needs of customers are evolving, largely because of a growing number of women in the workforce and changing lifestyle dynamics. Consequently, the products and underlying concept of the conventional convenience store format no longer adequately reflect prevailing market requirements. Accordingly, under LAWSON Challenge 2004 we began the adaptation of this format to the varied needs of modern customers. Adaptations include Postal LAWSON, a joint effort with Japan Post; kiosk-type stores in hospitals, appropriately named Hospital LAWSON; and regular locations with the added feature of corners where customers can eat freshly made *udon* (thick wheat flour noodles) and *soba* (thin buckwheat noodles) at their leisure.

Our second format, NATURAL LAWSON, was launched in July 2001 to capitalize on heightened health consciousness among consumers with the hope of building this format into a new business pillar. This project grew into the biggest undertaking ever tackled by the Next-Generation Format Project Team at Head Office. In April 2004, the project was incorporated, marking the start of a true business presence for NATURAL LAWSON in the convenience store industry. Our efforts to develop NATURAL LAWSON over the past three years have helped us gain invaluable expertise in merchandising practices that respond to the needs of women customers and have given us insight into the needs of customers concerned about healthy eating habits. With the knowledge base we have built, we will be able to accelerate the opening of NATURAL LAWSON stores in fiscal 2005.

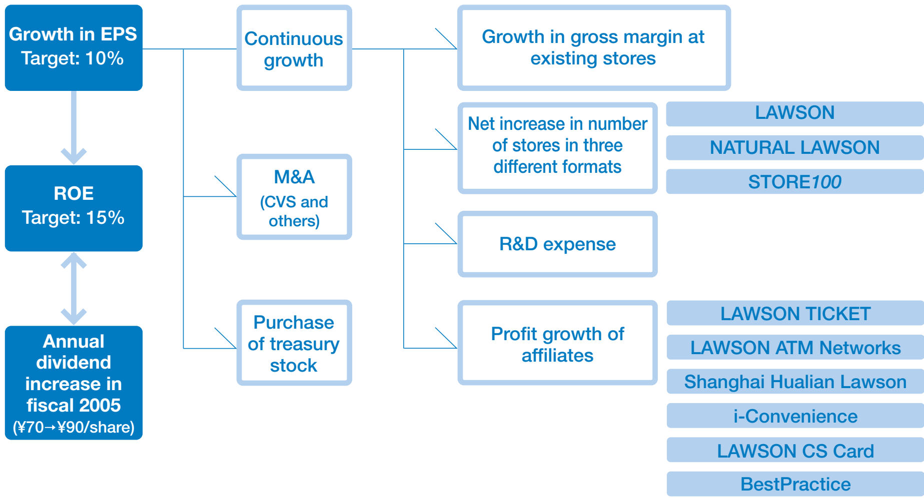
Initially, NATURAL LAWSON development efforts were focused on the Tokyo metropolitan area, but in March 2005 we began to open NATURAL LAWSON stores in the Kinki region, comprising Hyogo, Kyoto, Mie, Nara, Osaka, Shiga and Wakayama prefectures. Our goal is to promote NATURAL LAWSON in the Kanto, Kansai and Tokai regions—the three major industrial and commercial centers surrounding Tokyo, Osaka and Nagoya, respectively—and to establish between 300 and 500 stores in operation by fiscal 2007.

In May 2005, we introduced our third format, STORE*100*, a brand-new concept in convenience store design featuring a selection of daily necessities, particularly fresh fruits and vegetables, at prices ensuring one thing: value for money. What makes this concept so innovative is that it presents a broad spectrum of the public, including housewives and seniors, with reasonably priced processed foods and fresh foods unavailable in conventional convenience store formats.

Our three formats—regular LAWSON stores, NATURAL LAWSON and STORE*100*—will enable LAWSON to offer the kind of varied product lineup that satisfies the needs of all customers in the community. To ensure stable expansion over the medium to long term, LAWSON will take rapid strides forward in turning these formats into solid pillars of growth.



Growth through LAWSON Challenge 2007



Strategy 3

Three-Year Growth Outlook and Capital Policy

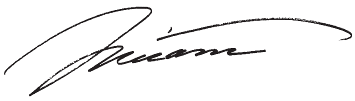
LAWSON's first priority is to realize higher profitability through increased earnings at more than 8,000 existing stores, which will be achieved through the joint efforts of our supervisors and franchise owners. With our three store formats firmly in place, enabling us to meet the needs of a broad spectrum of customers in the community, we will be positioned well to attract customers we could not reach through the conventional convenience store format. An increase in customers in theory means higher profits.

Supported by enhanced profitability and a wider customer base, we aim for stable, sustainable growth over the medium to long term. We have set specific targets as follows: an average of 10% EPS growth annually from fiscal 2005 to fiscal 2007, and ROE of 15% in fiscal 2007.

We will continue to focus on capital efficiency. In particular, we will pay close attention to cash flow trends, while placing a high priority on returns to shareholders through dividend payments and the purchase and retirement of treasury stock. In fiscal 2005, we intend to raise annual cash dividends to ¥90.00, from ¥70.00 per share in fiscal 2004. As a consequence, we expect a consolidated dividend payout ratio of approximately 43%.

We will use our 30th anniversary as a touchstone for transformation. We have already taken the first step toward becoming a new LAWSON, and we look forward to the continued encouragement of all stakeholders as we travel this road together.

July 2005



Takeshi Niinami
President and Chief Executive Officer

Corporate Governance

Basic Policy on Corporate Governance

LAWSON regards its stakeholders as important and strives to maximize corporate value. For this reason, it is vital that we enrich corporate governance efforts and enhance the soundness and transparency of management processes through compliance and proactive disclosure. A diagram illustrating the flow of activities for business execution and management supervision and showing the placement of internal control systems within the overall structure is on page 12.

Board of Directors, Executive Officer System and Compensation System

As of February 28, 2005, the Board of Directors comprised nine members, with a majority—five—from outside LAWSON. We believe external participation on the Board presents us with a wider range of insights and knowledge on significant issues pertaining to corporate management, particularly the formulation of Companywide management strategies, and reinforces the Board's ability to arrive at fair decisions.

At the Ordinary Annual General Meeting of Shareholders in May 2005, one external director and one internal director resigned and their positions were filled by two new external directors, Koichi Narita and Takehiko Kakiuchi. The new directors bring to the Board experience acquired in various areas of business, including finance, personnel and business reforms, at Mitsubishi Corporation, LAWSON's top shareholder and strategic business partner. We expect the counsel of both will be instrumental in raising the corporate value of LAWSON further and that their advice will prove effective in formulating forward-looking management plans.

Since fiscal 2002, we have maintained an executive officer system that separates the functions of management supervision and business execution.

Board of Directors (As of February 28, 2005)

(Left to right)
Eiichi Tanabe, Member of the Board and Senior Executive Vice President
Katsuhiko Yamasaki, Member of the Board and Executive Vice President
Reiko Okutani, Member of the Board
Hiroshi Mino, Member of the Board
Masaaki Kojima, Standing Corporate Auditor
Kenji Yamakawa, Standing Corporate Auditor
Tetsuo Ozawa, Corporate Auditor

As of May 31, 2005, LAWSON had 23 executive officers, of which one is also concurrently a director.

Determining compensation for directors is the responsibility of the Compensation Committee, which is made up entirely of external directors and auditors. Directors and executive officers are subject to an evaluation system whereby from approximately 30% to 40% of annual compensation is dependent upon business results. This system clarifies the relationship between individual roles and the value delivered through each role for LAWSON's stakeholders.

Audit Function

LAWSON maintains a corporate auditor system, and three of the four members of the Board of Corporate Auditors are from outside LAWSON. Corporate auditors assess the execution of duties by directors, a process that includes attending Board of Directors meetings and other significant discussions, offering fair opinions and statements on overall management as well as specific issues, and verifying legal status and the condition of internal controls. In principle, the Board of Corporate Auditors meets once a month.

LAWSON acknowledges the importance of CSR and respect for laws and regulations, and has established the Internal Audit Office as an internal auditing unit. Audits are performed continuously to ensure that operations are being executed properly, based on prevailing laws and regulations, and that these business activities, including risk management measures, are appropriate. To further reinforce our internal auditing function, we have assigned a director to oversee related efforts.

We have engaged Tohmatsu & Co. as our certified public accountant.

Active and Fair Disclosure

LAWSON recognizes our obligation to all stakeholders to accurately and fully explain our performance. Accordingly, we aim to ensure active disclosure. For

(Right to left)
Takeshi Niinami, President and CEO
Hiroshi Tasaka, Member of the Board
Koji Furukawa, Member of the Board
Teruo Aoki, Member of the Board
Muneaki Masuda, Member of the Board
Yoshiyuki Sanada, Corporate Auditor

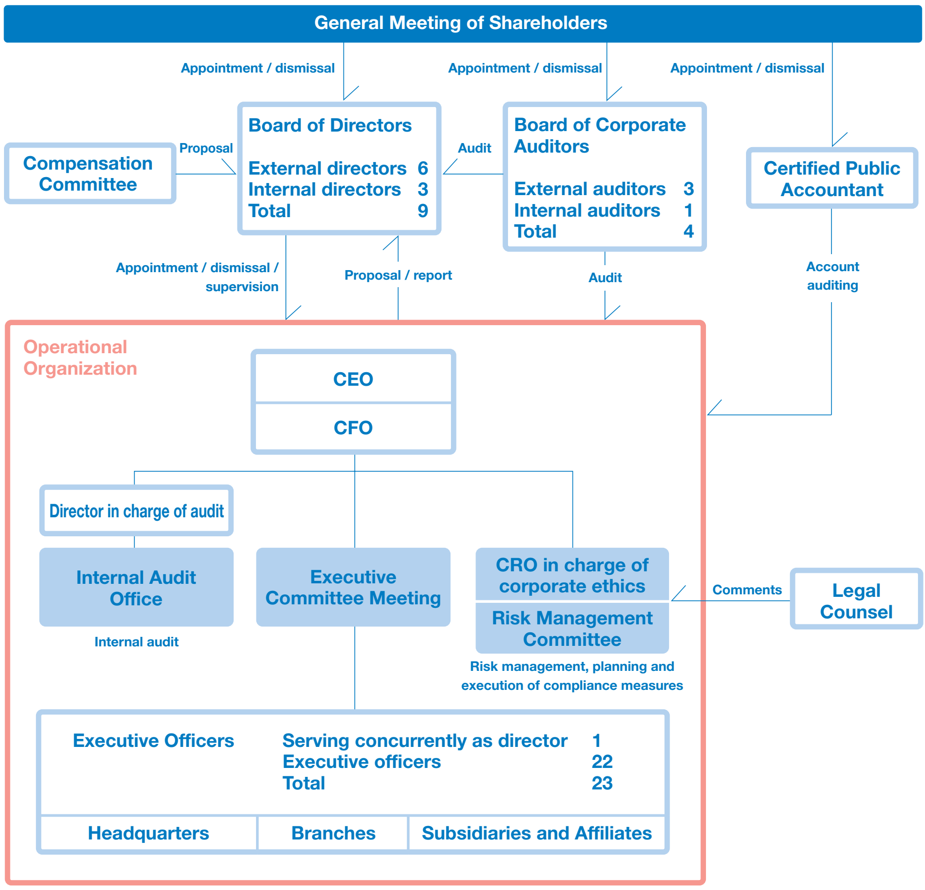
example, we make our monthly business reports and earnings presentation materials available on our web site immediately upon their release to the media. We also use video streaming to bring the Ordinary Annual General Meeting of Shareholders to people unable to attend the meeting in person. In addition, we have opened online access channels that enable stakeholders to contact us with questions. This effort includes the LAWSON Customer Center, which responds to inquiries from all parties.

