LAWSON

Annual Report 2009

Year ended February 28, 2009

WE HAVE THE ANSWERS

CONTENTS

Forward-looking Statements Regarding Forecasts and Figures

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.

In September 2008, LAWSON made Ninety-nine Plus Inc. and its subsidiaries consolidated subsidiaries. Accordingly, LAWSON booked equity-method earnings in this company in the fiscal year ended February 28, 2009 for the six months through the end of the company's second quarter because Ninety-nine Plus has a March 31 fiscal year-end. Ninety-nine Plus' earnings were completely consolidated for its third quarter.

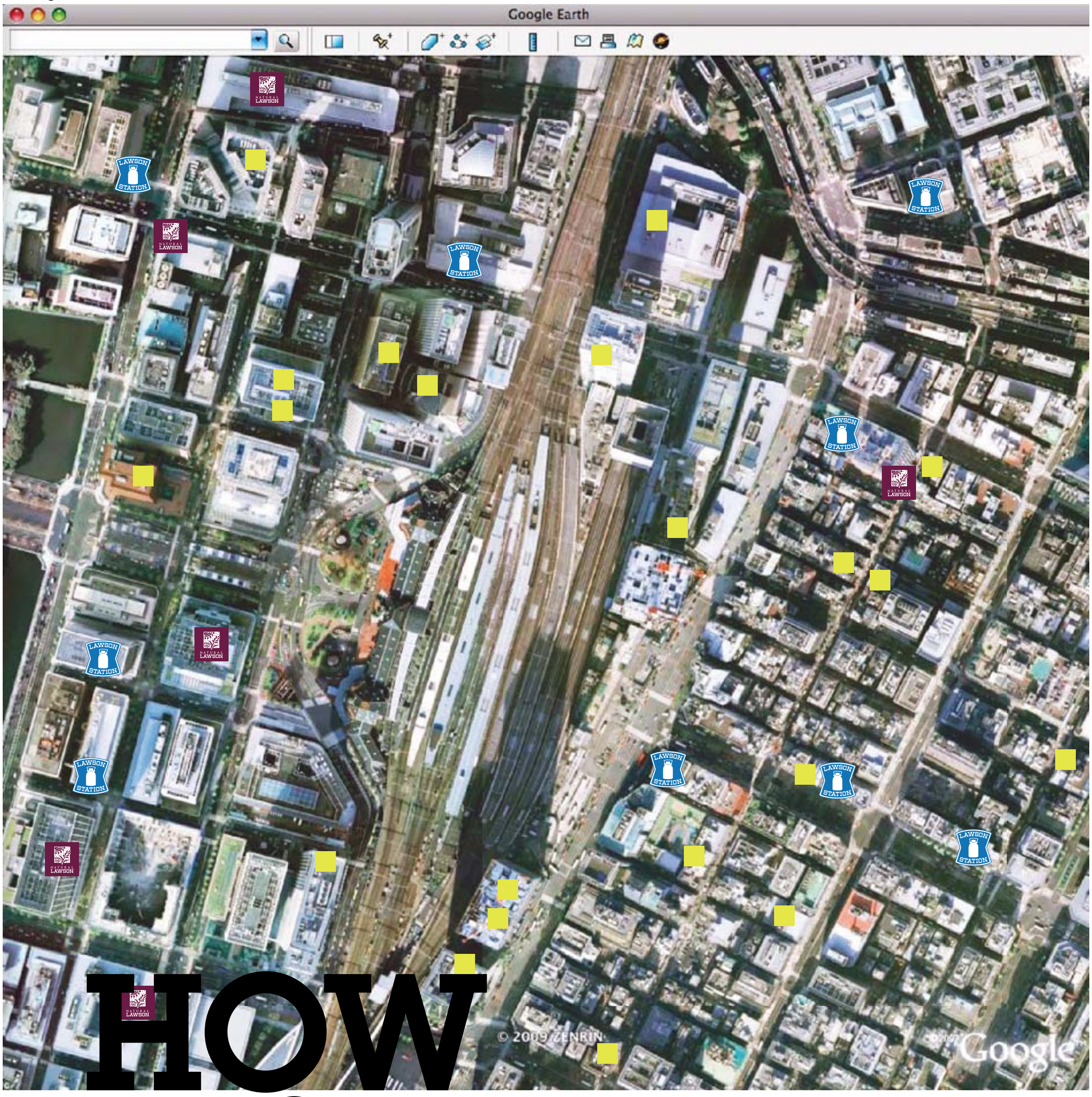
Figures in this annual report are rounded to the nearest unit.

Investors frequently ask us if the Japanese CVS market has become saturated, or if there is no more room for expansion within Japan. However, we feel there is still plenty of room for growth.

The key is expanding the customer base.

When it comes to saturation in the CVS industry in Japan, even as Japan's demographics are changing, due to an aging population and declining birth rate, we believe that the conventional CVS format—mainly targeting men in their 20s and 30s—is approaching saturation due to homogeneous competition. Accordingly, we believe that there is ample room for growth even in Japan by creating store formats and merchandise assortments that are attractive to non-traditional customers such as seniors and women. We are pursuing a business strategy that has innovation as its core tenet to realize sustainable growth over the medium to longer term.

WE HAVE THE ANSWERS



Stores of other chains

HOW HAS THE CVS INDUSTRY GROWN?

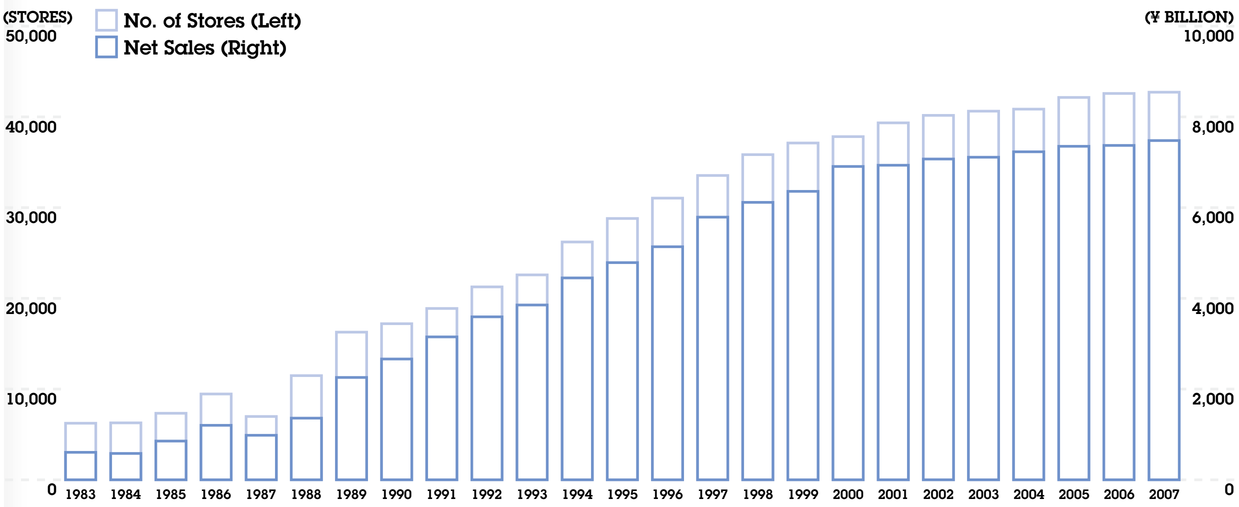
A Japanese convenience store typically serves a commercial area of about 2-3,000 persons. By taking advantage of this small size, operators have developed close relationships with local communities and this has helped the industry grow.

Up to now, convenience stores have offered customers "time convenience." The industry has been able to produce growth that far outpaces other business models by putting together a portfolio of ready-made meals such as boxed lunches and rice balls, and processed foods centered on new products in order to address the needs of hardworking customers in their 20s and 30s.

Roughly 3,000 items are arrayed in compact stores that have only about 30 *tsubo* (1,070 square feet) of sales space, and each day about 8 million customers visit LAWSON stores throughout the chain. We database the purchasing histories of our customers to make ordering more precise, and this allows us to create merchandise assortments that suit the needs of the customers in a particular commercial area. This expertise in narrowing down the products in a store's selection while avoiding stockouts is one of the defining strengths of Japan's convenience stores.

Besides just selling products, convenience stores have also come to address other customer needs by adding new services such as accepting utility and other payments, providing parcel delivery services, and handling entertainment tickets. But in a country where the population is aging like Japan, seniors who represent a new clientele for convenience stores have a growing need for distance convenience and the convenience of products packaged in smaller, appropriately sized portions, so stores will be asked to meet these needs in the future.

CONVENIENCE STORE NUMBERS AND NET SALES



Source: Japan Franchise Association

We have grown thanks to our business model, under which we outsource store operation after providing franchise owners with the store brand and store operating expertise.

WHY HAS LAWSON GROWN?

Most franchise owners are people with a strong entrepreneurial drive who have a wealth of life experiences, and who have run one-man businesses like liquor stores or who used to be company employees. Along with seizing the opportunity to become independent by running their own businesses, these people take advantage of their experiences in the wider world in hiring and training store employees and in managing labor. In this way, we have been able to sharply reduce both the time and cost needed for training store employees when compared with directly operated businesses in which stores are run by regular full-time employees.

Our solid chain-store infrastructure is built upon a distribution network that provides for the smooth transmission of information between stores and corporate headquarters and the smooth exchange of order data with our vendors, allowing the frequent and accurate delivery of products to take place with optimal efficiency. We have made massive investments in information technology systems at our headquarters in order to support this system.

In the short span of just about 35 years the number of stores has grown sharply, and by taking advantage of economies of scale we have been able to improve purchasing terms. Furthermore, by accumulating and sharing expertise in store operation and product development we have been able to create merchandise assortments that address our customers' needs, make ordering more precise, and treat our customers with courtesy. Finally, by entrusting store operation, including the management of store employees (including part-timers) to franchise owners based on our equitable franchise contract relationship with them, we have grown in a short amount of time.

FRANCHISE SYSTEM

- Leveraged economies of scale created by franchising stores to reduce costs
- The more franchised stores, the more money and information headquarters gathers, enabling it to provide know-how and customer-centric products to franchised stores

WHAT WILL IT TAKE TO GROW FURTHER?

We believe that there is room to grow in the Japanese CVS market if we create store formats and merchandise assortments that suit customers and expand our customer base to include seniors and women.

To address Japan's changing demographics, LAWSON took the lead over its rivals in developing new store formats such as NATURAL LAWSON, that caters to health conscious customers, and LAWSON STORE100, that caters to the needs of housewives and seniors by offering fresh items.

We see women and health conscious consumers as the main customer base for our NATURAL LAWSON stores, so we are developing and offering products that emphasize health and beauty. At the same time, we see housewives and seniors as mainstays of our LAWSON STORE100 chain, so these stores are selling products in smaller, more appropriately sized portions at the easily recognizable price of ¥105 (tax included). These stores carry more fresh items and daily delivered foods than conventional convenience stores and we are also focusing our efforts on developing products under our *Value Line* private brand label.

Not only will we be able to respond flexibly to changing demographics by having other store formats besides the regular LAWSON format, we will also be able to develop products that address the specific needs of customers living in a particular commercial area. We believe that competition in the retail industry, including convenience stores and supermarkets, will intensify in the future. Nevertheless, we believe that there is ample room for growth by taking advantage of the distance convenience that we provide to win new customers. We will continue working to maximize profits by selecting the right store format for a community and by offering convenience to our customers on various levels.