Risk Management and Compliance Efforts

LAWSON values all stakeholders and believes it is important to enrich corporate governance efforts and enhance the soundness and transparency of management processes through proactive risk management and compliance practices. Accordingly, we have created a Risk Management Committee, which is charged with developing strategies for managing risk and enhancing compliance and overseeing their implementation.

We have concluded agreements with several law firms for legal advice on corporate management and day-to-day operations and maintain a standby system whereby we can obtain counsel whenever necessary to use as reference in forming management decisions.

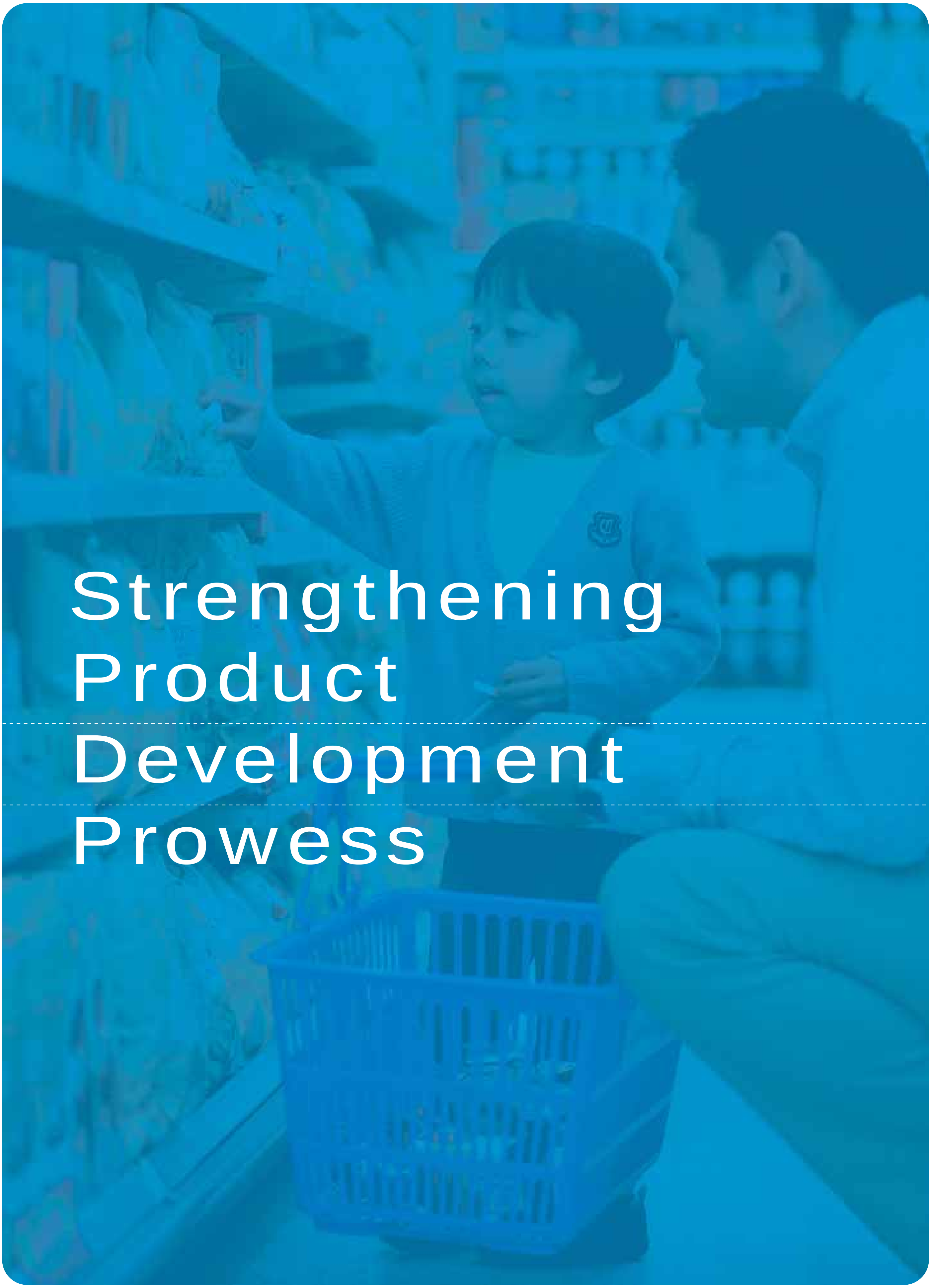
Corporate Governance System (As of June 1, 2005)



Adding Value to the LAWSON Brand

At LAWSON, our ultimate goal is always to ensure the satisfaction of our many stakeholders, from customers and shareholders to franchise owners, part-time store workers and LAWSON employees. To this end, we strive continuously to enhance the LAWSON brand by focusing on three themes. The first is strengthening product development prowess by using innovation to increase the competitiveness of our products. The second is improving store-operating skills by applying the Three Challenge Practices. The third is reinforcing store development capabilities by opening stores in locations that customers find convenient. These themes are described in detail on the following pages.

1. Strengthening Product Development Prowess… *Using innovation to increase the competitiveness of our products*
2. Improving Store-Operating Skills… *Applying the Three Challenge Practices*
3. Reinforcing Store Development Capabilities… *Opening stores in locations that are convenient for customers*



Strengthening Product Development Prowess

Strengthening Product Development Prowess ▶ ▶ ▶

The *Onigiriya* rice ball series contributed to a boom in sales of rice balls at convenience stores and spurred improvements in the quality of rice balls sold through convenience store chains. The success of *Onigiriya* also prompted us to launch a second rice-related project—*Gohantei*—a new series of boxed lunches in our mainstay rice dishes category introduced in November 2004. The series was launched with three varieties based on a concept described by two key words: “surprise” and “innovation.”

The surprise is that customers get an astonishingly delicious boxed lunch made with quality ingredients using quality processing techniques for a very reasonable ¥500. The innovation is that customers can eat the feature dish and rice separately, or empty the feature dish over the rice to create a *donburi*, a popular dish featuring a bowl of cooked rice with a topping. The concept was an immediate hit with customers, with sales reaching two million servings in the first two weeks after *Gotantei*’s debut. Since then, we have introduced two new additions to *Gohantei* every month, increasing sales volume and reinforcing customer recognition.

We will continue to develop appealing products incorporating the surprise and innovation concept, with a focus on ingredients, containers and eating options.

Enhancing product quality and marketing approaches

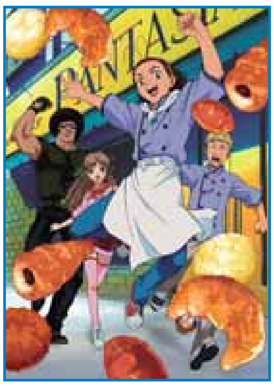
Vendors in the Tokyo metropolitan area and the Tokai and Kinki regions that produce rice dishes and delicatessen items for LAWSON are currently incorporating leading-edge food-processing equipment, such as steam convection ovens and blast chillers, into their operations. This investment by suppliers enables LAWSON to acquire products that have not typically been offered at convenience stores. Going forward, we will continue to capitalize on advances in food technology to raise the quality of boxed lunches, rice balls and other rice dishes.

On the marketing front, we are taking advantage of a variety of approaches, including tie-ups with various media. A particularly successful effort in fiscal 2004 involved a tie-up with *Yakitate!! Japan*, a popular animated series featuring a bakery, whereby we timed the debut of four bakery items that appear in this animated show to the day that the program first aired.

In comparison with products from specialty shops, boxed lunches and bakery items from convenience stores are often viewed as being unhealthy and of lower quality. Marketing activities aimed at eliminating this image will encourage people who have never visited a LAWSON store before to take that first step through the doors and come again as a repeat customer.

■ *Yakitate!! Japan*

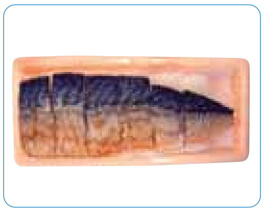
LAWSON developed and launched bakery items timed to coincide with the first day *Yakitate!! Japan*, an animated series about baking bread, aired on TV TOKYO in October 2004. This effort began with the idea of creating edible versions of bakery items that appeared in the popular *Yakitate!! Japan* manga and was realized with the assistance of d-rights, Inc., a subsidiary of Mitsubishi Corporation; Aniplex Inc., a Sony Group company; animation producer Sunrise Inc.; and Shogakukan Inc., publisher of the *Yakitate!! Japan manga*. Like all other Lawson products, the *Yakitate!! Japan* series was created based on the concept of “safe, healthy and tasty,” from the selection of ingredients through to development and production of products. We are currently planning similar tie-ups with animated television programs.



Ⓒ Hashiguchi Takashi / Shogakukan Inc., Pantasia, TV TOKYO

Gohantei series
Kani-don no Kurozuan (crab bowl with black vinegar sauce over steamed rice) is a healthy lunch option featuring a fluffy omelet made with crab, carrots and bamboo shoots served over rice that has been steamed with vegetables and topped with a rich black vinegar-based sauce.