LAWSON STORE FORMATS

	Regular LAWSON	NATURAL LAWSON	LAWSON STORE100/ SHOP99	LAWSON PLUS
Launch of format	April 1975	July 2001	May 2005/Jan. 2001	Fiscal 2007
Target customers	Mainly young men in their 20s and 30s	Enhanced merchandise assortments for working women in their 20s and 30s and health-conscious customers	Enhanced product lineup (fresh foods and daily delivered foods) for housewives, middle-aged and senior customers	Introduction of products to expand the customer base matched to the main customer segments and distinctive features of the commercial area
Percentage of female customers (estimate)	Approx. 30%	Approx. 45%	Approx. 40%	–
Area targeted for store openings	Nationwide	Office and residential districts in major metropolitan areas	Residential districts and areas in front of stations in large urban areas	Large cities as well as urban and residential districts in regional areas
Number of items handled	Approx. 2,800	Approx. 2,500	Approx. 4,500	–
Ratio of common products with regular LAWSON	–	Approx. 60%	Approx. 10%	–
Total number of stores (February 28, 2009)	8,509	93	925	747

CONSOLIDATED FINANCIAL HIGHLIGHTS

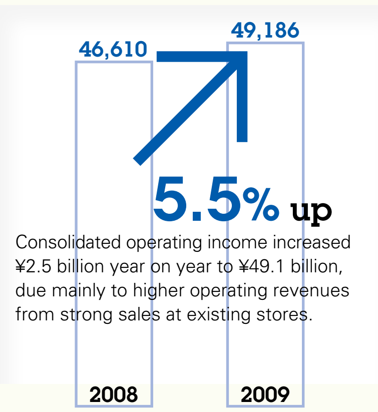
LAWSON, INC. and Subsidiaries
Years Ended February 28, 2009, February 29, 2008 and February 28, 2007

	Millions of Yen 2009	2008	2007	Percent Change 2009/2008	Thousands of U.S. Dollars* 2009
For the Year:					
Net sales of all stores	**¥1,558,781**	¥1,415,106	¥1,386,630	10.2%	**$15,936,827**
Total operating revenues	**349,476**	301,177	283,053	16.0%	**3,573,009**
Operating income	**49,186**	46,610	44,513	5.5%	**502,873**
Income before income taxes and minority interests	**42,207**	38,135	36,848	10.7%	**431,520**
Net income	**25,306**	22,119	20,983	14.4%	**258,726**
Per Share Data (yen and dollars):					
Net income	**¥ 255**	¥ 215	¥ 202	18.9%	**$ 2.61**
Cash dividends	**160**	110	100	45.5%	**1.64**
At Year-end:					
Total assets	**¥ 436,172**	¥ 397,108	¥ 398,258	9.8%	**$ 4,459,380**
Total equity	**203,179**	188,574	199,493	7.7%	**2,077,282**
Financial Data:					
Return on equity (ROE)	**13.3%**	11.6%	11.3%	1.7% point	
Payout ratio	**62.7%**	51.2%	49.6%	11.5% point	
Store Network:					
Total number of stores in Japan	**9,527**	8,587	8,564	10.9%	
Franchised stores	**8,362**	8,148	8,093	2.6%	
Company-owned stores**	**1,165**	439	471	165.3%	

The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2009, of ¥97.81=$1.
*** Includes NATURAL LAWSON*

Operating income

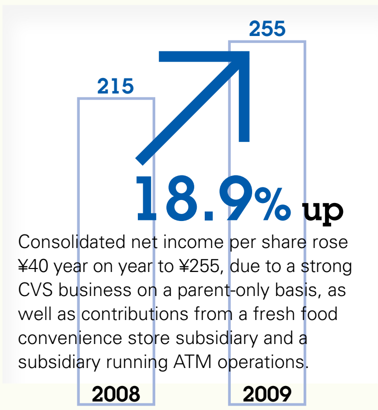
(Millions of Yen)



Consolidated operating income increased ¥2.5 billion year on year to ¥49.1 billion, due mainly to higher operating revenues from strong sales at existing stores.

Net income per share

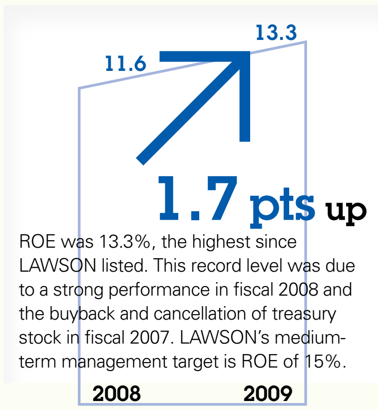
(Yen)



Consolidated net income per share rose ¥40 year on year to ¥255, due to a strong CVS business on a parent-only basis, as well as contributions from a fresh food convenience store subsidiary and a subsidiary running ATM operations.

Return on equity (ROE)

(%)



ROE was 13.3%, the highest since LAWSON listed. This record level was due to a strong performance in fiscal 2008 and the buyback and cancellation of treasury stock in fiscal 2007. LAWSON's medium-term management target is ROE of 15%.

TOPICS

Customers Can Now Use Shopping Points to Pay for Purchases

LAWSON offers customers a variety of ways to make use of points accumulated with the MY LAWSON POINT card and the LAWSON PASS card, such as for promotional items and donations to environmental and social activities. Since December 2008, customers have been able to apply their points toward purchases at the register at the rate of 1 yen per point, enhancing the convenience of these loyalty cards.

Ninety-nine Plus Inc. Becomes a Consolidated Subsidiary

In September 2008, LAWSON made Ninety-nine Plus Inc., operator of the SHOP99 chain of single-price convenience stores, a consolidated subsidiary via a tender offer bid (TOB). LAWSON is working to raise synergies with this company. Cooperation includes joint development of LAWSON Group *Value Line* private brand products, and conversion of SHOP99 stores into LAWSON STORE100 stores. For details about results and other information, please see page 34.

A Ninety-nine Plus "SHOP99" store

"Value Line" Private Brand Extended to Regular LAWSON Stores Nationwide

LAWSON has introduced *Value Line* products based on the concept of providing safe, reliable and convenient products in appropriately sized small quantities to Regular LAWSON* stores according to location and customer needs. In addition to processed foods and daily delivered foods, since April 2009 LAWSON stores have also been selling delicatessen items.

** Regular LAWSON stores carry LAWSON's well-known blue signage.*

The *Kayaku Gohan Makunouchi* dish uses meat from Tokushima Prefecture's famous Awaodori breed of chicken.

Expanding Initiatives to Spur Consumption of Locally Produced Items

LAWSON is focused on offering products tailored to regional customer needs. As part of these efforts, LAWSON has formed cooperative pacts with local governments and others to sell special products both locally in the area of production and in neighboring areas. It has also launched initiatives to sell regional products nationally. In March 2009, LAWSON established the "Tokushima Antenna Shop" in a store in Tomoe-cho in Tokyo's Toranomon area. As of April 30, 2009, LAWSON had formed cooperative agreements with 25 Japanese prefectures.

LAWSON Forms Alliance With SAN-A CO., LTD.

In January 2009, LAWSON formed a business alliance in Okinawa Prefecture with SAN-A CO., LTD. Since May 2009, the two companies have been jointly developing boxed lunches, cooked noodles and other products using local ingredients. These products are being jointly marketed at the stores of both companies. LAWSON and SAN-A are also sharing sales information for store development purposes. Please refer to page 43 for details of the alliance.

A selection of products developed in association with SAN-A

LAWSON Opens Eco-Store in Kure City, Hiroshima Prefecture

In October 2008, LAWSON opened a two-story eco-store inside Kure-Hiro Park in Kure City. The store is designed to harmonize with the landscape and to symbolize LAWSON's environmental efforts. Safety and reliability were other aspects taken into account in designing this store, which makes use of various energy-saving technologies to reduce CO_2 emissions. Please refer to page 24 for details.

LAWSON's operating environment is being defined by an increasingly difficult economic environment and cooling consumer sentiment. However, we regard this as a perfect opportunity to differentiate our operations by creating merchandise assortments and stores, such as a fresh food format, that cater to customer needs. A new IT system and our determination to innovate will be key.

TAKESHI NIINAMI
President and Chief Executive Officer

A LOOK BACK AT FISCAL 2008

In fiscal 2008, the introduction of the *taspo* proof-of-age card for buying cigarettes from vending machines, as well as our efforts in areas where we have made upfront investments, such as convenience stores (CVS) offering fresh items, had a positive impact on results. Consolidated net sales of LAWSON stores grew 10.2% from a year earlier, operating income rose 5.5%, and net income per share increased ¥40 (18.9%). ROE improved from 11.6% in the prior fiscal year to 13.3%. Operating income has grown for six straight years, beginning in fiscal 2003.

The introduction of the *taspo* proof-of-age card has caused customers to shift from vending machines to convenience stores. But even after adjusting for the impact of this new system, existing store sales were up year on year. This is mainly attributable to the popularity of fast foods like our *Karaage-kun* crispy Japanese-style fried chicken and promotional campaigns with a stronger emphasis on entertainment, such as the Rilakkuma Fair. Furthermore, we strove to develop highly profitable stores, by strictly adhering to our ROI-based standards for opening new stores and concentrating new stores in major metropolitan centers in the Kanto, Chubu, and Kinki regions. As a result, daily sales at new stores rose from ¥436,000 in fiscal 2007 to ¥505,000. Our MY LAWSON POINT and LAWSON PASS point programs have been well-supported by customers, and thanks to intensive promotion, the number of members rose from 6.22 million at the end of the prior fiscal year to about 8.5 million members.

THE CONVENIENCE STORE INDUSTRY BUSINESS ENVIRONMENT

The business environment surrounding the convenience store industry improved due to the increase in customers that accompanied the introduction of *taspo*, but I recognize that the effects of this will be only temporary. A number of factors put a damper on consumer confidence. These factors included the financial crisis that was triggered by the subprime loan problem and the decline in incomes and job uncertainty that were caused by falling corporate earnings. Faltering consumer confidence had a negative impact on the entire Japanese retail industry, not just the convenience store industry. Japan’s low birthrate and widening regional disparities are also having an effect. Under these circumstances, there was a major shift in our customers’ behavior patterns as they tightened their belts, and this led to unprecedented interest in the potential of private brand products in the retail industry.