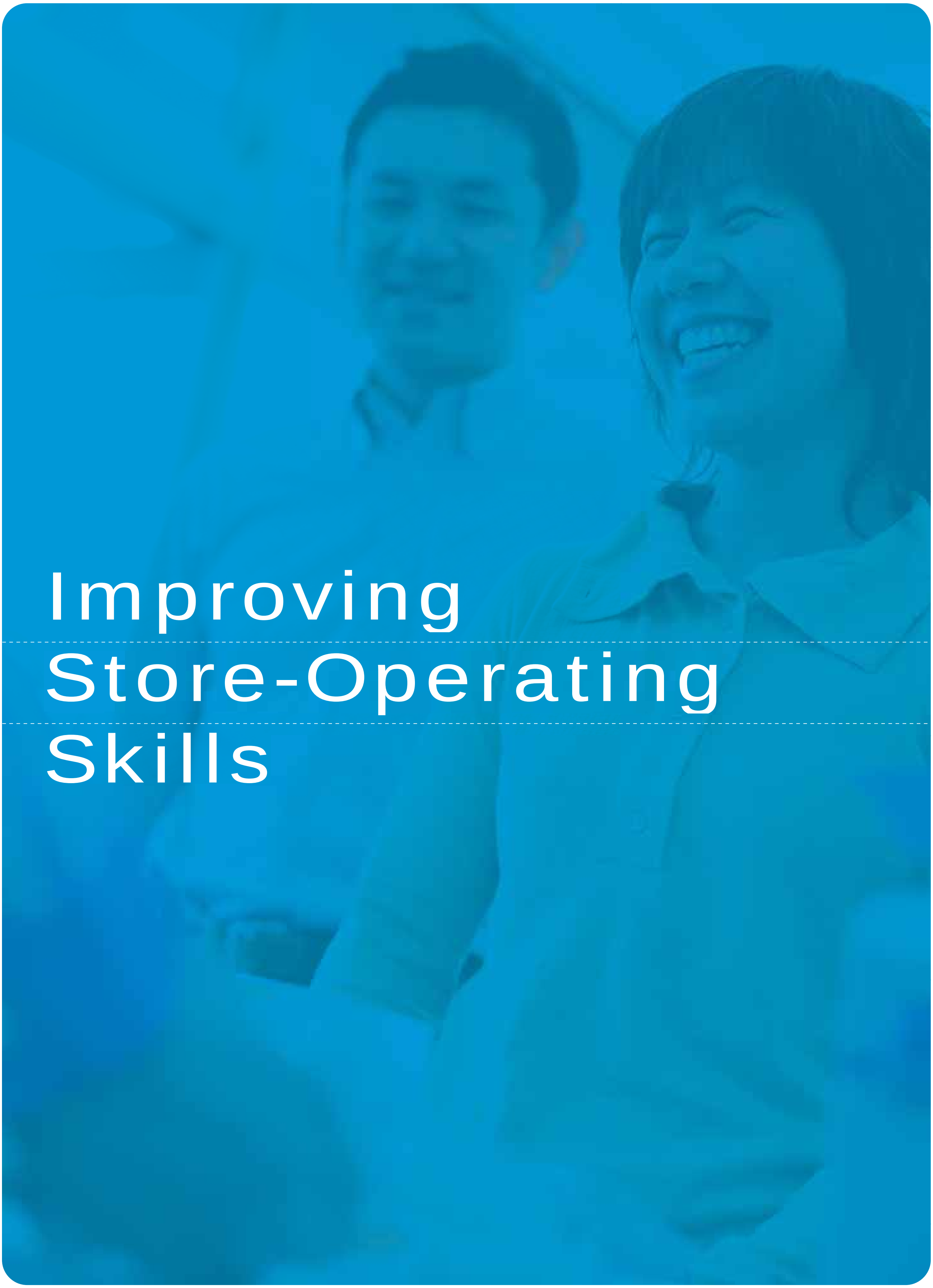
Aburi Chashu-don
Aburi Chashu-don (grilled roast pork bowl) features tender, succulent flame-grilled pork with a healthy complement of vegetables, including *takana* (leaf mustard), bok choy and bean sprouts, served over steamed barley rice.



Yakisaba Sushi
Grilled mackerel sushi from Wakasa, Fukui, an area noted for its fish. First launched as a special lunchbox for travelers at Tokyo’s Haneda Airport, *Yakisaba Sushi* was an immediate hit among LAWSON customers.

Melon Pan
One of several products offered in the *Totte Oki Sengen* series, a LAWSON original. LAWSON’s *Melon Pan* was developed to be crispy on the outside and moist on the inside and produced to maintain this texture as long as possible.

Improving Store-Operating Skills



Improving Store-Operating Skills ▶ ▶ ▶

Under LAWSON Challenge 2004, we promoted the basics of the convenience store business, which we call the Three Challenge Practices—ensuring merchandise assortments are tailored to individual stores, promoting cleanliness, and ensuring courteous service for our customers—throughout the LAWSON chain.

In 2003, we introduced seven regional headquarters to promote sales strategies matched to individual stores and geographical districts. It has been two years since we established this headquarters system across Japan, and we are beginning to see positive results.

In fiscal 2004, we strengthened the underlying foundation of store operations with programs designed to narrow any store-to-store discrepancies. The "Mystery Shopper" program is a prime example. Our supervisors share the results of mystery shopper visits with their respective franchise owners. By discussing issues to be addressed, franchise owners are alerted to problems and can formulate appropriate strategies for their particular store. This effort has led to noticeable improvements in levels of service and cleanliness.

We also established training centers at each of the seven regional headquarters to reinforce our district-oriented approach. These centers function as instruction facilities for store personnel, particularly the crew leaders and crew leader candidates who work on the front lines. We run a series of group sessions fine-tuned to the requirements of personnel at each level.

From fiscal 2005, we are focusing on redefining the responsibilities of supervisors, thereby encouraging greater communication between supervisors and franchise owners and reinforcing the role of supervisors in providing consulting services tailored to store needs. We are also stepping up efforts to match the previous period's service and cleanliness improvements with advances in merchandise assortment and availability—the "quality" factor. In particular, we are striving to minimize opportunities lost as a result of stores selling out of fast-moving items by practicing order-and-verification processes to improve ordering precision and product lineup, thereby enhancing customer satisfaction. A key strategy here is expansion of the mystery shopper program. In fiscal 2005, mystery shoppers are visiting all stores at least twice a year.

Customer relationship management (CRM), which hinges on LAWSON PASS cardholders, will give individual stores an effective means to hone a sharper competitive edge. An increase in LAWSON PASS membership has already generated year-on-year improvements in sales at existing stores, while franchise owners who have stepped up CRM efforts have seen profitability gains rise.

Lecture at LAWSON University
LAWSON University offers training for members of the LAWSON family (franchise owners, crews and employees) aimed at enhancing customer satisfaction. Training focuses on, among other things, customer satisfaction, leadership training and specific career-related skills.

Mystery Shopper

Through this program, a mystery shopper, who is unknown to the crew of the store being checked, objectively and quantitatively evaluates quality, service and cleanliness from a customer's perspective. The mystery shopper provides an unbiased assessment of real conditions in LAWSON stores, and the results are used to augment advice from supervisors, which is in itself a key element of convenience store operations.

Rival convenience stores in the same neighborhoods are also subject to mystery shopper visits so that the status of the LAWSON store can be compared against that of the other stores and results used to further improve our competitiveness.

Reinforcing Store Development Capabilities

Reinforcing Store Development Capabilities ▶ ▶ ▶

To date, LAWSON has pursued a store development strategy hinging on quality, that is, on situating stores in locations that are convenient from the customer's perspective. By adhering to Company-made standards, namely, "no good (NG) line" criteria, the grid point system, and return on investment (ROI), we raise the success rate on store development every year. In fiscal 2004, we emphasized store development, particularly in the Tokyo, Nagoya and Osaka areas, with a focus on quality and volume. We also relocated or closed stores with low daily sales and impaired profitability.

In regard to mergers and acquisitions, we acquired business rights to a portion of the convenience store chain of TOHOKU SPAR CO., LTD., in northeastern Japan. This acquisition has solidified our presence and improved our operating efficiency in the Tohoku region.

We also opened stores in markets previously unexplored. These included our first stores on the campuses of national universities—Kyoto University and the University of Tokyo—and the establishment of a jointly operated store, named the LAWSON Saga Kinryu store, through an alliance with Japan Agricultural Cooperative Saga City, a member of the National Federation of Agricultural Cooperative Associations.

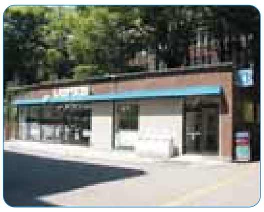
Thanks to ongoing efforts to emphasize the profitability of new stores, we achieved a 3% increase in average daily sales at new stores in fiscal 2004, notwithstanding a 5% decrease in related real estate costs. This achievement reflects an enhanced ability to meet the aforementioned Company-made standards.

Store development activities culminated in the establishment of 711 new stores and the closure of 455 stores, including those that were relocated, in Japan. This represented a net increase of 256 stores since fiscal 2003. We met our targets in terms of store numbers, and per-store profitability. As of February 28, 2005, the total number of stores was 8,077.

The success of new store openings is crucial to reaching the goals of LAWSON Challenge 2007, so we must focus on new store profits and enhance store development efforts.

First, we will apply a store development system introduced on a trial basis in the Kanto region to regional headquarters nationwide. Specifically, store development tasks previously delegated almost entirely to field counselors were divided into three categories—proposed site development, owner candidate development and sales forecasting—and allocated to three individuals. This distribution of responsibilities will lead to greater efficiency in store development activities and enhance the accuracy of decisions on location and possible alliances, thereby raising the success rate for store openings.

To determine a potential site for store development, we utilize a mapping information system and statistical data to expedite surveys of commercial districts surrounding areas where store openings are planned. With greater precision in site selection—a capability founded on our database of results—we raise the percentage of new stores in prime locations identified by the grid point system and, by observing NG line criteria, raise the percentage of new stores with higher daily sales.



LAWSON store at the University of Tokyo

LAWSON Saga Kinryu store

Corporate Social Responsibility

Three decades have passed since the first convenience store appeared in Japan. During this time, society has come to recognize the convenience store as a full-fledged industry. Consumers are aware of the role convenience stores play in society and the social responsibility that chain operators must bear. Convenience stores—including LAWSON—have generated new social issues. We acknowledge the additional obligation to respond proactively to these issues. Positive actions on the social front are ultimately tied to higher corporate value.

To reinforce our approach to CSR, we established the CSR Promotion Office under the direct control of the president in March 2005.

Environmental Protection Efforts

Convenience stores have has continuously sought to provide greater convenience to customers against a backdrop of increasingly diverse lifestyles. However, we realize that these efforts also have a negative side, notably, greater consumption of power and other resources, noise from nighttime delivery vehicles, and increased waste. In recent years, the industry has come under closer watch by the public for adverse environmental and social impacts. We have responded with a variety of measures.
To minimize power requirements, for example, we have replaced electrical systems and equipment with more environment-friendly alternatives and in many instances rethought operating hours.
To curb waste, we have reduced packaging for products delivered to stores and stepped up efforts to separate out recyclable packaging.

We have also sought to reduce food waste by reassessing production and processing practices, as well as adjusting distribution and sales methods. To this end, we have also reviewed our business model and developed innovative new models.

We are confident that ongoing efforts to address these crucial issues will help us realize the objectives implied in our new corporate philosophy: “Happiness and Harmony in our Community.”

Social Contribution Activities

LAWSON believes that a healthy environment can only be passed down to successive generations when business activities are pursued with the potential for environmental impact in mind. In line with this belief, we have contributed to the greenification movement through such means as the LAWSON Green Fund, a tree-planting project maintained since 1992. In November 2004, our efforts to prevent global warming through this fund were recognized with the Environment Minister’s Award. In April 2005, LAWSON became the first private company to receive the Green Culture Prize, presented by the National Land Afforestation Promotion Organization. As of February 28, 2005, nearly ¥1.8 billion has been donated through our Green Fund donation boxes.

LAWSON also takes an active role in times of disaster. Fiscal 2004 was characterized by numerous demonstrations of the awesome power of nature. We worked to get domestic stores in affected areas back into operation as quickly as possible and followed up with efforts to supply daily essentials to those in need. In addition, reaffirming our capacity to be a regional lifeline in times of disaster, we concluded agreements with the Tokyo Fire Department and municipalities to provide food and sundry items to people confronted by large-scale devastation or part of a widespread fire-fighting response.

In the event of a large-scale disaster, Green Fund donation boxes placed in LAWSON stores are temporarily converted into disaster relief boxes. Money donated by customers nationwide is directed toward the victims of disaster via the Japanese Red Cross Society and other relief agencies. During fiscal 2004, we undertook fund-raising campaigns for seven disaster relief projects in Japan and overseas, delivering a total of ¥262 million.