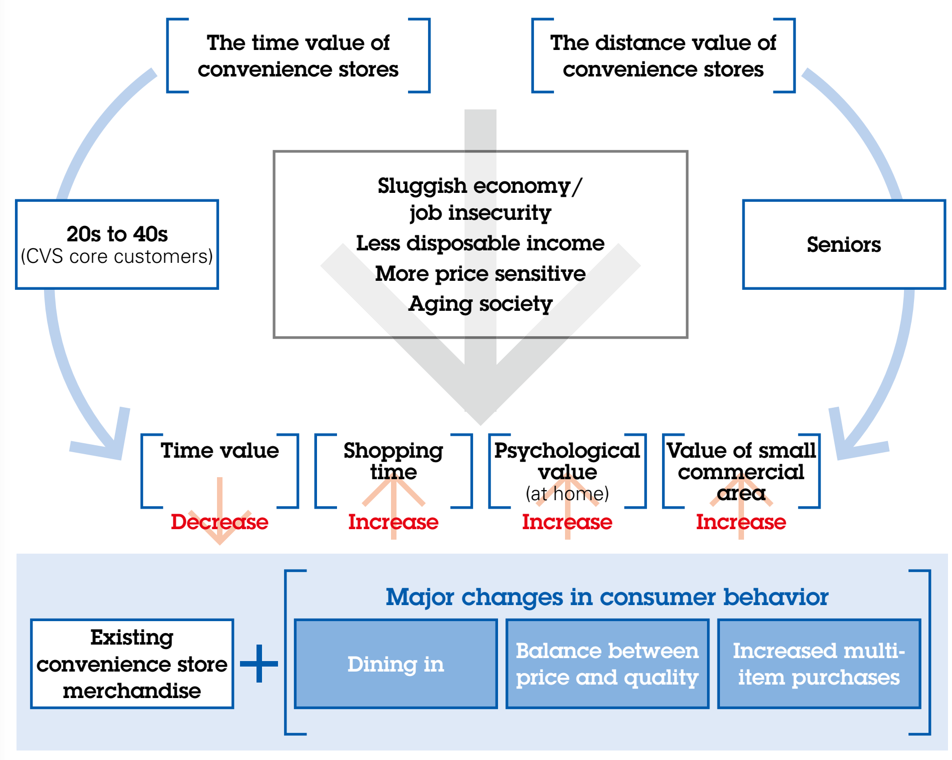
The perceived value of convenience stores that is derived from their close proximity and the convenience of their business hours has also changed dramatically. For example, overtime work has decreased due to the economic slowdown, so customers have more free time, and this has diminished the value of convenience store business hours. On the other hand, customers can spend more time shopping, so they are focusing more on the balance between product price and quality when making purchases. At the same time, people are becoming more frugal, so they are going back to eating at home, buying ready-made meals at nearby convenience stores and preparing meals at home, rather than eating out at places like family restaurants. As a result, a company cannot achieve stable and continuous growth by sticking to the conventional convenience store model (that sells close proximity and convenient hours, as well as a lineup of products and services catering mainly to younger male customers) because this model does not address changing consumer behavior.

LAYING THE GROUNDWORK TO ADDRESS NEWFOUND FRUGALITY AND AN AGING POPULATION

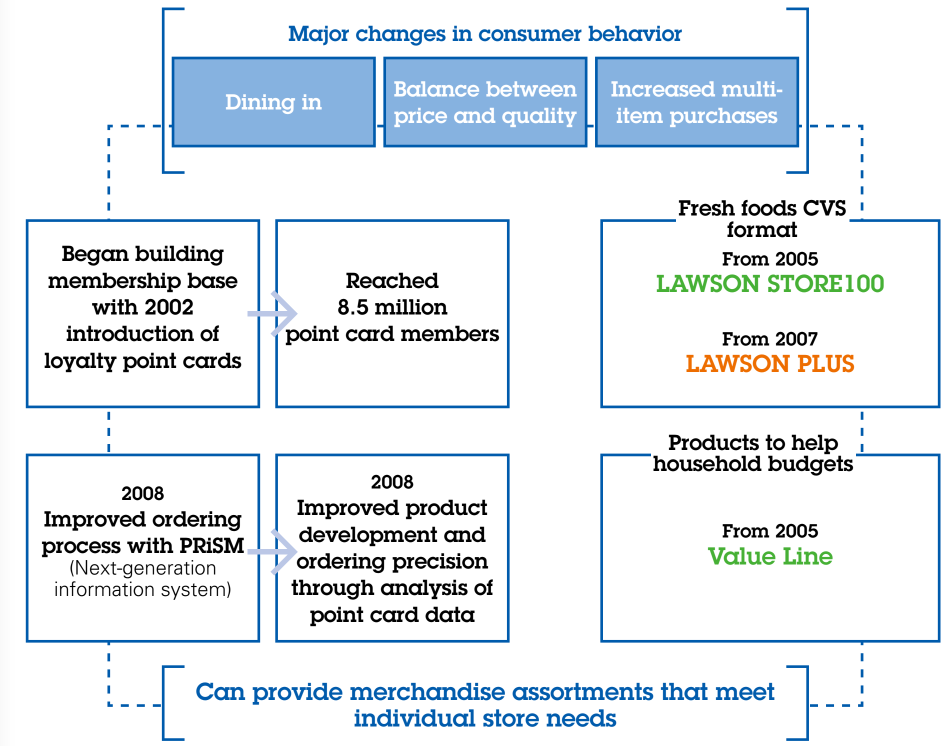
Foreseeing this, LAWSON took the lead over its rivals in developing its LAWSON PLUS and LAWSON STORE100 formats in order to address changing consumer behavior.

LAWSON PLUS was initially developed as a store format for regions where the population is already aging. In 2005, Japan became the world's oldest society, with 20% of the

MAJOR CHANGES IN CONSUMER BEHAVIOR



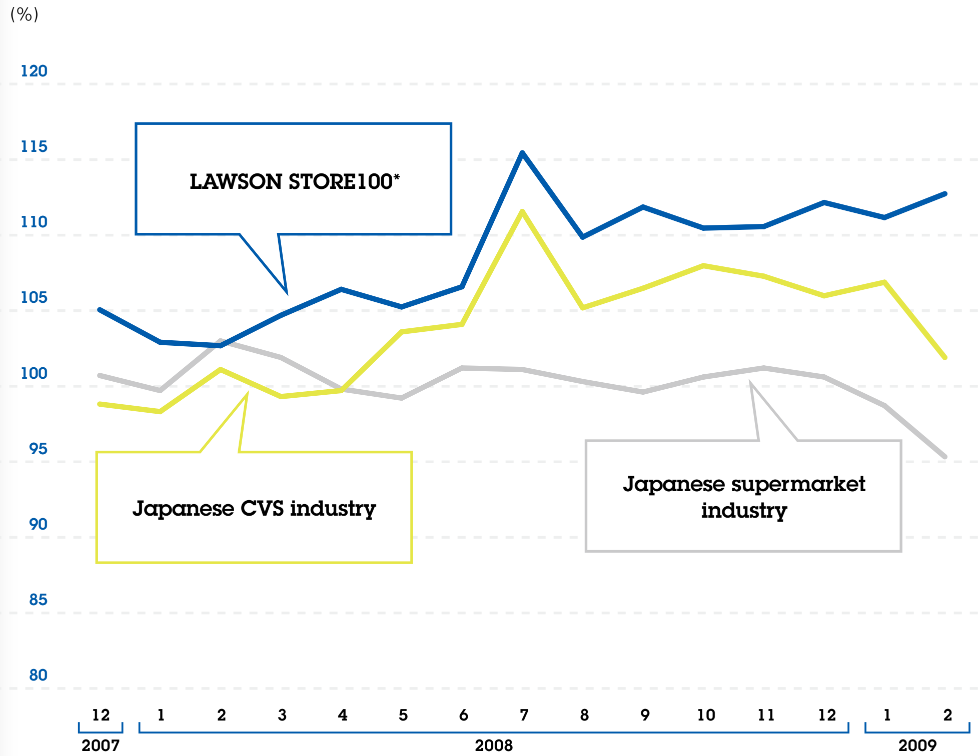
RESPONDING TO CHANGE



population aged 65 or older. In some regions the population is already fairly old. Conventional convenience stores mainly target younger people, so the stores are not very accommodating for seniors. We determined that with the proportion of seniors growing in every region, it is necessary to keep an eye on this demographic group when thinking about what convenience stores should be like in the future. As a result, we have widened aisles and put shopping carts in stores. Turning to merchandise assortment, these stores offer an array of items that are popular in the community, such as locally produced vegetables and seasonings, and Japanese sweets. Some stores even have a place to rest where neighbors can gather and chat. The environment that our senior customers live in has also undergone big changes. The shopping districts where they buy their fresh food items and daily necessities are on the decline, and the closure of big stores due to weak consumer spending has also made shopping for groceries even harder for seniors. For seniors who can't walk far and who are struggling to do their shopping, the stores that we are developing across the country could become a convenient location for them to buy their food nearby.

We are also developing the LAWSON STORE100 format as convenience stores targeting housewives and seniors that offer mainly fresh food items and processed foods in smaller packaging. These convenience stores offer fruit and vegetables at a ¥105 (tax included) price that appeals to thrifty consumers. For example, we worked with our contract growers to come up with a

EXISTING STORE SALES COMPARISON YEAR ON YEAR



* Number of LAWSON STORE100 stores run by VALUE LAWSON

smaller *daikon* (a Japanese radish) instead of cutting an ordinary radish in half so that we can sell *daikon* for ¥105 (tax included). This is how we have become innovative in product development. We also developed a private brand (*Value Line*) series of products that strikes a balance between price and quality thanks to persistent negotiations with producers. *Value Line* products are characterized by smaller portions, simple pricing, and single-portion sizing. There were roughly 350 products in the series as of the end of fiscal 2008. We aim to expand the line-up to 1,000 products during fiscal 2009. The products will be put into LAWSON stores depending on store location and customer needs.

Wholly owned subsidiary VALUE LAWSON, Inc., which operates the LAWSON STORE100 stores, had been in the red due to heavy initial start-up costs, but it swung to a profit in the second half of fiscal 2008 on a single month basis thanks to the development of the *Value Line* series of products and the expertise it has accumulated in marketing fresh food items.

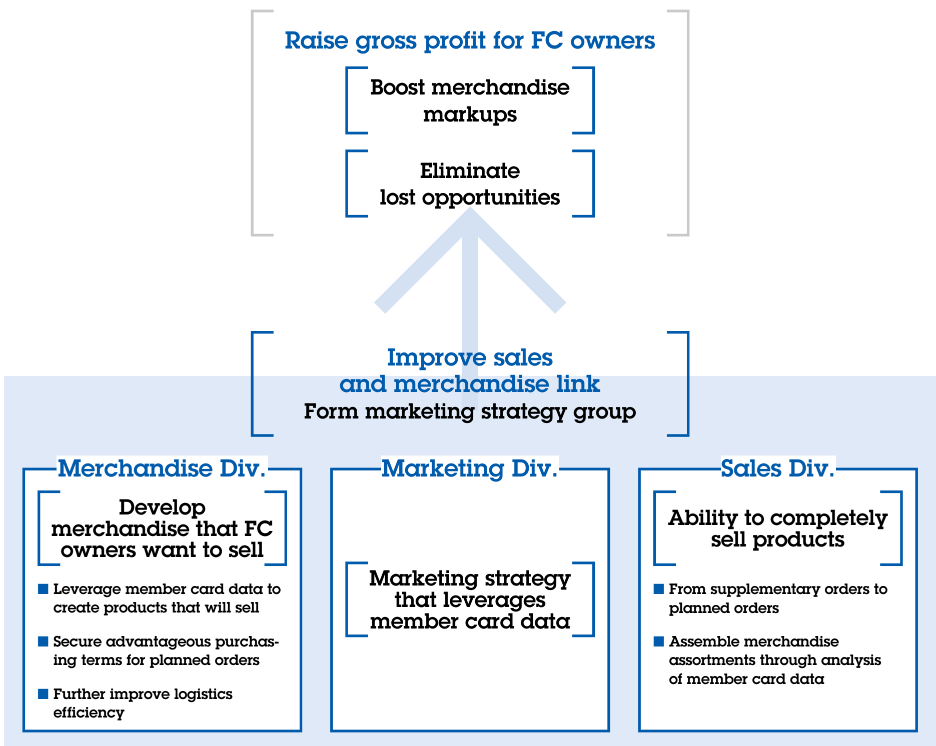
In September 2008, fresh-food convenience store pioneer Ninety-nine Plus Inc. became a subsidiary, and we began converting its SHOP99 stores into LAWSON STORE100 outlets. The average daily sales for a LAWSON STORE100 outlet are about ¥600,000 and the average number of customers per day is about 1,400 persons, compared with about ¥500,000 and 870 persons for a regular LAWSON store. The main customers are housewives and seniors, and along with keeping up with newfound consumer frugality, LAWSON STORE100 promises to become one of pillars of the LAWSON Group as a format that will keep pace with Japan's demographic changes (low birthrate) over the medium to long term.