Greening Program in Aomori

LAWSON Green Fund donation box

Financial Section

Consolidated Five-Year Summary

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28 and 29

	Millions of Yen					Thousands of U.S. Dollars[3]
	2005	2004	2003	2002	2001	2005
For the year:						
Operating revenues						
Franchise commission from franchised stores	¥162,963	¥153,910	¥149,032	¥141,621	¥135,237	$1,555,881
Net sales from company-operated stores	63,802	67,479	80,954	101,353	132,921	609,146
Other	27,630	24,212	20,348	13,142	12,060	263,797
Total operating revenues	254,395	245,601	250,334	256,116	280,218	2,428,824
Operating income	42,941	38,087	34,107	36,363	41,279	409,977
Net income	20,435	18,571	8,861	16,123	16,368	195,102
Cash flows from operating activities	47,329	37,424	33,860	44,804	52,793	451,871
Cash flows from investing activities	(33,297)	(40,621)	(3,787)	(44,031)	(54,696)	(317,901)
Cash flows from financing activities	(13,836)	(14,364)	(7,247)	(58,236)	18,707	(132,098)
Capital expenditure	30,549	33,968	37,712	35,571	32,651	291,665
Depreciation and amortization[1]	19,641	18,499	16,071	16,328	16,021	187,521
At year-end:						
Total assets	¥356,310	¥ 354,831	¥342,599	¥342,934	¥387,236	$3,401,852
Total shareholders' equity	160,282	154,317	151,864	149,827	178,448	1,530,285
Interest-bearing debt	—	—	—	3,140	23,530	—
Ratio of interest-bearing debt (%)	—	—	—	0.9	6.1	—
Cash and cash equivalents	76,585	76,389	93,994	71,269	128,655	731,192
Total number of stores	8,077	7,967	7,721	7,824	7,749	
Number of employees (Full-time)	3,391	3,402	3,462	3,817	4,170	
	Yen					U.S. dollars
Per share data:						
Net income	¥198	¥176	¥82	¥146	¥148	$1.89
Cash dividends	70	41	41	41	35	0.67
Financial data:						
ROE	13.0%	12.1%	5.9%	9.8%	11.9%	
ROA	5.7%	5.3	2.6	4.4	4.5	
Net sales of all stores:						
Net sales by store category						
Franchised stores[2]	¥1,265,275	¥1,220,819	¥1,213,088	¥1,184,204	¥1,144,717	$12,080,151
Company-operated stores	63,802	67,479	80,954	101,353	132,921	609,146
Net sales by product category[2]						
Processed foods	665,687	625,031	600,508	583,712	562,777	6,355,614
Fast foods	297,369	302,568	303,098	297,030	362,979	2,839,116
Daily delivered foods	148,134	139,506	138,353	150,862	90,569	1,414,302
Non-food products	217,887	221,192	252,083	253,953	261,313	2,080,265
Net sales of all stores	¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	¥1,277,638	$12,689,297

Notes: 1. Including depreciation and amortization of intangible fixed assets.
2. These figures, as reported by franchised stores, are unaudited.
3. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2005, of ¥104.74=$1.

Management's Discussion and Analysis

■ Industry Overview

In the retail industry, realignment has accelerated in recent years amid lingering deflationary trends, as large chains absorb smaller chains, prominent foreign-owned companies establish a presence in Japan, and heightened competition transcends industry borders. But even while the retail industry is, on the whole, contracting, the scale of the convenience store (CVS) sector is expanding, albeit at a slower rate of growth than in the past.

For major CVS chains, large-scale restructuring efforts to eliminate unprofitable stores, such as those with low daily sales, are finally winding down and managements are turning their attention to relocating stores and formulating aggressive store development strategies to stay at the forefront.

As in other sectors of the retail industry, the CVS sector is dominated by an oligopoly of major chains, which account for an increasingly larger share of the market. Heightened competition from supermarkets with extended or round-the-clock operating hours and restaurants and take-out shops has exacerbated the challenges of an already difficult business environment.

Recent years have also seen rapid development of shops featuring specific lines of freshly prepared dishes for customers in small commercial districts. These shops are encroaching on the CVS domain. Additionally, in the area of products and services, the CVS sector must now vie for the attention of what has traditionally been a secure CVS customer segment—busy working men. If CVS operators yield territory in this limited, highly standardized market, the prospects for the sector are likely to grow even dimmer.

In this environment, LAWSON continues to enhance the loyalty of customers who regularly visit its blue-signed stores by ensuring that fast-moving items are always in stock. To attract the interest of people who do not usually choose the conventional convenience store, management is also establishing new store formats spotlighting products and services especially for health-conscious individuals, women and seniors. The Company also will focus on raising corporate profitability through a wider customer base, as well as expanding profits for franchise owners and boosting levels of customer satisfaction.

CVS Share of the Total Retail Market

Years ended December 31 (Billions of Yen)

	2004	2003	2002	2001	2000
Total retail industry annual sales	¥128,093	¥128,870	¥131,413	¥136,808	¥139,434
CVS sector annual sales	7,289	7,096	6,980	6,846	6,680
CVS share	5.7%	5.5%	5.3%	5.0%	4.8%

Source: "Survey of Commerce," Ministry of Economy, Trade and Industry.

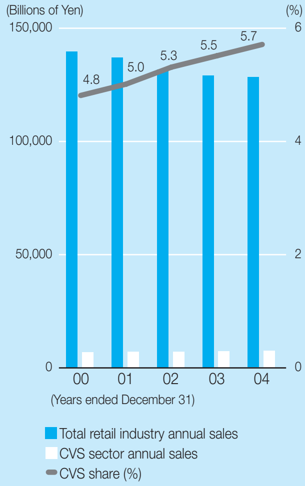
Share of CVS Market Held by Top Three Chains (Sales)

February 28 and 29 (Billions of Yen)

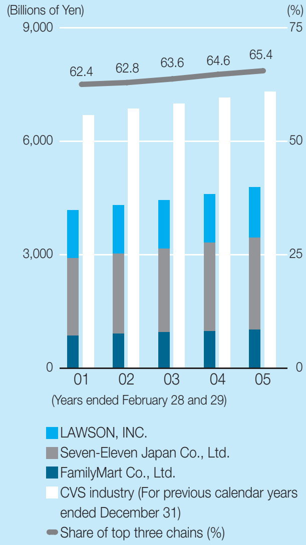
	2005	2004	2003	2002	2001
LAWSON, INC.	¥1,329	¥1,288	¥1,294	¥1,286	¥1,278
Seven-Eleven Japan Co., Ltd.	2,441	2,343	2,213	2,114	2,047
FamilyMart Co., Ltd.	998	954	932	899	843
Sales of top three companies	4,768	4,585	4,439	4,299	4,168
Share of top three companies	65.4%	64.6%	63.6%	62.8%	62.4%
CVS industry	7,289	7,096	6,980	6,846	6,680

Notes: 1. CVS industry figures are for previous calendar years ended December 31.
2. Sales and share of top three companies are for the years ended February 28 and 29.

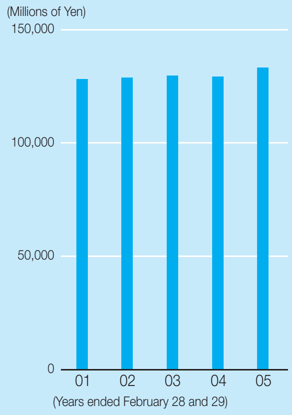
CVS Share of the Total Retail Market



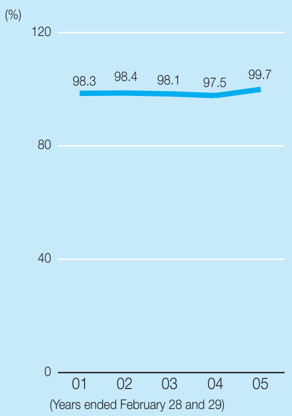
Share of CVS Market Held by Top Three Chains (Sales)



Aggregate Net Sales of Lawson Stores



Existing Store Sales



Store Operation Analysis

Total Net Sales

Aggregate net sales of LAWSON stores in fiscal 2004, ended February 28, 2005, climbed 3.2%, to ¥1,329,077 million. This result is largely attributable to three factors: an extraordinarily hot summer, which kept sales of beverages steady; greater interest in hot foods, which stores actively promoted to customers; and favorable sales of bakery items, reflecting the popularity of products linked to *Yakitate!! Japan*, an animated television program with a bakery theme.

By product category, sales of processed foods and daily delivered foods were up. Sales of fast foods were down, owing to slow demand for rice dishes in the first half of the fiscal year. Demand for non-food products was sluggish.

Existing Store Sales

Existing store sales fell for the seventh consecutive year, marking a steady downward trend since fiscal 1998. Consumers appeared more inclined to spend, but the upward trend did not transform into a full-fledged recovery in the CVS sector, primarily because of protracted deflation, the impact of heightened competition from the ready-made food and restaurant sectors on price and quality fronts, the start of extended operating hours and round-the-clock operations by supermarkets and other retailers, and a delayed rally in regional economies.

However, successful efforts to upgrade the operational infrastructure, with a focus on megavendors for production of mainstay rice dishes, as well as innovation-driven product development, typified by the *Onigiriya* rice ball and *Gohantei* boxed lunch series, precipitated signs of recovery in the rice dishes category in the second half of fiscal 2004.

Sales by Product Category

Sales of processed foods rose 6.5%, to ¥665,687 million, as sales of beverages received a particularly strong boost from hot summer weather. Sales of fast foods slipped 1.7%, to ¥297,369 million, as sluggish demand for rice dishes and cooked noodles overshadowed steady demand for hot foods. Sales of daily delivered foods climbed 6.2%, to ¥148,134 million, reflecting solid sales of bakery items, especially the two pastry series *Totte Oki Sengen* and *Komugibatake no Dengon*. Sales of non-food products edged down 1.5%, to ¥217,887 million, owing to lackluster sales of magazines and cosmetics.

Net Sales by Product Segment

Years ended February 28 and 29 (Millions of Yen)

	2005	2004	2003	2002	2001
Processed foods	¥ 665,687	¥ 625,031	¥ 600,508	¥ 583,712	¥ 562,777
Fast foods	297,369	302,568	303,098	297,030	362,979
Daily delivered foods	148,134	139,506	138,353	150,862	90,569
Total food sales	1,111,190	1,067,105	1,041,959	1,031,604	1,016,325
Non-food products	217,887	221,192	252,083	253,953	261,313
Net sales at all stores	¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	¥1,277,638

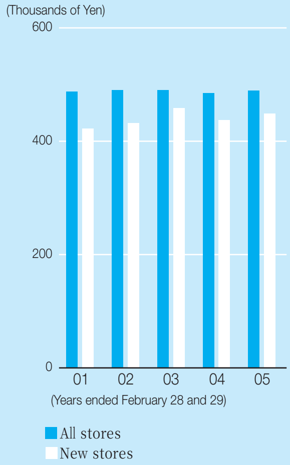
Breakdown of Net Sales by Product Segment

Years ended February 28 and 29 (%)

	2005	2004	2003	2002	2001
Processed foods	50.1%	48.5%	46.4%	45.4%	44.1%
Fast foods	22.4	23.5	23.4	23.1	28.4
Daily delivered foods	11.1	10.8	10.7	11.7	7.1
Total food sales	83.6	82.8	80.5	80.2	79.6
Non-food products	16.4	17.2	19.5	19.8	20.4
Net sales at all stores	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Effective from the fiscal year ended February 28, 2003, bakery items were reclassified from "fast foods" to "daily delivered foods," while some pickles and some delicatessen items were reclassified from "daily delivered foods" to "fast foods." Figures for the fiscal year ended February 28, 2002, were restated to conform to the fiscal year ended February 28, 2003, classifications to facilitate comparison.

Average Daily Sales



Gross Profit Margin by Product Segment

Years ended February 28 and 29 (%)

	2005	2004	2003	2002	2001
Fast foods	36.4%	35.6%	35.7%	33.7%	34.3%
Daily delivered foods	33.3%	32.5%	32.5%	35.0%	34.9%
Processed foods	26.7%	26.9%	27.3%	27.3%	27.2%
Non-food products	34.0%	33.4%	29.9%	30.5%	29.6%

Notes: 1. Gross profit in the non-food products segment includes commission income.
2. The processed foods category includes cigarettes.

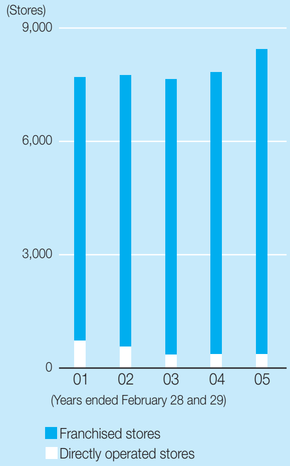
■ Store Network

In fiscal 2004, as in the previous fiscal year, LAWSON endeavored to raise new-store profitability, emphasizing a return on investment (ROI) based on store opening standards specific to each region. The Company also actively closed or relocated low-volume and unprofitable stores. Consequently, domestic store openings numbered 711 while store closings reached 455, including relocated stores. At February 28, 2005, LAWSON's domestic network comprised 8,077 stores, a net increase of 256 from a year earlier.

While this process did indeed lead to another year of net increase in the number of stores in its network, LAWSON intends to place greater importance on potential profitability rather than quantity in future store development activities. A perspective on store development in the year of opening that emphasizes quality should lead to higher sales from existing stores in the following year, and boost the ROI on the entire chain of LAWSON stores.

A noteworthy aside in store development is expansion of the chain by Shanghai Hualian Lawson Co., Ltd., an affiliate in the People's Republic of China accounted for under the equity method. The network in the Shanghai area grew by 64 locations, to 210 stores, bringing LAWSON's total network to 8,287 stores.

Number of Stores (Consolidated)



Number of Stores in the LAWSON Network

February 28 and 29

	2005	2004	2003	2002	2001
Number of stores	8,077	7,967	7,721	7,824	7,749
Openings	711	687	519	626	739
Closings	455	441	622	551	422
Net increase (decrease)	256	246	(103)	75	317

Note: Figures for Shanghai Hualian Lawson Co., Ltd., are not included in the figures for 2005, as the company became an equity-method affiliate in fiscal 2004.

Number of Stores by Contract Type

February 28 and 29

	2005		2004		2003		Net increase (decrease) (from 2004 to 2005)
	Number of stores	Share (%)	Number of stores	Share (%)	Number of stores	Share (%)	
FC-B	1,836	22.7	1,992	25.4	2,200	28.8	(156)
FC-G	2,335	28.9	2,415	30.9	2,446	32.1	(80)
FC-C	3,560	44.1	3,065	39.2	2,645	34.7	495
Franchised stores	7,731	95.7	7,472	95.5	7,291	95.6	259
Company-operated stores	346	4.3	349	4.5	334	4.4	(3)
Total	8,077	100.0%	7,821	100.0%	7,625	100.0%	256

Note: Figures for Shanghai Hualian Lawson Co., Ltd., are not included in the figures for 2005, as the company became an equity-method affiliate in fiscal 2004.

Outline of Store Contracts

Contract type	FC-G	FC-C	FC-B
Contract term	10 years from store opening day		
Contract store	Stores already opened or slated to open		Own property
Franchise fee	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000)		
Investment	¥1.5 million (Including payment for some merchandise purchased on behalf of the store)		
Store opening reserve fund	¥500,000 (Including float and application fee for license to operate)		
Guarantee deposit	Average monthly sales x 2 months	Not required	—
Franchisee income	Gross profit x 55%	Gross profit x 50%	Gross profit x 66%

■ Placement of ATMs in Stores

LAWSON and consolidated subsidiary LAWSON ATM Networks, Inc., marked the start of full-scale ATM services in October 2001 with the installation of automated teller machines (ATMs) in LAWSON stores. Since then, LAWSON has formed alliances with city banks, including all four of Japan's major financial groups, as well as prominent regional banks.

As of February 28, 2005, the Company had expanded ATM installation to stores in nine more prefectures, bringing to 26 the total number of prefectures where LAWSON customers have access to ATMs. The number of ATMs installed stood at 3,457 at the end of fiscal 2004. In another development, since March 2004 people with postal savings cards have been able to use any LAWSON store ATM.

New Format Stores

In February 2001, LAWSON launched a new format store called NATURAL LAWSON. To bring this format out of the research and development stage and into a full-scale multistore development, LAWSON turned this Head Office project into a consolidated subsidiary, NATURAL LAWSON, Inc., in April 2004.

During fiscal 2004, LAWSON promoted another project, Hospital LAWSON. There are currently 12 Hospital LAWSON stores in Japan. Anticipating new business opportunities arising from Japan's aging population, the Company plans to apply this promising business model more widely in the coming years.

Through alliances with other companies, LAWSON has entered market domains and geographical locations previously considered impossible. For example, the Company worked with Japan Post to create Postal LAWSON stores; allied with Tokyo Metro Co., Ltd., to open Metropia stores in subway concourses; set up a presence inside financial institutions in cooperation with banks, securities firms and other finance-related entities; and formed an alliance with Nippon Oil Corporation to establish stores at ENEOS gas stations.

LAWSON remains committed to the search for new store sites that underpin successful store development and capitalize on new business opportunities.

Scope of Consolidation

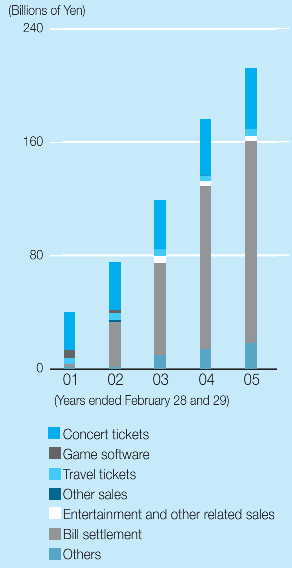
The consolidated results for fiscal 2004 include the performances of seven members of the LAWSON Group—five consolidated subsidiaries and two affiliates accounted for under the equity method—and the parent company. The LAWSON Group is involved in convenience store operations, ticket sales, e-commerce and financial and consulting services. The fiscal results of subsidiaries within the scope of consolidation are presented below.

Business Profiles

LAWSON TICKET Inc.

This consolidated subsidiary sells tickets to concerts, movies, sporting events and other entertainment productions, primarily through Loppi multimedia terminals at LAWSON stores.

Loppi (Multimedia Terminal) Transaction Volume



i-Convenience, Inc.
This consolidated subsidiary operates the official “iLAWSON” i-mode Internet site, including online merchandise sales and provision of related services and information.

LAWSON ATM Networks, Inc.
This consolidated subsidiary installs, maintains and operates jointly operated ATMs at LAWSON stores and outsources administrative tasks dealing with financial services, such as deposits, withdrawals and fund transfers, performed through these ATMs, for partner financial institutions.

NATURAL LAWSON, Inc.
In April 2004, subsidiary LAWSON e-Planning, Inc., was renamed and incorporated as NATURAL LAWSON, Inc. This consolidated subsidiary will promote a business format for NATURAL LAWSON stores that hinges on the concept of health and will assume authority from LAWSON regarding product planning and development and guidance to store owners.

BestPractice Inc.
This consolidated subsidiary implements “mystery shopper” on-site inspections of convenience stores to determine the status of operations and offers advice and proposals to improve LAWSON stores.

LAWSON CS Card, Inc.
This equity-method affiliate issues LAWSON PASS credit cards to LAWSON customers and provides card-based services through Loppi terminals and other channels. As of February 28, 2005, LAWSON PASS, for which services began in August 2002, had a cardholder base exceeding 1.8 million members.

Shanghai Hualian Lawson Co., Ltd.
This company, which became an equity-method affiliate in fiscal 2004, is involved in the development of a chain of LAWSON stores in Shanghai, the People’s Republic of China. The change from consolidated subsidiary to equity-method affiliate represents LAWSON’s agreement to foster growth through operation by local partners. Therefore, in May 2004 LAWSON relinquished 21.0% of its 70.0% equity interest in the company to partner Hualian Group Corporation, leaving the Company with a stake of 49.0%.

Operating Results of Principal Subsidiaries and Affiliates

Years ended February 28 and 29 (Millions of yen)

	LAWSON TICKET Inc.	LAWSON ATM Networks, Inc.	i-Convenience, Inc.	LAWSON CS Card, Inc.	Shanghai Hualian Lawson Co., Ltd.*
	Consolidated subsidiary	Consolidated subsidiary	Consolidated subsidiary	Equity-method affiliate	Equity-method affiliate
2005					
Operating revenues	¥6,288	¥10,003	¥307	¥4,260	¥3,659
Operating income (loss)	721	143	(113)	(1,229)	(13)
Net income (loss)	411	265	(155)	(1,218)	0
2004*					
Operating revenues	6,218	8,352	333	2,551	2,024
Operating income (loss)	644	(348)	(241)	(2,255)	(81)
Net income (loss)	387	(350)	(663)	(2,256)	(71)
2003					
Operating revenues	5,425	6,718	213	858	2,642
Operating income (loss)	788	(529)	(383)	(3,935)	(191)
Net income (loss)	387	(529)	(489)	(3,936)	(190)
2002					
Operating revenues	5,119	1,248	103	0	3,033
Operating income (loss)	508	(303)	(473)	(1)	(183)
Net income (loss)	275	(326)	(470)	(5)	(146)

*Since fiscal 2005, Shanghai Hualian Lawson Co., Ltd., has been accounted for using the equity method, and as a result is not included in fiscal 2005 figures.

■ Income and Expenses

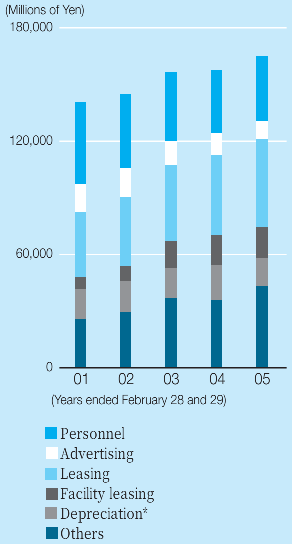
Total operating revenues edged up ¥8,794 million, or 3.6%, to ¥254,395 million. The improvement was largely the result of higher franchise commissions from franchised stores, paralleling a greater number of stores in operation, and higher ATM fees at subsidiary LAWSON ATM Networks.

Operating income rose ¥4,854 million, or 12.7%, to ¥42,941 million, thanks to the aforementioned ¥8,794 million increase in operating revenues, and to successful cost-cutting efforts, which held selling, general and administrative (SG&A) expenses to an increase of ¥7,179 million, or 4.6%. The primary components of SG&A expenses were ATM operating costs and store rents.

Despite a ¥2,182 million provision for the allowance for doubtful accounts, income before income taxes and minority interests rose ¥3,117 million, or 9.5%, to ¥36,040 million, owing to a ¥519 million decline in equity in losses of associated companies—in this case, LAWSON CS Card, Inc.