INITIATIVES FOR MORE GROWTH

By linking products, sales and marketing based on card data, we are working to improve franchise owner (FC) gross profit. We are implementing the following measures based on changing consumer buying behavior to create merchandise assortments and stores that match areas where customers live.

Instead of taking the conventional company-centered "product-out" approach of trying to figure out how to sell what is purchased, LAWSON aims to take a "market-in" approach in which the company offers products based on the purchasing behavior of individual customers. Using point-of-sale (POS) technology, we have databased our customers and their purchasing histories to build a customer relationship management (CRM*) system that is even more customer-centric. We have been aggressively promoting membership in our MY LAWSON POINT card and LAWSON PASS card programs so that we can understand our customers even better, and so that we can enjoy the continued patronage of our new customers as well as our existing customers. The combined number of card members has reached about 8.5 million, making it the largest card membership base in the convenience store industry. As the number of members has grown, so has the usage rate and the number of customers using the cards, and this has become an important business advantage for LAWSON. Now that people have more time for shopping, there is more demand for product combinations that suit the needs of each individual customer. From the data we have collected from card usage we have learned that in addition to conventional purchase combinations such as a boxed lunch and a soft drink, there is also demand for new combinations such as a *Value Line* product, a fast

IMPROVEMENTS LINKING PRODUCTS WITH SALES



food item and a dessert item. Accumulating and analyzing the data about purchases made by card members allows us to better understand the customers in a particular geographic area, and because of this we can uncover new needs and develop products depending on the preferences, ages, and gender of our customers.

We can also create merchandise assortments that meet the needs of customers at individual stores by analyzing card data and shifting from supplementary ordering to planned ordering.

Under the supplementary order system that has been used up to now, purchasing amounts are largely determined based on past sales, and this gave rise to waste and lost opportunities. By using card data, we can see when what customers are buying how much of what. This helps us to understand our customers and makes us think constantly about merchandise assortments that suit our customers. In other words, we can create merchandise assortments based on the concept of "ordering precision with the customer as the starting point."

In order to make "ordering precision with the customer as the starting point" a reality, in fiscal 2009 we will be introducing our next-generation information technology system (PRiSM), which will reform the order process. Along with allowing us to ensure that merchandise assortments meet the needs of regional customers even better than before, this system should make planned ordering possible and improve order accuracy. By focusing on our customers, we will be able to reduce waste and lost opportunities by ending the vicious cycle of making supplementary orders when we run out of stock, and this should improve gross profits for franchise owners.

When it comes to sales promotions, instead of running nationwide advertising and sales promotion campaigns targeting all of our customers, we are putting more emphasis on sales promotions that suit the customers in each geographic area. For example, we are conducting individually targeted sales promotions and providing services based on a card member's purchasing history and store visit frequency.

** CRM refers to building long-term relationships with customers by analyzing customer needs in detail, using a customer database that takes advantage of information technology.*

EMPHASIZING THE BALANCE BETWEEN INTERNAL GROWTH AND RETURN TO SHAREHOLDERS

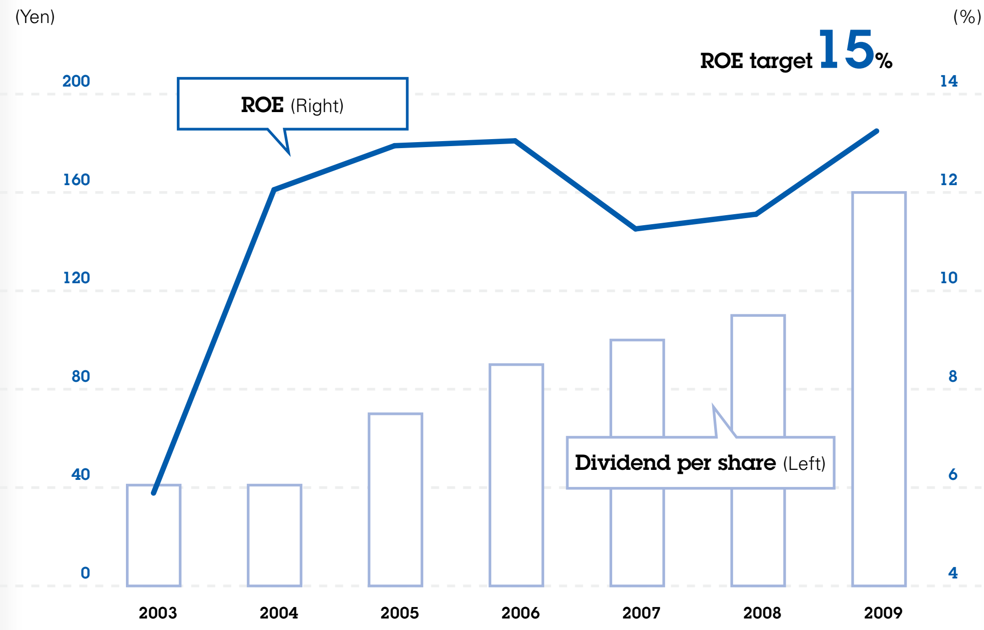
We at LAWSON recognize that an awareness of the cost of capital is the basis for globally excellent management. Therefore, the efficient use of capital is our highest priority and bearing in mind global standards we have established the quantitative goal of ROE of 15%, which we aim to achieve as soon as possible. I believe that our most important task is to raise ROE by lifting the level of sustainable growth by improving gross profits at existing stores. Turning to dividends, we have increased our payout for five straight fiscal years beginning in the year ended February 2005, and we distributed dividends of ¥160 per share for fiscal 2008.

Going forward, unless there is some major change in our business environment, we intend to maintain our dividend at this level through fiscal 2010. We will also consider buying back and cancelling our own shares depending on share price and liquidity. Even in this challenging business environment, we will also continue to examine capital investments and M&A proposals intended to fuel growth, bearing in mind our desire to improve capital efficiency.

SHAREHOLDER RETURNS

High capital efficiency
High shareholder returns

ROE and Dividend per Share



ENHANCING CORPORATE VALUE

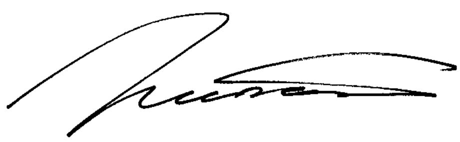
LAWSON is tackling a number of issues. We strongly believe that our efforts should be based on the notion of creating "Happiness and Harmony in Our Community." To make this vision a reality, as the industry's innovation leader we will continue to take on new challenges aimed at enhancing corporate value.

Furthermore, we realize that convenience stores will be increasingly expected to fulfill obligations to society in areas such as providing safe, quality food products and addressing environmental issues like global warming. Therefore, at LAWSON we are proactively working to strengthen our quality management system, reduce CO_2 emissions, and recycle waste food.

We are confident that through these efforts our customers will appreciate LAWSON's presence in their communities, and this will further enhance corporate value.

We look forward to receiving your continued support in the future.

August 2009



TAKESHI NIINAMI
President and Chief Executive Officer

LAWSON'S CORPORATE PHILOSOPHY AND CODE OF CONDUCT

LAWSON assures that all corporate activities conform to its Corporate Philosophy, and that the Company's management and employees work together as a team to realize its goals. To this end, we ensure that all of our actions are grounded in our shared values, no matter what changes may take place in the operating environment. Our Code of Conduct requires employees to accept responsibility for reflecting our unwavering values and standards through their actions.

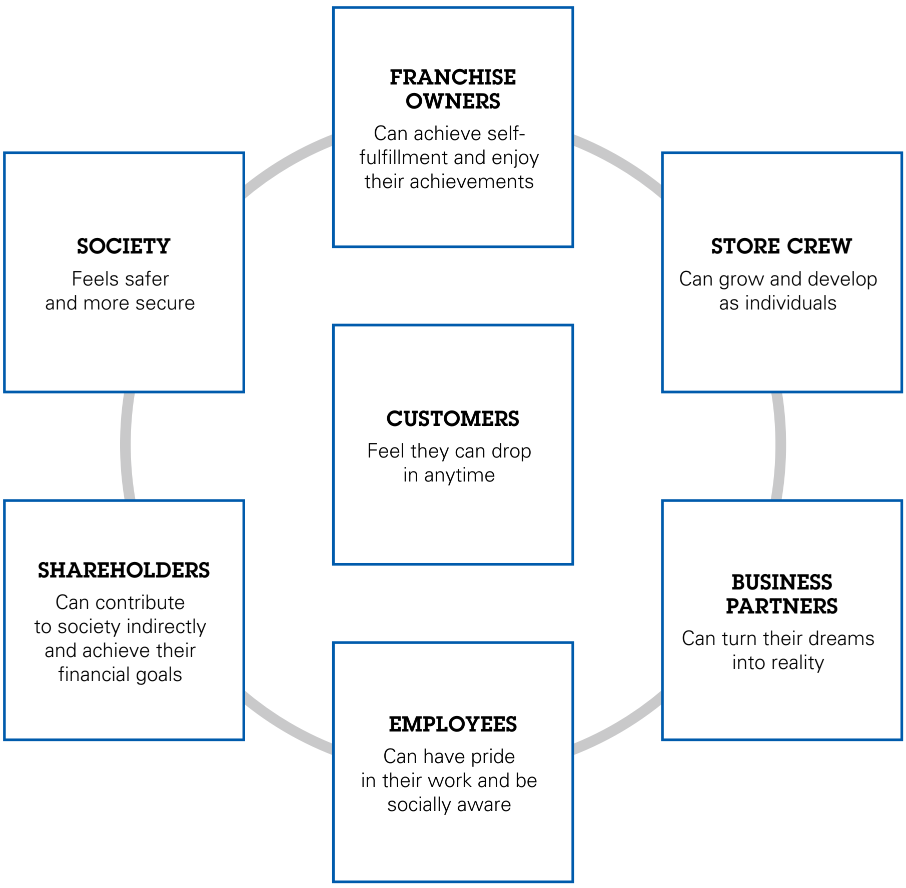
CORPORATE PHILOSOPHY

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

WE PROMISE TO MAKE LAWSON A PLACE WHERE:



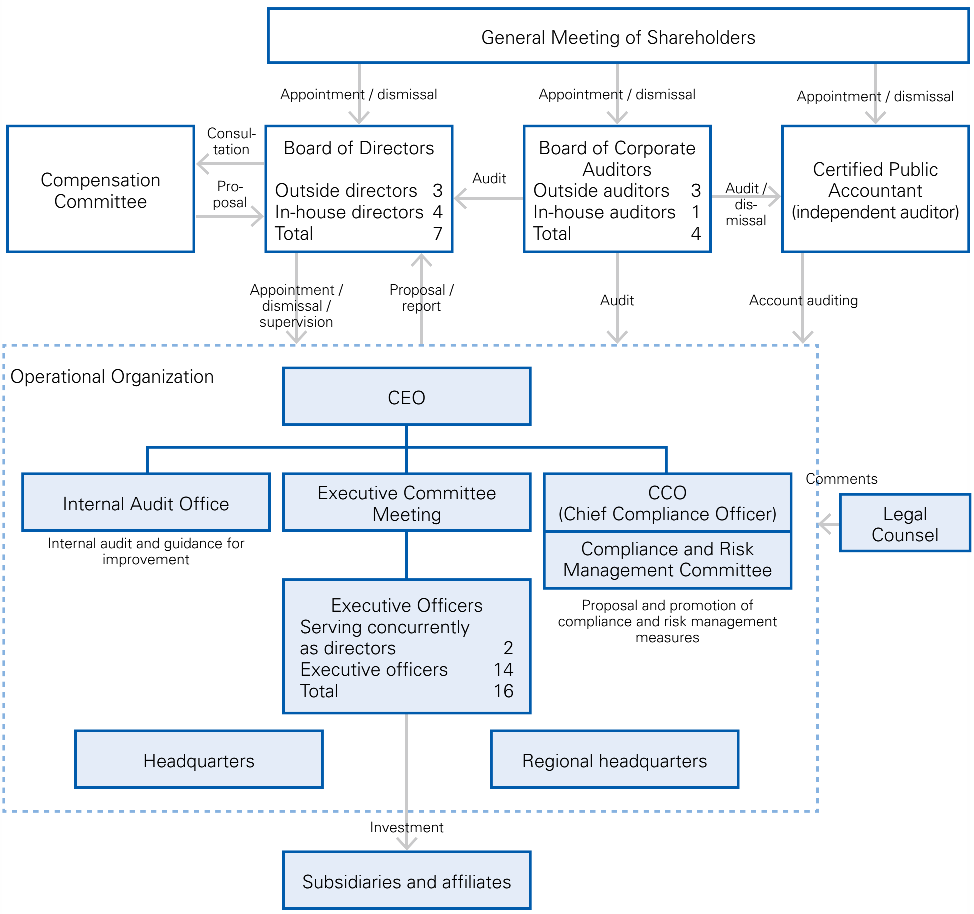
LAWSON believes that honoring these commitments to its seven stakeholder groups will translate into higher corporate value.

BASIC POLICY ON CORPORATE GOVERNANCE

In order to be recognized as a company that has meaning for each of our seven stakeholder groups—namely, customers, franchise owners, store crew (part-time and casual workers), business partners, employees, shareholders and society—we engage in business activities that maximize our corporate value. For this, besides promoting Directors' and employees' compliance with laws, regulations, the Articles of Incorporation and the like, we believe that it is essential to strengthen corporate governance by enhancing the soundness and transparency of our management processes. This is done through action with consideration for others, based on our Corporate Philosophy, LAWSON Corporate Conduct Charter, and the Lawson Code of Ethics, as well as via the active disclosure of information.

A diagram of our operational organization, management supervision systems and internal control system is presented below.

CORPORATE GOVERNANCE SYSTEM (AS OF MAY 27, 2009)



CORPORATE GOVERNANCE SYSTEM (AS OF MAY 27, 2009)

ITEM	DESCRIPTION
Corporate organization:	Company with a Board of Corporate Auditors
Chairman of the Board of Directors:	Outside Director
Number of Directors:	7 (including 3 Outside Directors)
Number of Board of Directors' meetings in FY08:	16 (including 4 extraordinary meetings)
Outside Directors' attendance rate at Board of Directors' meetings in FY08:	Approximately 79% (including extraordinary meetings)
Number of Corporate Auditors:	4 (including 3 Outside Corporate Auditors)
Outside Corporate Auditors' attendance rate at Board of Directors' meetings in FY08:	Approximately 94% (including extraordinary meetings)
Major committee meetings attended by Corporate Auditors:	Board of Directors' meetings, Executive Committee meetings, Compliance and Risk Management Committee meetings, Board of Corporate Auditors' meetings, other meetings
Number of Board of Corporate Auditors' meetings in FY08:	14 (including 2 extraordinary meetings)
Attendance rate at Board of Corporate Auditors' meetings in FY08:	100% (including extraordinary meetings)
Average age of Directors and Corporate Auditors:	56
Independent Auditor:	Deloitte Touche Tohmatsu
Internal Audit Division:	Internal Audit Office
Overview of the internal control system:	■ We are focusing on the following five areas, in accordance with the Fiscal 2009 Basic Policy on Development and Operation of Internal Control System, as revised in February 2009: **1]** Corporate governance and control supervised by the Board of Directors and Board of Corporate Auditors **2]** Internal audits by the Internal Audit Office **3]** Outside audits and legal advice by the independent auditor and legal counsel, respectively **4]** Compliance and risk management via a dedicated compliance system **5]** The establishment of the necessary systems to ensure proper financial reporting
Compliance system:	■ Appointment of an executive responsible for compliance and risk management (Chief Compliance Officer (CCO)) ■ Appointment of compliance officers at all headquarters departments and seven regional headquarters ■ Monthly meeting of Compliance and Risk Management Committee, chaired by the CCO, and quarterly meeting of the Affiliated Company Compliance Officers Committee, to identify LAWSON Group compliance issues and assess risk exposure and to deliberate on ways to prevent illegal or improper actions
Support system provided for Outside Directors and Corporate Auditors:	■ As a rule, the secretariat of the Board of Directors distributes the agenda one week in advance of Board meetings, and is also responsible for other support measures. ■ The same secretariat reports, as necessary, important events or incidents.
Compensation for Directors:	■ The Compensation Committee, which is made up entirely of Outside Directors and Outside Corporate Auditors and met three times in fiscal 2008, determines compensation for Directors and presents its recommendations to the Board of Directors for final approval. ■ Approximately 30% of annual compensation is linked to business results. ■ Compensation paid to all Directors is reported in the annual securities report and Business Report. ■ Other compensation includes stock-compensation-type stock options that can be exercised (exercise price: ¥1) after a Director retires.
Special factors with an important bearing on corporate governance:	■ Mitsubishi Corporation holds 32.7% of the Company's voting rights, including indirectly held rights. LAWSON is treated as an equity-method affiliate by Mitsubishi Corporation. (As of February 28, 2009) ■ Subsidiaries Ninety-nine Plus Inc., which runs a fresh foods convenience store business, and ticket sales business operator LAWSON TICKET INC. are publicly owned companies listed on the JASDAQ market. While respecting the independence of the management of both companies, LAWSON maintains a close working relationship with these subsidiaries in order to increase the corporate value of the entire Group by capturing business synergies.
Disclosure policy:	■ Basic Principles for Information Disclosure are presented on our IR site: http://www.lawson.co.jp/company/e/corporate/disclose.html ■ The Company discloses material information, including presentation materials used in meetings to announce business results, in both Japanese and English, on the IR site, without delay.
Risk management system:	■ The Company identifies risks that could have a material impact on management with relation to business objectives and analyzes the possibility of particular risk factors occurring and the extent of the potential impact. ■ Regulations concerning risk management have been established, thus putting in place a system for ordinarily preventing risks from materializing and for quickly dealing with them if they do. ■ Two dedicated committees, the Compliance and Risk Management Committee and the Affiliated Company Compliance Officers Committee, meet to discuss risk.

Note: Some of the information in the above table is based on LAWSON's corporate governance report.

COMPLIANCE AND RISK MANAGEMENT SYSTEM

- LAWSON's compliance and risk management system is grounded on the Company's view that compliance not only entails the observance of laws, regulations and social standards but also the practice of acting with consideration for others based on the LAWSON Code of Ethics.

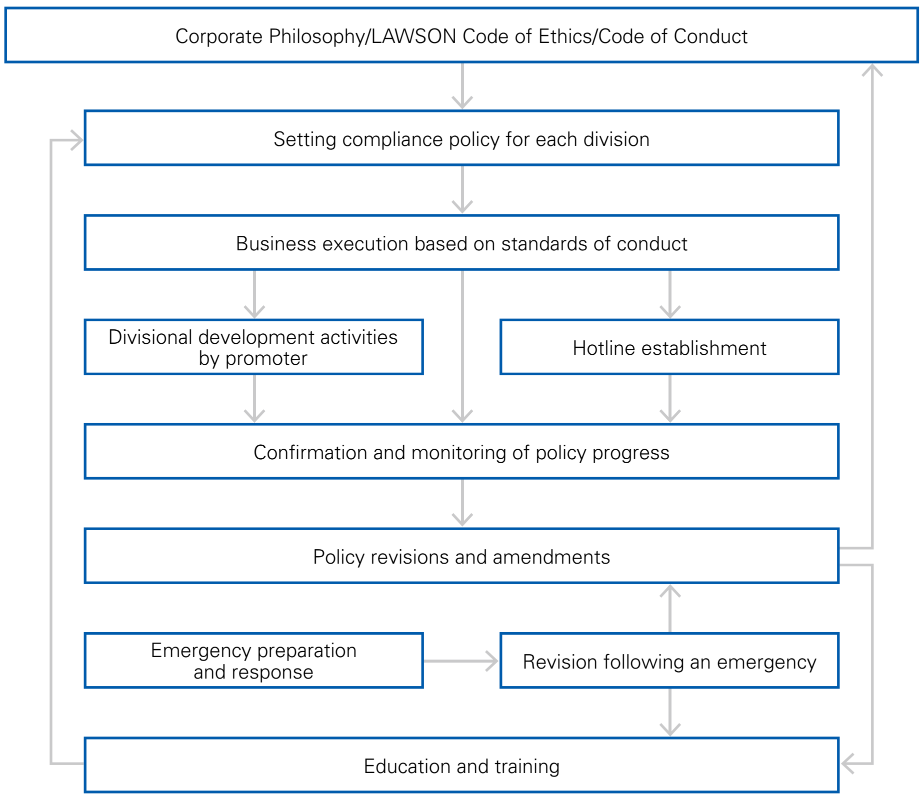
- LAWSON aims to be a "good corporate citizen" by acting with high ethical values, sincerity and consideration for others, and organically linking education and training, communication functions and monitoring activities based on the standards of conduct for all employees.

- The LAWSON Corporate Conduct Charter, the Corporate Philosophy, the Code of Conduct, the LAWSON vision, and the LAWSON Code of Ethics are contained in the LAWSON Group C&R Handbook, which is distributed to all LAWSON Group employees.

- LAWSON also encourages franchised stores to operate with a compliance mindset by providing information on relevant laws and ordinances and responding to frequently asked questions in an in-house newsletter for franchised stores. In these and other ways, LAWSON is working on activities that raise the level of compliance awareness across the entire LAWSON chain.

LAWSON Group C&R Handbook: Contains standards of conduct so as to ensure that the Company's Corporate Philosophy and Code of Conduct are practiced in the ordinary course of business on a daily basis.