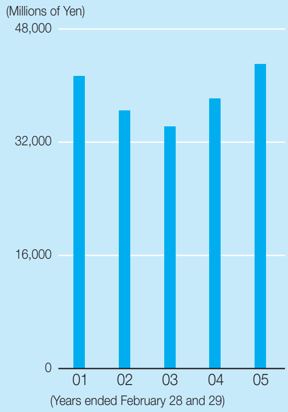
Net income settled at ¥20,435 million, an increase of ¥1,864 million, or 10.0%. Net income per share was ¥198, compared with ¥176 a year earlier.

Breakdown of Selling, General and Administrative Expenses

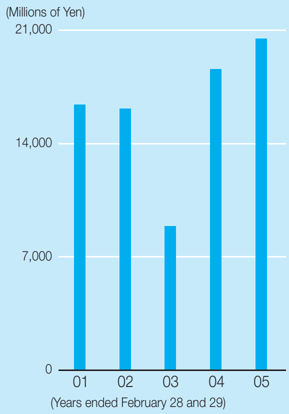


*Including depreciation and amortization of fixed assets.

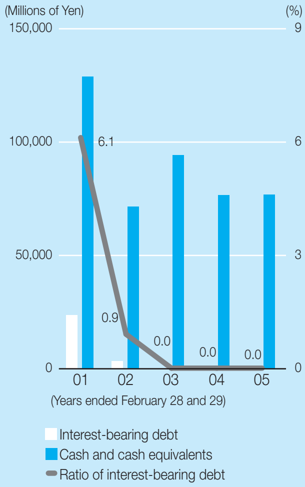
Operating Income



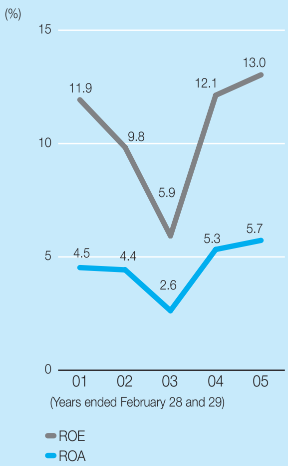
Net Income



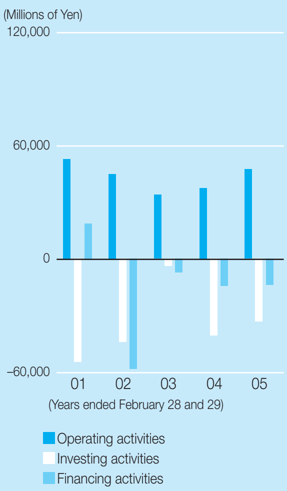
Interest-Bearing Debt, Cash and Cash Equivalents and Ratio of Interest-Bearing Debt



Return on Equity (ROE) and Return on Assets (ROA)



Cash Flows



Financial Position

Total current assets fell ¥9,069 million, or 6.6%, to ¥128,593 million. This decrease stems from an ¥8,296 million decline in accounts receivable—due from franchised stores, as fiscal 2004 ended on a weekday and fiscal 2003 ended on a Sunday.

Net property and store equipment rose ¥8,894 million, or 10.7%, to ¥92,166 million, chiefly owing to a ¥15,453 million increase in buildings, which reflected store development efforts.

Total current liabilities declined ¥4,667 million, or 3.3%, to ¥137,931 million. This change is attributable to the aforementioned fact that fiscal 2004 ended on a weekday, whereas fiscal 2003 ended on a Sunday. This situation occasioned a ¥2,581 million increase in accounts payable—due to franchised stores and a ¥3,475 million decrease in money held as agent.

Total long-term liabilities edged down ¥417 million, or 0.8%, to ¥54,607 million. The main reason for the drop was a ¥1,052 million decline in guarantee deposits received from franchised stores, corresponding to a decline in the number of franchised stores operating under franchise agreements requiring the payment of a guarantee deposit.

Shareholders' equity rose ¥5,965 million, or 3.9%, to ¥160,282 million. This change came about because net income of ¥20,435 million buoyed retained earnings and offset outlays of ¥5,775 million used to pay dividends and ¥8,798 million used to repurchase treasury stock. Consequently, the equity ratio was 45.0%, up 1.5 percentage points.

LAWSON's capital policy remains directed toward supporting stable growth and ensuring optimum capital efficiency, thereby facilitating returns to shareholders in the form of dividends and the purchase of treasury stock, as well as ensuring a balance between capital and depreciation.

Cash Flow Analysis

Net cash provided by operating activities totaled ¥47,329 million, ¥9,905 million higher than in fiscal 2003. The major components of this change were a ¥3,117 million increase in income before income taxes and minority interests, and decreases of ¥7,378 million and ¥1,047 million, respectively, in accounts receivable and guarantee deposits received from franchised stores, which countered a ¥2,940 million decrease in accounts payable.

Net cash used in investing activities amounted to ¥33,297 million, ¥7,324 million less than in the previous period. This change reflected the application of ¥26,710 million to purchases of property and store equipment, ¥2,878 million more than in fiscal 2003, which offset an increase of ¥11,074 million in proceeds from redemption of marketable securities.

As a result of changes in cash flows from operating and investing activities, free cash flow—the difference between the two net figures—rebounded to a positive ¥14,031 million, from a negative ¥3,197 million a year earlier.

Net cash used in financing activities amounted to ¥13,836 million, down slightly from ¥14,364 used the previous period. While cash dividends paid totaled ¥5,775 million, ¥1,395 million more than in fiscal 2003, cash applied to the purchase of treasury stock amounted to ¥8,798 million, down ¥2,751 million.

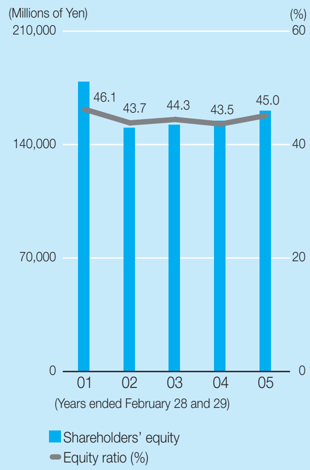
As a result of the Company's operating, investing and financing activities during the period, cash and cash equivalents, end of year, totaled ¥76,585 million, ¥196 million more than at the same point a year earlier.

Risk Factors in the Operating Environment

LAWSON's operating environment remains challenging, particularly because of increasingly fierce competition from businesses entering the CVS market from outside the sector over the past few years, a disparity between anticipated sales and actual results owing to unseasonal temperatures and climate changes, as well as pressure on the cost front from rising prices for food ingredients and packaging materials.

Persistent risk factors in the Company's operating environment include heightened competition in pricing, product quality and store development; competition from new market entrants from outside the traditional CVS sector; fluctuating sales due to inclement weather; and the volatility of prices for food ingredients and packaging materials. Furthermore, while revision of the Large-Scale Retail Store Location Law and deregulation, including permission to sell pharmaceutical products, should spur new business opportunities, the market is just as open to CVS operators as it is to companies outside the retail industry.

Shareholders' Equity and Equity Ratio



Consolidated Balance Sheets

LAWSON, INC. and Subsidiaries
February 28, 2005 and February 29, 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2005	2004	2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 76,585	¥ 76,389	$ 731,192
Marketable securities (Note 5)	8,019	9,244	76,561
Accounts receivable:			
Due from franchised stores (Notes 3 and 9)	10,332	18,628	98,644
Other	18,726	18,028	178,786
Allowance for doubtful accounts	(81)	(132)	(773)
Inventories	1,376	1,497	13,137
Short-term loan to associated company (Note 14)	5,000	6,250	47,737
Deferred tax assets (Note 12)	3,241	2,818	30,943
Prepaid expenses and other current assets	5,395	4,940	51,508
Total current assets	128,593	137,662	1,227,735
PROPERTY AND STORE EQUIPMENT (Note 4):			
Land (Note 6)	5,644	4,938	53,886
Buildings	115,265	99,812	1,100,487
Furniture, fixtures and equipment	58,124	57,437	554,936
Total	179,033	162,187	1,709,309
Accumulated depreciation	(86,867)	(78,915)	(829,359)
Net property and store equipment	92,166	83,272	879,950
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	1,173	1,064	11,199
Investments in associated company	728	651	6,951
Long-term loans receivable	16,809	13,109	160,483
Lease deposits (Note 7)	89,965	90,496	858,936
Deferred tax assets (Note 12)	8,291	6,804	79,158
Deferred tax assets for land revaluation (Note 6)	4,828	4,808	46,095
Software	12,307	14,216	117,500
Other assets	5,588	4,500	53,352
Allowance for doubtful accounts	(4,138)	(1,751)	(39,507)
Total investments and other assets	135,551	133,897	1,294,167
TOTAL	¥356,310	¥354,831	$3,401,852

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Note 8)	¥ 62,554	¥ 63,322	$ 597,231
Due to franchised stores (Note 9)	3,983	1,402	38,027
Other	14,017	19,318	133,827
Income taxes payable (Note 12)	11,718	10,009	111,877
Money held as agent	40,270	43,745	384,476
Accrued expenses and other current liabilities	5,389	4,802	51,451
Total current liabilities	137,931	142,598	1,316,889
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	1,807	1,144	17,252
Liability for directors' and corporate auditors' retirement benefits	305	218	2,912
Guarantee deposits received from franchised stores	51,522	52,574	491,904
Lease deposits from lessees	813	799	7,762
Other	160	289	1,527
Total long-term liabilities	54,607	55,024	521,357
MINORITY INTERESTS	3,490	2,892	33,321
CONTINGENT LIABILITIES (Note 15)			
SHAREHOLDERS' EQUITY (Notes 11 and 16):			
Common stock—authorized, 409,300,000 shares in 2005 and 412,300,000 shares in 2004; issued, 104,600,000 shares in 2005 and 107,600,000 shares in 2004	58,507	58,507	558,593
Capital surplus	41,523	41,521	396,439
Retained earnings	76,721	72,769	732,490
Land revaluation difference (Note 6)	(7,038)	(7,067)	(67,195)
Net unrealized gain on available-for-sale securities	110	53	1,050
Foreign currency translation adjustments	34	68	325
Treasury stock—at cost, 2,422,809 shares in 2005 and 3,283,384 shares in 2004	(9,575)	(11,534)	(91,417)
Total shareholders' equity	160,282	154,317	1,530,285
TOTAL	¥356,310	¥354,831	$3,401,852

Consolidated Statements of Income

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2005 and February 29, 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING REVENUES:			
Franchise commission from franchised stores	¥162,963	¥153,910	$1,555,881
Net sales from Company-operated stores	63,802	67,479	609,146
Other	27,630	24,212	263,797
Total	254,395	245,601	2,428,824
COST AND OPERATING EXPENSES:			
Cost of sales for Company-operated stores (Note 13)	46,819	50,058	447,002
Selling, general and administrative expenses (Notes 10 and 13)	164,635	157,456	1,571,845
Total	211,454	207,514	2,018,847
Operating income	42,941	38,087	409,977
OTHER INCOME (EXPENSES):			
Interest income—net	343	282	3,275
Loss on disposal of property and store equipment	(3,635)	(3,807)	(34,705)
Provision for allowance for doubtful accounts	(2,182)		(20,833)
Equity in losses of associated companies	(609)	(1,128)	(5,814)
Other—net	(818)	(511)	(7,810)
Other expenses—net	(6,901)	(5,164)	(65,887)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	36,040	32,923	344,090
INCOME TAXES (Note 12):			
Current	17,313	12,992	165,295
Deferred	(1,945)	1,725	(18,570)
Total	15,368	14,717	146,725
MINORITY INTERESTS IN NET INCOME	(237)	365	(2,263)
NET INCOME	¥ 20,435	¥ 18,571	$ 195,102