LAWSON COMPLIANCE AND RISK MANAGEMENT SYSTEM



DIRECTORS' PROFILES AND MESSAGES FROM OUTSIDE DIRECTORS AND CORPORATE AUDITORS

(As of May 27, 2009)

[1] [2] [3] [4] [5]

[1]
MANABU ASANO
Member of the Board
Executive Vice President
Chief Compliance Officer (CCO)

[2]
TORU MORIYAMA
Member of the Board

[3]
TAKESHI NIINAMI
President and CEO

OUTSIDE DIRECTORS AND CORPORATE AUDITORS

[6]
TETSUO OZAWA
Corporate Auditor

A Message to LAWSON Stakeholders
At LAWSON, directors with operational responsibilities pay due respect to the views of outside directors in carrying out their duties. In addition, they also quickly address matters pointed out by corporate auditors and provide detailed reports on their responses. For these reasons, I believe that the oversight function of outside directors and corporate auditors is being carried out as it should and that the corporate governance system is functioning. I actively express my opinion from my vantage point as both a lawyer and an ordinary user of convenience stores, and when the directors make management decisions, I pay attention in particular to whether the information that forms the basis for those decisions is properly presented. I am determined to continue helping LAWSON develop and increase its corporate value.

[7]
TAKEHIKO KAKIUCHI
Member of the Board

A Message to LAWSON Stakeholders
In order to win customer support, it is imperative that LAWSON stay abreast of market changes and respond quickly to customer needs. My background in the consumer goods business has included providing value that meets customer expectations while maintaining and raising product safety and quality, so in my capacity as an outside director I intend to draw on my experience to express my opinions. Addressing environmental problems is also an important issue in corporate activities, and I intend to actively support LAWSON's efforts to conserve energy and resources, make areas greener and conduct other environmental preservation activities.

[8]
HIROSHI TASAKA
Member of the Board

A Message to LAWSON Stakeholders
I lecture in "social entrepreneurship theory" at a graduate school and I'm active as a representative of the Japan Social Entrepreneur Forum. I have also continued to offer advice on the evolution of corporate social enterprise through a number of newspapers, magazines and books. I feel that it is my duty as an outside director of LAWSON to advise management from these perspectives. I am glad to be able to say that LAWSON's business activities, which place emphasis on serving society, have earned it a reputation as an outstanding social enterprise.

[6] [7] [8] [9] [10] [11]

[4]
YOSHIYUKI YAHAGI
Member of the Board
Senior Executive Vice President
CFO

[5]
KENJI YAMAKAWA
Standing Corporate Auditor

[9]
REIKO OKUTANI
Member of the Board

A Message to LAWSON Stakeholders
I manage a human resources development company, and I have been impressed with the diversity of people in LAWSON and its active efforts to recruit foreign nationals. Going forward, I'd like to see LAWSON step up training for women and elevate more women to higher management positions. LAWSON is an opinion leader on environmental problems and the future evolution of the convenience store format. I think management does a good job of constantly addressing topical issues.

[10]
MUNEHIKO NAKANO
Standing Corporate Auditor

A Message to LAWSON Stakeholders
Through my audits I have a strong sense of the steady evolution of LAWSON's internal control system, which is essential for sound and sustainable corporate growth. This evolution includes its response to internal control over financial reporting. Going forward, it will be important to entrench LAWSON's internal control system, including legal compliance and risk management, throughout all Group companies in conformity with the PDCA (Plan-Do-Check-Action) cycle. Also key will be improving LAWSON's response to environmental changes both inside and outside the company. I am determined to work to meet the expectations of shareholders both from the standpoint of an independent and free outside corporate auditor and as a standing corporate auditor who is close to the front lines of the Company's operations.

[11]
HIROSHI KUWATA
Corporate Auditor

A Message to LAWSON Stakeholders
I have been involved with corporate risk management for many years. As an outside corporate auditor, I will use my experience to look at whether LAWSON is managing risk properly. Underpinning LAWSON's risk management are its emphasis on basic actions and its corporate culture that quickly communicates information at the first sign of trouble.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

LAWSON is working to help create a low-carbon society to leave a safe and hospitable world for future generations. LAWSON has set a voluntary target of reducing per-store CO_2 emissions from electricity consumption by 10% compared with fiscal 2006 by fiscal 2012. To achieve this goal, LAWSON is introducing energy-saving equipment at stores among other initiatives. We are also working to preserve the environment, through activities such as the LAWSON Green Fund, "CO_2 Offset Campaign," and "Bring Your Own" campaign.

CO_2 OFFSET CAMPAIGN

In less than a year since its launch, a total of around 11.8 million customers have taken part in the CO_2 Offset Campaign, resulting in CO_2 offsets in excess of 7,000 tons. Under this campaign, customers can exchange points accumulated on LAWSON loyalty cards for emission credits, or purchase emission credits directly with cash through in-store Loppi multimedia terminals. Soft drinks and daily necessities available at LAWSON stores come with emissions credits attached. Customers can also earn emissions credits by using ATMs at LAWSON stores in Fukuoka Prefecture. By participating in these activities and other activities, customers can help reduce Japan's CO_2 emissions.

These products sold at LAWSON stores come with CO_2 emission credits attached.

Products with CO_2 emission credits attached
GEORGIA Green Planet Café Au Lait (Left)
Real Spark (Right)

CO_2 EMISSION REDUCTIONS

LAWSON is taking ongoing steps to reduce electricity consumption, which accounts for a large amount of store CO_2 emissions. In May 2008, LAWSON began joint research with the Yashiro Laboratory of the Institute of Industrial Science at the University of Tokyo. Research is being conducted to cut store CO_2 emissions by between 10% and 40%. Moreover, LAWSON has opened the Kure-Hiro Park Store in Kure City, Hiroshima Prefecture, as a pilot store for cutting electricity consumption; the store uses a host of environmental technologies. LAWSON will look at introducing successful measures from the laboratory research and pilot store in new stores. LED lighting is an example of extending a successful trial in the past to other stores.

Since January 2009, LAWSON has used electric vehicles on a trial basis. This has coincided with the start of initiatives to promote the greater use of electric vehicles, including exploring the possibility of establishing recharging stations on store property. The Company owns approximately 1,600 vehicles. Of these, around 80% are either hybrid vehicles or have been fitted with an automatic idling cut-off system.

LAWSON Eco-Store (Outside View)
The Kure-Hiro Park Store employs new building materials, solar power generation, and external thermal insulation, and uses rainwater, optical fiber, LED lighting and other means to save energy.

FY2008 ENVIRONMENTAL TARGETS AND RESULTS

AREA	ACTIVITIES	TARGETS	ACHIEVEMENT STATUS	ASSESSMENT
Saving energy	Cut store air conditioner and cooler electricity use	Introduce energy-saving units in approximately 1,500 existing stores (cumulative: approximately 3,000 stores)	Introduced in 1,768 stores; cumulative: 3,253 stores	Attained
		Introduce energy-saving units in 90% of new stores	Introduced in 430 of the 452 new stores opened, representing an introduction rate of 95%	Attained
	Cut emissions of CO_2 and hazardous substances from delivery trucks by promoting eco-driving and the introduction of low-pollution vehicles/eco-tires	Reduce CO_2 emissions per store by 1.0% (91 kg-CO_2 per store) compared with FY2007	Reduced per-store CO_2 emissions by 3.2% (291 kg-CO_2 per store) compared with FY2007	Attained
	Promote eco-driving and safety-driving of Company-owned cars	Set targets and formulate action plans	Established a structure for promoting eco-driving and safe-driving and improved fuel costs	Nearly
	Promote Companywide prevention of global warming (reduce CO_2)	Reduce unit CO_2 emissions (operation hours x floor space) by 22.3% compared with FY1990 levels	Unit CO_2 emissions of 60.3g-CO_2/m^2.h down 22.7% compared with FY1990	Attained
Saving resources	Reduce the use of plastic shopping bags (Ask customers if they want a bag)	Reduce the weight used per store by 17.2% compared with FY2006	Reduced the weight used per store by 4.0% compared with FY2006 (Reference) Use of plastic shopping bags per store reduced by 22.7% compared to FY2000 (Japan Franchise Association's target is a 35% reduction by 2010 compared with 2000) Distribution rate: 76.9% (Number of bags/Number of customers)	No
	Reduce the use of disposable chopsticks (Ask customers if they want chopsticks)	Reduce the number of chopsticks used per store by 10.0% compared with FY2006	Reduced the number of chopsticks used per store by 6.9% compared to FY2006	No
	1) Promote the reduction of packaging weight 2) Promote the use of non-plastic materials (paper, green plastics)	Reduce CO_2 emissions from incineration of packaging by 5.0% compared with FY2006	Reduced CO_2 emissions from incineration of packaging by 12.6% compared with FY2006	Attained
	Reduce waste by effective creation and distribution of sales promotion materials	Reduce the volumes of materials delivered and extra materials disposed per store by 5% compared with FY2007	Reduced the volume of materials delivered per store by 1.5% compared with FY2007 Reduced the volume of materials disposed of by 13.7% compared with FY2007	Nearly
Reducing waste	Reduce food product waste, recycle	Recycling of food waste: 26% or more (yearly average in FY2008) 1) Waste-oil recycling: 7,750 stores 2) Recycling into feed and fertilizer: 1,400 stores 3) Introduction of organic waste processors: 61 units	Achieved a recycling rate for food waste of 24.6%* 1) Waste-oil recycling: 7,599 stores 2) Recycling into feed and fertilizer: 1,013 stores 3) Introduction of organic waste processors: 50 units 4) Thermal recycling: 124 stores	Nearly
Regional social contributions	Continue collecting donations through LAWSON Green Fund	1) Fundraising activities in all stores 2) Participation in greenery operations	1) FY2008 collections: ¥0.25 billion Collections to date: ¥2.78 billion 2) Participated in 137 greenery operations	Attained

* Assessment of quantitative targets:
100% attained: (Attained), 70% or higher attained: (Nearly), Less than 70% attained: (No)
* Assessment of qualitative targets: Implementation (execution) completed: (Attained), Implementation (execution) in progress: (Nearly), Not implemented (executed): (No)

*[1] The food recycling rate, including waste reduction, based on the Food Recycling Law of Japan, was 28.5%.

*[2] FY2008 result excludes LAWSON STORE100.

FY2009 ENVIRONMENTAL TARGETS

AREA	ACTIVITIES	TARGETS
Saving energy	Cut store air conditioner, cooler and lighting equipment electricity use	Introduce energy-saving units in 90% of new stores
		Introduce adjustable lighting systems and LED lighting fixtures in 90% of new stores
	Cut emissions of CO_2 from delivery trucks by promoting eco-driving and the introduction of eco-tires	Reduce CO_2 emissions per store by 4% (364 kg-CO_2 per store) compared with FY2007
	1) Promote eco-driving and safe-driving of Company-owned cars 2) Introduce electric vehicles Cut emissions of CO_2	1) Reduce Company-owned car fuel expenses by 10% compared with FY2008 2) Introduce 40 electric vehicles
	Cut store electricity consumption by lowering the power consumed by store equipment	Introduce new store equipment during the fiscal year Reduce electricity consumption by 326 kW per store/month
	Promote Companywide prevention of global warming (reduce CO_2)	1) Establish CO_2 emissions database 2) Create energy-efficient store model
Saving resources	Reduce the use of plastic shopping bags	1) Reduce by asking customers to bring their own and expanding point system 2) Promote "Bring Your Own" campaign Reduce distribution rate per store by 3 percentage points compared to FY2008 (Reduce the use of plastic shopping bags by 32% compared to FY2000)
	Reduce the use of disposable chopsticks	1) Reduce by asking customers to bring their own 2) Promote "Bring Your Own" campaign Reduce the number of sets used per store by 20.0% compared with FY2006
	1) Promote the reduction of packaging weight 2) Promote the use of non-plastic materials (paper, green plastics)	Reduce CO_2 emissions from incineration of packaging by 7.0% compared with FY2006
	Reduce store paper receipts and vouchers	Reduce paper by 80 million sheets annually
	Effectively create sales promotion materials and comply with the law on disposal	Develop materials based on emissions standards, comply with law on disposal
Reducing waste	Reduce food product waste, recycle	Improve food recycling rate by more than 4 percentage points compared to FY2007 (to at least 26.5%)
Regional social contributions	Continue collecting donations through LAWSON Green Fund	1) Fundraising activities in all stores 2) Participation in greenery operations
Promotion and education	Combat global warming through activities with customers (Promote CO_2 Offset Campaign)	1) Promote CO_2 Offset Campaign (Use points, *Loppi*) 2) Continue selling products with CO_2 emission credits 3) Study carbon footprint

INITIATIVES TO DEVELOP QUALITY PRODUCTS THAT ARE SAFE, HEALTHY AND DELICIOUS

LAWSON believes that one of its key responsibilities to customers is to respond to the need for healthy and delicious products that are safe and of a high quality.