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.n and 16):			
Net income	¥198	¥176	$1.89
Cash dividends	70	41	0.67

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2005 and February 29, 2004

	Thousands of Shares/Millions of Yen								
	Common Stock							Treasury Stock	
	Shares	Amount	Capital Surplus	Retained Earnings	Land Revaluation Difference	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Shares	Amount
BALANCE, MARCH 1, 2003	107,600	¥58,507	¥41,520	¥58,608	¥(6,917)	¥ (2)	¥150		¥ (2)
Net income				18,571					
Year end cash dividends, ¥21 per share				(2,260)					
Interim cash dividends, ¥20 per share				(2,120)					
Reversal of land revaluation difference				(30)	30				
Change in effective tax rate					(180)				
Net increase in unrealized gain on available-for-sale securities						55			
Net decrease in foreign currency translation adjustments							(82)		
Treasury stock—at cost:									
Purchase of treasury stock								(3,288)	(11,549)
Exercise of stock options			1					5	17
BALANCE, FEBRUARY 29, 2004	107,600	58,507	41,521	72,769	(7,067)	53	68	(3,283)	(11,534)
Net income				20,435					
Year end cash dividends, ¥21 per share				(2,191)					
Interim cash dividends, ¥35 per share				(3,584)					
Reversal of land revaluation difference				(5)	5				
Change in effective tax rate					24				
Net increase in unrealized gain on available-for-sale securities						57			
Net decrease in foreign currency translation adjustments							(34)		
Treasury stock—at cost:									
Purchase of treasury stock								(2,155)	(8,798)
Retirement of treasury stock	(3,000)			(10,703)				3,000	10,703
Exercise of stock options			2					15	54
BALANCE, FEBRUARY 28, 2005	104,600	¥58,507	¥41,523	¥76,721	¥(7,038)	¥110	¥ 34	(2,423)	¥ (9,575)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, FEBRUARY 29, 2004	$558,593	$396,420	$694,758	$(67,472)	$ 506	$649	$(110,120)
Net income			195,102				
Year end cash dividends, $0.20 per share			(20,918)				
Interim cash dividends, $0.33 per share			(34,219)				
Reversal of land revaluation difference			(47)	47			
Change in effective tax rate				230			
Net increase in unrealized gain on available-for-sale securities					544		
Net decrease in foreign currency translation adjustments						(324)	
Treasury stock—at cost:							
Purchase of treasury stock							(83,998)
Retirement of treasury stock			(102,186)				102,186
Exercise of stock options		19					515
BALANCE, FEBRUARY 28, 2005	$558,593	$396,439	$732,490	$(67,195)	$1,050	$325	$ (91,417)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2005 and February 29, 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 36,040	¥ 32,923	$ 344,090
Adjustments for:			
Income taxes paid	(15,605)	(10,598)	(148,988)
Depreciation and amortization	19,641	18,499	187,521
Provision for allowance for doubtful accounts	2,342	362	22,360
Loss on disposal of property and store equipment	2,447	2,603	23,363
Equity in losses of associated companies	609	1,128	5,814
Other—net	1,556	215	14,857
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	7,378	(14,033)	70,441
Increase in prepaid expenses and other current assets	(473)	(440)	(4,516)
(Decrease) increase in accounts payable	(2,940)	77	(28,070)
(Decrease) increase in money held as agent	(3,476)	10,715	(33,187)
Increase in accrued expenses and other liabilities	267	236	2,549
Increase (decrease) in employees' and directors' and corporate auditors' retirement benefits	577	(2,647)	5,509
Decrease in guarantee deposits received from franchised stores	(1,047)	(1,633)	(9,996)
Increase in lease deposits from lessees	13	17	124
Total adjustments	11,289	4,501	107,781
Net cash provided by operating activities	47,329	37,424	451,871
INVESTING ACTIVITIES:			
Purchases of marketable securities	(34,319)	(28,270)	(327,659)
Proceeds from redemption of marketable securities	35,545	24,471	339,364
Purchases of property and store equipment	(26,710)	(23,832)	(255,012)
Decrease (increase) in lease deposits	623	(1,002)	5,948
Decrease (increase) in short-term loan	1,250	(6,250)	11,934
Payment for acquisition of goodwill	(1,685)		(16,087)
Other	(8,001)	(5,738)	(76,389)
Net cash used in investing activities	(33,297)	(40,621)	(317,901)
FINANCING ACTIVITIES:			
Cash dividends paid	(5,775)	(4,380)	(55,137)
New shares issued to a subsidiary's minority shareholders	681	1,547	6,502
Purchase of treasury stock	(8,798)	(11,549)	(83,998)
Other	56	18	535
Net cash used in financing activities	(13,836)	(14,364)	(132,098)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		(44)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	196	(17,605)	1,872
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	76,389	93,994	729,320
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 76,585	¥ 76,389	$ 731,192

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2005 and February 29, 2004

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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.

Certain reclassifications have been made in the 2004 financial statements to conform to the 2005 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which LAWSON, INC. (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 ¥104.74 to $1, the approximate rate of exchange at February 28, 2005. 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.

Mitsubishi Corporation ("Mitsubishi") owned 32,399 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2005, which represented 31.7% of the total voting rights of the Company. Accordingly, Mitsubishi is a principal shareholder.

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 associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period of 5 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 equal to twice of the average monthly sales amounts of the respective store 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 usually 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 for 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 hand, 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—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value based on market quotation. Unrealized gains and losses net of applicable taxes are reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

f. Property and Store Equipment—Property and store equipment are stated at cost except for land (see Note 6). 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 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures and equipment.

g. Software—Software used by the Companies is amortized using the straight-line method based on the estimated useful life (mainly 5 years).

h. Employees' Retirement Benefits—The Company and certain domestic subsidiary have defined benefit lump-sum severance indemnity plans which cover substantially all of their employees. The Company established a trust fund for its lump-sum severance indemnity plan.

The Companies account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

In addition to the lump-sum severance indemnity plan, the Company has a defined contribution plan for severance payments. The Company recognizes expenses in the period when the contribution was called for.

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 associated company denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of affiliated company denominated in foreign currencies are translated into yen at the current exchange rate.

n. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The number of shares used in computing net income per share was 102,962 thousand shares for 2005 and 105,651 thousand shares for 2004.

Diluted net income per share for the years ended February 28, 2005 and February 29, 2004, is not disclosed because the Company did not have stock options which would have resulted in a dilutive effect.

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 year.

o. New Accounting Pronouncements—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for the Company for fiscal years beginning on or after March 1, 2006, with early adoption permitted for fiscal years ending on or after February 28, 2005.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Companies expect to adopt these pronouncements as of March 1, 2005, and they are currently in the process of assessing the effect of adoption of these pronouncements.

3 Accounts Receivable—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 "Accounts receivable—due from franchised stores" account represents net amounts recoverable from the franchised stores.

4 Property and Store Equipment

Property and store equipment as of February 28, 2005 and February 29, 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Used by franchised stores:			
Land	¥ 1,347	¥ 1,092	$ 12,861
Buildings	104,908	89,946	1,001,604
Furniture, fixture and equipment	49,563	48,340	473,200
Total	155,818	139,378	1,487,665
Accumulated depreciation	75,888	67,366	724,538
Net	79,930	72,012	763,127
Used by Company-operated stores and other:			
Land	4,297	3,846	41,025
Buildings	10,357	9,866	98,883
Furniture, fixture and equipment	8,561	9,097	81,736
Total	23,215	22,809	221,644
Accumulated depreciation	10,979	11,549	104,821
Net	12,236	11,260	116,823
Net property and store equipment—total	¥ 92,166	¥ 83,272	$ 879,950

5 Marketable and Investment Securities

Marketable and investment securities as of February 28, 2005 and February 29, 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Current—Bonds	¥8,019	¥9,244	$76,561
Non-current—Marketable and other equity securities	1,173	1,064	11,199

The costs and aggregate fair values of marketable and investment securities at February 28, 2005 and February 29, 2004, were as follows:

	Millions of Yen			
February 28, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	¥8,019		¥2	¥8,017
Available-for-sale—equity securities	947	¥188	2	1,133

	Millions of Yen			
February 29, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	¥9,244		¥1	¥9,243
Available-for-sale—equity securities	935	¥91	2	1,024

February 28, 2005	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	$76,561		$19	$76,542
Available-for-sale—equity securities	9,041	$1,795	19	10,817

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2005 and February 29, 2004, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale—Equity securities	¥40	¥40	$382

Proceeds from sales of available-for-sale securities for the years ended February 28, 2005 and February 29, 2004, were ¥216 million ($2,062 thousand) and ¥3 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥0 million ($0 thousand) and ¥14 million ($134 thousand), respectively, for the year ended February 28, 2005, and ¥2 million and ¥0 million, respectively, for the year ended February 29, 2004.

6 Land Revaluation

Under the "Law of Land Revaluation," promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company chose a one-time revaluation of its own-use land to a value based on real estate appraisal information as of February 28, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,481 million ($14,140 thousand).

7 Lease Deposits

Under certain circumstances, the Company leases land and/or buildings, as a lessee, for its offices and Company-operated 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 as of February 28, 2005 and February 29, 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Lease deposits for franchised stores	¥74,354	¥74,436	$709,891
Lease deposits for Company-operated stores and other	15,611	16,060	149,045
Total	¥89,965	¥90,496	$858,936

8 Accounts Payable—Trade

The balances of “Accounts payable—trade” 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 3).

Accounts payable—trade as of February 28, 2005 and February 29, 2004, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Accounts payable—trade for franchised stores	¥59,457	¥59,548	$567,663
Accounts payable—trade for Company-operated stores	3,097	3,774	29,568
Total	¥62,554	¥63,322	$597,231

9 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 3.

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.”

10 Employees’ Retirement Benefits

The Company and certain domestic subsidiary have each of defined benefit lump-sum severance indemnity plan.

Under the plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay, years of service and certain other factors at the time of termination. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiary. 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.

The funded status of these plans as of February 28, 2005 and February 29, 2004, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 9,898	¥ 7,247	$ 94,501
Fair value of plan assets	(5,536)	(5,523)	(52,855)
Unrecognized prior service cost	(1,582)		(15,104)
Unrecognized actuarial loss	(973)	(580)	(9,290)
Net liability	¥ 1,807	¥ 1,144	$ 17,252

The components of net periodic benefit costs for the years ended February 28, 2005 and February 29, 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 659	¥ 870	$ 6,292
Interest cost	175	126	1,671
Amortization of prior service cost	176		1,680
Recognized actuarial loss	72	71	687
Contribution to defined contribution plan	245	205	2,339
Net periodic benefit costs	¥1,327	¥1,272	$12,669

Assumptions used for the years ended February 28, 2005 and February 29, 2004, were as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0%	0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

11 Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥63,127 million ($602,702 thousand) as of February 28, 2005, based on the amount recorded in the Company's general books of account.

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

Stock Option

The Company has stock option plans. The stock option plans which were approved at the general shareholders' meetings provide options for purchases of the Company's common stock for the directors, executive officers and key employees of the Company.