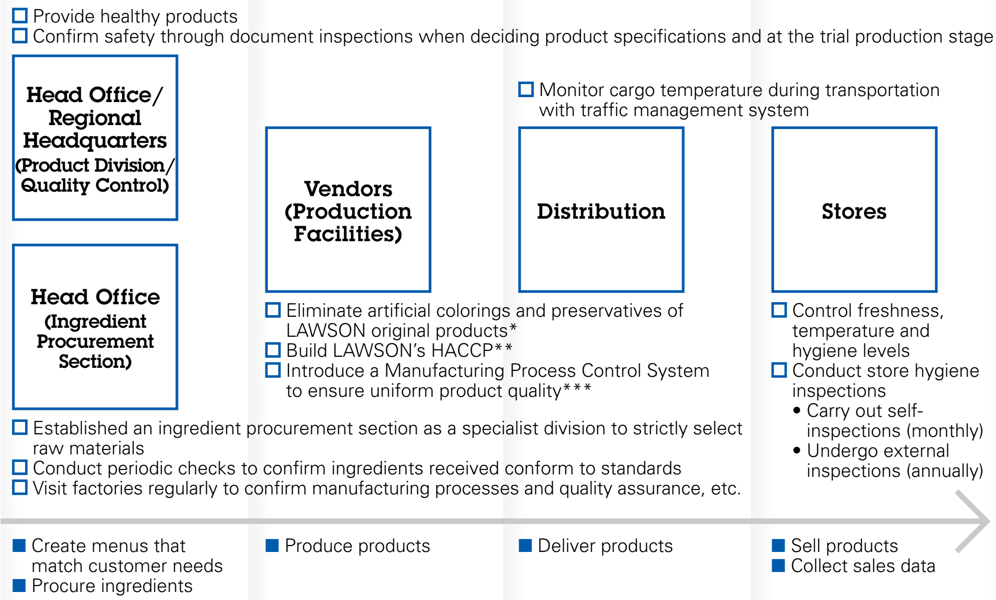
■ The diagram below shows the flow of products from menu creation to the stocking of products on store shelves. To create healthy and delicious products that are safe and of a high quality, LAWSON complies with laws and regulations related to the environment and safety at every stage in the process, from product development to production and sale, and rigorously manages product quality.

■ LAWSON pays careful attention to ingredients in its efforts to create healthy products that are safe and of a high quality. One example is the *Niigata Koshihikari Rice Ball* series. In October 2008, LAWSON began using only rice grown by specific growers with the aim of raising product quality further. Furthermore, NATURAL LAWSON is strengthening its development and merchandise assortment of health-conscious products such as healthy, low-calorie delicatessen items and boxed lunches.

** In order to inform consumers of the type of rice used in an easily understandable way, LAWSON labels applicable rice products as tokubetsusaibaimai (literally "specially grown rice"), based on Ministry of Agriculture, Forestry and Fisheries' labeling guidelines.*

■ In Japan, labels on private brand and other products must by law contain certain information, including product name, expiration date, and allergens. LAWSON goes beyond this by voluntarily including calories and other nutritional information. Label contents are strictly checked by the Quality Control Office, and also confirmed a number of times by external specialists and through production stages. In addition, on its website LAWSON provides allergy information relating to fast food sold at its stores.

PUTTING QUALITY PRODUCTS THAT ARE SAFE, HEALTHY AND DELICIOUS ON STORE SHELVES

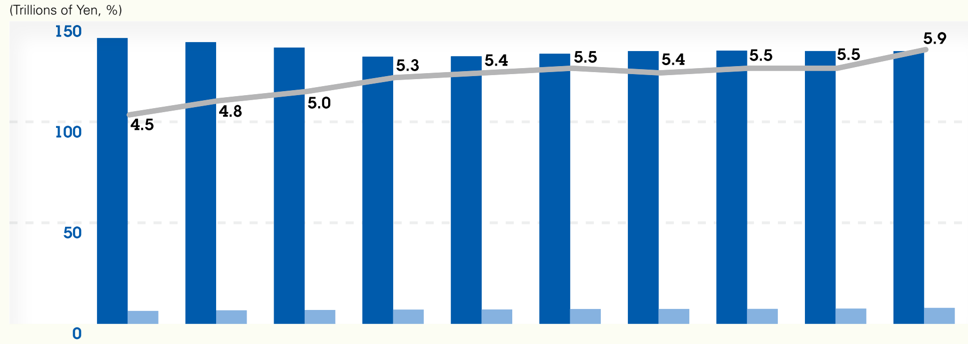


** LAWSON original (private brand) products include boxed lunches, rice balls, sushi, bread, delicatessen items, salads, cooked noodles and pasta that carry the LAWSON mark on the price label. Products prepared in-store are excluded.*
*** HACCP (Hazard Analysis and Critical Control Point) is a system for managing food safety and hygiene.*
**** The Manufacturing Process Control System is a system that prescribes standard amounts and preparation methods, how dishes should be assembled and other matters relating to product production processes.*

FINANCIAL SECTION

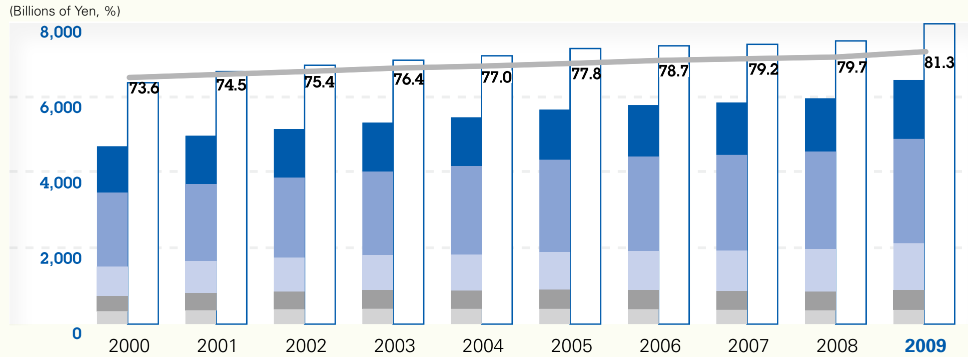
OVERVIEW OF THE CVS SECTOR AND SELECTED FINANCIAL DATA

CVS Share of the Total Retail Market



Years ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Total retail industry annual sales	¥142	¥139	¥137	¥132	¥132	¥134	¥135	¥135	¥135	**¥135**
CVS sector annual sales	6.4	6.7	6.8	7.0	7.1	7.3	7.4	7.4	7.5	**7.9**
CVS share	4.5%	4.8%	5.0%	5.3%	5.4%	5.5%	5.4%	5.5%	5.5%	**5.9%**

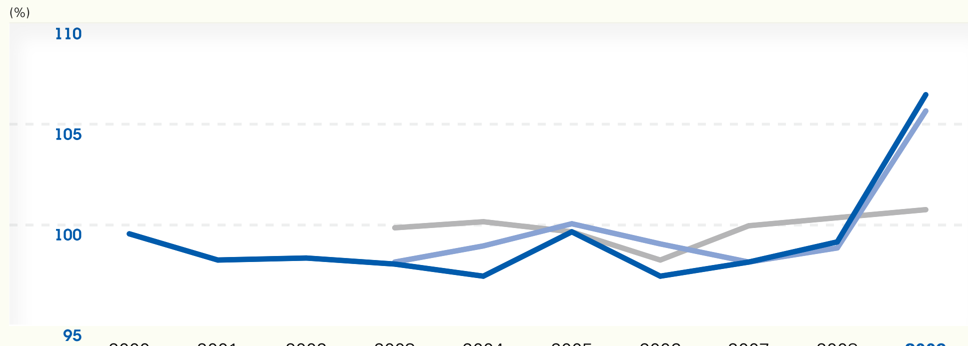
Share of CVS Market Held by Top Four* Chains (Net sales at all stores)



February 28 and 29	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
LAWSON	¥1,223	¥1,278	¥1,286	¥1,294	¥1,288	¥1,329	¥1,362	¥1,387	¥1,415	**¥1,559**
Seven-Eleven Japan	1,964	2,047	2,114	2,213	2,343	2,441	2,499	2,534	2,574	**2,763**
FamilyMart	783	843	899	932	954	998	1,032	1,069	1,122	**1,246**
Circle K	391	447	467	485	480	503	505	497	495	**517**
Sunkus	342	366	393	406	403	403	394	376	365	**374**
Total	4,701	4,978	5,159	5,330	5,468	5,674	5,792	5,863	5,971	**6,458**
(Estimated market share of top 4 chains)	73.6%	74.5%	75.4%	76.4%	77.0%	77.8%	78.7%	79.2%	79.7%	**81.3%**
CVS industry	¥6,383	¥6,680	¥6,846	¥6,980	¥7,096	¥7,289	¥7,360	¥7,399	¥7,490	**¥7,943**

Note: CVS industry figures are for previous calendar years ended December 31.
** Circle K and Sunkus are regarded as being in the same chain.*

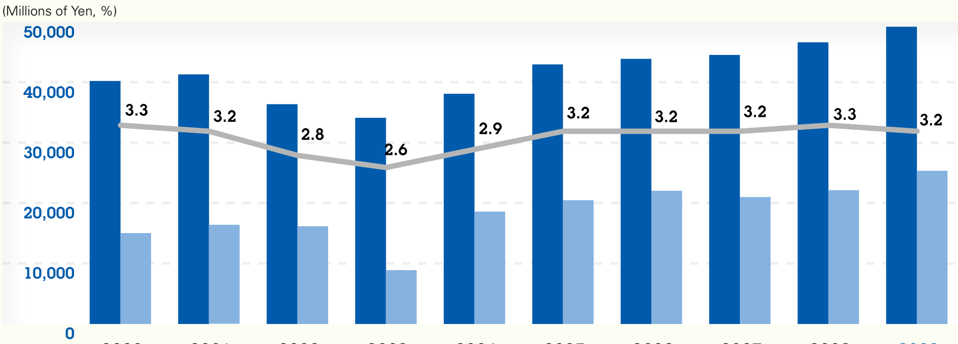
YoY Rate on Existing Store Sales, Average Number of Customers and Average Purchase Value per Customer in Existing Stores (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
YoY rate on existing store sales	99.6	98.3	98.4	98.1	97.5*	99.7	97.5	98.2	99.2	**106.5**
Average number of customers and average purchase value per customer in existing stores**										
Number of customers	–	–	–	98.2	99.0	100.1	99.1	98.2	98.9	**105.7**
Average purchase value per customer	–	–	–	99.9	100.2	99.7	98.3	100.0	100.4	**100.8**