The following tables summarize information about option activity under the plans:

					Thousands of Shares				
Date of Grant	Exercise Price		Exercisable Period	Number of Options Granted		Exercised 2004	Exercised 2005	Canceled or Expired	Outstanding at February 28, 2005
May 26, 2000	¥7,500	$71.61	From May 27, 2002 to May 25, 2007	The Company's directors and key employees	1,773			684	1,089
May 29, 2002	3,600	35.13	From December 1, 2002 to May 31, 2007	The Company's directors, executive officers and key employees	313	5	15	100	193
May 27, 2003	3,517	33.58	From July 3, 2005 to July 2, 2008	The Company's directors and executive officers	92				92
May 28, 2004	4,320	41.24	From June 10, 2006 to June 9, 2009	The Company's directors and executive officers	99				99

12 Income Taxes

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for both 2005 and 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2005 and February 29, 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Marketable securities	¥ 310	¥ 543	$ 2,960
Accrued enterprise tax	1,117	936	10,665
Accrued employees' bonuses	1,249	1,005	11,925
Excess of depreciation	2,298	1,868	21,940
Excess of amortization of software	975	1,059	9,309
Employees' retirement benefits	2,709	2,210	25,864
Allowance for doubtful accounts	1,654	720	15,791
Tax loss carryforward	1,108	1,516	10,579
Other	1,186	1,329	11,322
Less valuation allowance	(998)	(1,528)	(9,528)
Total	11,608	9,658	110,827
Deferred tax liabilities—Unrealized gain on available-for-sale securities	76	36	726
Total	76	36	726
Net deferred tax assets	¥11,532	¥9,622	$110,101

As of February 28, 2005, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,723 million ($25,998 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 66	$ 630
2007	612	5,843
2010	1,004	9,586
2011	754	7,199
2012 and thereafter	287	2,740
Total	¥2,723	$25,998

13 Leases

The Companies lease certain store facilities, machinery, computer equipment, office space and other assets.

Total lease payments under finance leases for the years ended February 28, 2005 and February 29, 2004, were ¥16,133 million ($154,029 thousand) and ¥15,133 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, 2005 and February 29, 2004, was as follows:

Leased to franchised stores:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Furniture, fixtures and equipment:			
Acquisition cost	¥67,597	¥63,748	$645,379
Accumulated depreciation	33,019	25,654	315,247
Net leased property	¥34,578	¥38,094	$330,132

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥11,445	¥10,825	$109,271
Due after one year	23,992	28,036	229,062
Total	¥35,437	¥38,861	$338,333

Used by Company-operated stores and other:

	Millions of Yen				Thousands of U.S. Dollars		
	2005			2004	2005		
	Furniture, Fixtures and Equipment	Software	Total	Machinery and Equipment	Furniture, Fixtures and Equipment	Software	Total
Acquisition cost	¥16,604	¥782	¥17,386	¥14,468	$158,526	$7,466	$165,992
Accumulated depreciation	7,987	39	8,026	5,056	76,256	372	76,628
Net leased property	¥ 8,617	¥743	¥ 9,360	¥ 9,412	$ 82,270	$7,094	$ 89,364

Obligation under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥3,461	¥2,838	$33,044
Due after one year	6,114	6,670	58,373
Total	¥9,575	¥9,508	$91,417

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 ¥15,181 million ($144,940 thousand) and ¥14,186 million for the years ended February 28, 2005 and February 29, 2004, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥1,063 million ($10,149 thousand) and ¥1,160 million for the years ended February 28, 2005 and February 29, 2004, respectively.

The minimum rental commitments under noncancelable operating leases at February 28, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Due within one year	¥ 733	$ 6,998
Due after one year	5,723	54,640
Total	¥6,456	$61,638

14 Related Party Transactions

Balances to LAWSON CS Card, Inc. (an associated company) as of February 28, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Short-term loan receivable	¥5,000	$47,737
Guarantee for bank loans	6,050	57,762
The amount accepted for the additional shares issued on capital	250	2,387

Mitsubishi became a direct principal shareholder when it purchased all shares in the Company held by its wholly owned subsidiary in December 2004.

Since then, Mitsubishi has been treated as an affiliated company of the Company. Therefore, the Company discloses transactions with subsidiaries of Mitsubishi, since December 2004, including those transactions related to the franchised stores.

Balances and transactions with subsidiaries of the principal shareholder as of and for the year ended February 28, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
RYOSHOKU LIMITED:		
Accounts payable—trade	¥ 5,242	$ 50,048
Purchases	16,135	154,048
Food Service Network Co., Ltd.:		
Accounts payable—trade	15,238	145,484
Purchases	47,489	453,399

15 Contingent Liabilities

As of February 28, 2005, the Company guaranteed an associated company's bank loan in the amount of ¥6,050 million ($57,762 thousand).

16 Subsequent Events

a. The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 27, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥35 ($0.33) per share	¥3,576	$34,142

b. At the general shareholders' meeting held on May 27, 2005, the Company's shareholders approved the stock option plan for the Company's directors and executive officers. The plan provides for granting options to directors and executive officers to purchase within upper limit of 120 thousand shares of the Company's common stock in the period from May 27, 2006 to December 31, 2009.

c. In addition to b. above, at the general shareholders' meeting held on May 27, 2005, the Company's shareholders approved the stock option plan as compensation for the Company's directors.

The Company intends to abolish the conventional retirement benefit system for directors but instead allocate stock-compensation-type stock options without charge.

The plan provides for granting options to directors to purchase within upper limit of 25 thousand shares of the Company's common stock in the period from May 27, 2005 to May 31, 2025.

Independent Auditors' Report

Deloitte.

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To the Board of Directors of LAWSON, INC.:

We have audited the accompanying consolidated balance sheets of LAWSON, INC. and subsidiaries as of February 28, 2005 and February 29, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LAWSON, INC. and subsidiaries as of February 28, 2005 and February 29, 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits 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. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 27, 2005

Directors, Corporate Auditors and Executive Officers (As of June 1, 2005)

President and CEO	Takeshi Niinami	
Member of the Board and Senior Executive Vice President	Eiichi Tanabe	Chief Financial Officer (CFO); in charge of Corporate Planning Office
Member of the Board and Executive Vice President	Katsuhiko Yamasaki	Chief Risk Management Officer (CRO); in charge of Corporate Ethics; in charge of General Affairs; in charge of Internal Audit
Members of the Board	Hiroshi Tasaka	Professor, Graduate School of Tama University
	Reiko Okutani	President, The R Co., Ltd.
	Muneaki Masuda	President and Representative Director, Culture Convenience Club Co., Ltd.
	Koji Furukawa	Senior Adviser to the President, Mitsubishi Corporation
	Koichi Narita	General Manager, Group CEO Office, Living Essentials Group, Mitsubishi Corporation
	Takehiko Kakiuchi	General Manager, Planning & Coordination, Investment Administration & Credit Living Essentials Group CEO Office, Mitsubishi Corporation
Standing Corporate Auditor (External)	Masaaki Kojima	
Standing Corporate Auditor	Kenji Yamakawa	
Corporate Auditors (External)	Tetsuo Ozawa	Lawyer
	Hiroshi Kuwata	Manager, Investment Administration Team, Controller's Office, Mitsubishi Corporation
Executive Vice Presidents	Susumu Hasegawa	Chief Information Officer (CIO); General Manager, Information Systems Office
	Taketoshi Kunisaki	In charge of Integration Office, General Manager, Marketing Division; Productivity Enhancement Project Team
	Hiromichi Ogawa	General Manager, Merchandizing & Logistics Division
Senior Vice Presidents	Ichiro Okuda	General Manager, Kinki LAWSON Branch
	Takatoshi Kawamura	General Manager, Next-Generation Business Development Division
	Konoshin Deguchi	General Manager, Store Development Planning Division
Senior Vice Presidents	Isamu Ochiai	President, BestPractice Inc.
	Yoshio Shinozaki	General Manager, CSR Promotion Office
	Kiyoteru Suzuki	Postal LAWSON Project Team
	Sadayuki Nobayashi	General Manager, Kyushu LAWSON Branch
	Manabu Asano	General Manager, Chubu LAWSON Branch
	Jyosuke Kishimoto	President, LAWSON ATM Networks, Inc.
	Katsuyuki Imada	General Manager, Corporate Planning Office
	Kenji Morimoto	General Manager, Finance & Accounting Office; General Manager, Management Services Office
	Itsuo Iga	General Manager, Quality Control Division
	Takaki Mizuno	General Manager, Productivity Enhancement Project Team
	Hisashi Yasuhira	General Manager, Hokkaido LAWSON Branch
	Masatoshi Okada	President & CEO, NATURAL LAWSON, INC.
	Shigeaki Kawahara	Executive Assistant to CEO
	Tadanao Watanabe	Deputy General Manager, Operations Integration Office
	Yukimasa Shimohata	Deputy General Manager, Merchandizing & Logistics Division; CEO, Value LAWSON Co., Ltd.
	Satoshi Matsubara	Deputy General Manager, Merchandizing & Logistics Division

Corporate Data (As of February 28, 2005)

English Company Name
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East Tower, Gate City Osaki,
11-2, Osaki 1-chome, Shinagawa-ku,
Tokyo 141-8643, Japan

Osaka Headquarters:
9-1, Toyotsu-cho, Suita-shi,
Osaka 564-0051, Japan

Number of Employees
3,391 (Consolidated) (As of February 28, 2005)

Business Activities
Development of LAWSON convenience store franchise chain

Net Sales of All Stores
¥1,329.1 billion (Consolidated) (Fiscal 2004)

Number of Stores
8,077 (Consolidated) (As of February 28, 2005)

Operating Area
All 47 prefectures in Japan; Shanghai, PRC (Joint Venture)

Established
April 15, 1975

Capital
¥58,506,644,000

Authorized Shares
409,300,000

Shares Issued
104,600,000

Shareholders
43,636

Major Shareholders

Shareholder	Number of Shares Held	Percentage of Total Shares Held
1. Mitsubishi Corporation	32,089,300	31.4
2. Japan Trustee Services Bank, Ltd. (Trust Account)	6,550,000	6.4
3. Marubeni Foods Investment Co., Ltd.	5,939,500	5.8
4. State Street Bank and Trust Company 505103	4,066,423	4.0
5. The Master Trust Bank of Japan, Ltd. (Trust Account)	3,470,800	3.4
6. Nintendo Co., Ltd.	3,447,000	3.4
7. NOMURA SECURITIES CO., LTD.	1,998,500	2.0
8. Mellon Bank N.A., as Agent for its Client Mellon Omnibus US Pension	1,706,586	1.7
9. Mitsui Asset Trust and Banking Company, Limited	1,494,800	1.5
10. Mellon Bank Treaty Clients Omnibus	1,293,792	1.3

Note: The 2,422,809 shares of treasury stock held by LAWSON are not included in the above table.

Stock Exchange Listings
Tokyo Stock Exchange (1st Section)
Osaka Securities Exchange (1st Section)

Stock Transfer Agent
The Mitsubishi Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Note: Effective October 1, 2005, The Mitsubishi Trust and Banking Corporation will merge with UFJ Trust Bank Limited.

LAWSON, INC.
Corporate Communications Office,
East Tower, Gate City Osaki
11-2, Osaki 1-chome, Shinagawa-ku,
Tokyo 141-8643, Japan
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