** Excluding the effect of terminating Highway Card sales, sales were down 0.8%.*
*** Average number of customers and average purchase value per customer in existing stores are non-consolidated figures.*

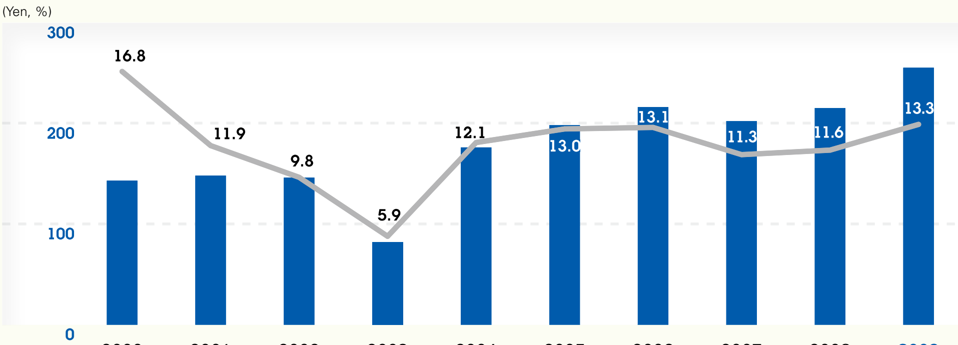
Operating Income, Operating Income Ratio and Net Income (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
■ Operating Income	¥40,185	¥41,279	¥36,363	¥34,107	¥38,087	¥42,941	¥43,867	¥44,513	¥46,610	**¥49,186**
— Operating Income Ratio*	3.3%	3.2%	2.8%	2.6%	2.9%	3.2%	3.2%	3.2%	3.3%	**3.2%**
■ Net Income	¥15,011	¥16,368	¥16,123	¥8,861	¥18,571	¥20,435	¥22,025	¥20,983	¥22,119	**¥25,306**

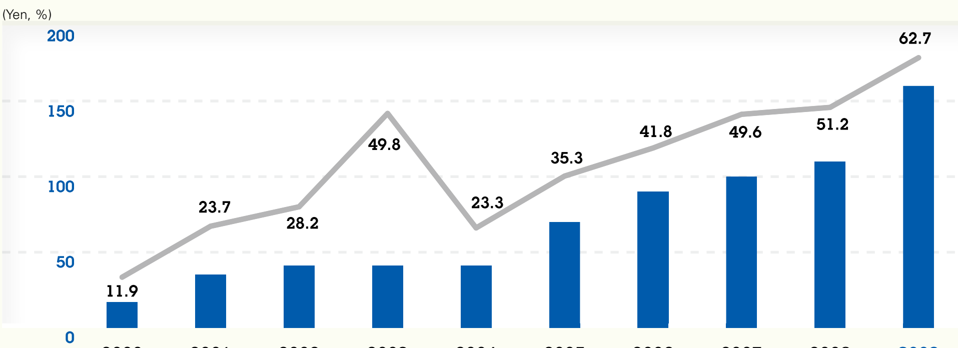
** Operating income ratio = Operating income/Net sales of all stores*

Net Income per Share and ROE (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
■ Net Income per Share	¥143	¥148	¥146	¥82	¥176	¥198	¥216	¥202	¥215	**¥255**
— ROE	16.8%	11.9%	9.8%	5.9%	12.1%	13.0%	13.1%	11.3%	11.6%	**13.3%**

Cash Dividends per Share and Payout Ratio (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
■ Cash Dividends per Share	¥17	¥35	¥41	¥41	¥41	¥70	¥90	¥100	¥110	**¥160**
— Payout Ratio	11.9%	23.7%	28.2%	49.8%	23.3%	35.3%	41.8%	49.6%	51.2%	**62.7%**

CONSOLIDATED TEN-YEAR SUMMARY

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

	2009	2008	2007	2006
For the year:				
Operating revenues				
Franchise commission from franchised stores	**¥ 186,928**	¥ 177,443	¥ 174,325	¥ 170,785
Net sales from Company-operated stores	**119,099**	83,321	75,151	66,027
Other	**43,449**	40,413	33,577	31,246
Total operating revenues	**349,476**	301,177	283,053	268,058
Operating income	**49,186**	46,610	44,513	43,867
Net income	**25,306**	22,119	20,983	22,025
Cash flows from operating activities	**51,717**	55,774	47,596	46,933
Cash flows from investing activities	**(15,647)**	(36,525)	(31,754)	(55,282)
Cash flows from financing activities	**(14,911)**	(31,973)	(736)	(7,795)
Capital expenditure(2)	**42,907**	64,413	49,822	54,417
Depreciation and amortization(3)	**20,879**	21,469	21,352	20,896
At year-end:				
Total assets	**¥ 436,172**	¥ 397,108	¥ 398,258	¥ 375,107
Total equity	**203,179**	188,574	199,493	175,184
Equity ratio	**45.1%**	46.6%	49.0%	46.7%
Interest-bearing debt	**–**	–	–	–
Ratio of interest-bearing debt	**–**	–	–	–
Cash and cash equivalents	**83,982**	62,823	75,547	60,441
Total number of stores(4)	**9,527**	8,587	8,564	8,366
Number of employees (full-time)	**5,186**	3,735	3,614	3,585

Per share data:				
Net income	**¥ 255**	¥ 215	¥ 202	¥ 216
Cash dividends	**160**	110	100	90
Payout ratio	**62.7%**	51.2%	49.6%	41.8%
Financial data:				
ROE	**13.3%**	11.6%	11.3%	13.1%
ROA	**6.1%**	5.6%	5.4%	6.0%
Net sales of all stores:				
Net sales by store category				
Franchised stores(5)	**¥1,434,166**	¥1,331,785	¥1,311,479	¥1,295,704
Company-operated stores	**124,614**	83,321	75,151	66,027
Net sales by product category(5)				
Processed foods	**¥ 844,324**	¥ 726,750	¥ 705,155	¥ 682,006
Fast foods	**332,894**	327,501	324,993	312,289
Daily delivered foods	**186,109**	162,625	155,575	150,917
Non-food products	**195,453**	198,230	200,907	216,519
Net sales of all stores	**¥1,558,781**	¥1,415,106	¥1,386,630	¥1,361,731

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2009, of ¥97.81=$1.
2. Effective from annual report 2006, the composition of capital expenditure has changed to also include leases, investments and advances, and construction assistance guarantees. Please refer to page 42 for details.
3. Including depreciation and amortization of intangible fixed assets.
4. Shanghai stores are not included because SHANGHAI HUALIAN LAWSON CO., LTD. was excluded from the scope of consolidation during the fiscal year ended February 28, 2005.
5. These figures, as reported by franchised stores, are unaudited.

					Millions of Yen	Thousands of U.S. Dollars[1]
2005	2004	2003	2002	2001	2000	**2009**
¥ 162,963	¥ 153,910	¥ 149,032	¥ 141,621	¥ 135,237	¥ 124,587	**$ 1,911,134**
63,802	67,479	80,954	101,353	132,921	149,458	**1,217,657**
27,630	24,212	20,348	13,142	12,061	17,808	**444,218**
254,395	245,601	250,334	256,116	280,218	291,853	**3,573,009**
42,941	38,087	34,107	36,363	41,279	40,185	**502,873**
20,435	18,571	8,861	16,123	16,368	15,011	**258,726**
47,329	37,424	33,860	44,804	52,793	67,790	**528,750**
(33,297)	(40,621)	(3,787)	(44,031)	(54,696)	121,758	**(159,973)**
(13,836)	(14,364)	(7,247)	(58,236)	18,707	(92,521)	**(152,449)**
46,873	48,303	75,828	59,810	32,651	30,703	**438,677**
19,641	18,499	16,071	16,328	16,021	15,017	**213,465**
¥ 356,310	¥ 354,831	¥ 342,599	¥ 342,934	¥ 387,236	¥ 339,413	**$ 4,459,380**
160,282	154,317	151,864	149,827	178,448	95,932	**2,077,282**
45.0%	43.5%	44.3%	43.7%	46.1%	28.3%	
–	–	–	3,140	23,530	71,817	**–**
–	–	–	0.9%	6.1%	21.1%	**–**
76,585	76,389	93,994	71,269	128,655	111,753	**858,624**
8,077	7,967	7,721	7,824	7,749	7,432	
3,391	3,402	3,462	3,817	4,170	4,234	
					Yen	U.S. Dollars[1]
¥ 198	¥ 176	¥ 82	¥ 146	¥ 148	¥ 143	**$ 2.61**
70	41	41	41	35	17	**1.64**
35.3%	23.3%	49.8%	28.2%	23.7%	11.9%	
13.0%	12.1%	5.9%	9.8%	11.9%	16.8%	
5.7%	5.3%	2.6%	4.4%	4.5%	4.0%	
¥1,265,275	¥1,220,819	¥1,213,088	¥1,184,204	¥1,144,717	¥1,073,422	**$14,662,775**
63,802	67,479	80,954	101,353	132,921	149,458	**1,274,042**
¥ 665,687	¥ 625,031	¥ 600,508	¥ 583,712	¥ 562,777	¥ 528,188	**$ 8,632,287**
297,369	302,568	303,098	297,030	362,979	350,702	**3,403,476**
148,134	139,506	138,353	150,862	90,569	89,248	**1,902,760**
217,887	221,192	252,083	253,953	261,313	254,742	**1,998,293**
¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	¥1,277,638	¥1,222,880	**$15,936,827**

■ Industry Overview

For the Japanese retail industry, the past fiscal year (fiscal 2008) was one of major change in consumer sentiment amid the rapid economic deterioration during the period. The first half of fiscal 2008 saw gentle inflation, but unease grew about the future from the third quarter onward as the September 2008 collapse of Lehman Brothers triggered a worldwide financial crisis. Consumer sentiment fell and along with it there were signs of deflation again. Amid this trend, there was also greater interest in the retail industry in private brand (PB) products. Companies are looking to pursue a PB strategy based on strengthening buying power. On the other hand, the PB strategy faces issues associated with diverse and regional preferences of Japanese consumers and the strongly rooted trust consumers have in national brands. In this context, LAWSON regards 2009 as an increasingly important year for food retailers in terms of how well retail chains can pinpoint consumer needs and to what extent chains' private brands take hold with Japanese consumers.

In the convenience store (CVS) industry, although fierce competition persisted in terms of both store openings and merchandise development, all CVS companies posted strong existing-store sales. Among other factors, more customers visited stores, driven by the introduction of cigarette vending machines that require *taspo* cards (adult identification IC cards) to make a purchase. Favorable weather conditions were another factor that benefited sales.

Retail Industry Market Size and CVS Share

(Billions of Yen)

Years ended December 31	2008	2007	2006	2005	2004
Total retail industry annual sales	**¥135,477**	¥135,081	¥135,257	¥135,055	¥133,712
CVS sector annual sales	**7,943**	7,490	7,399	7,360	7,289
CVS share	**5.9%**	5.5%	5.5%	5.4%	5.5%

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

Share of CVS Market Held by Top Four* Chains (Net Sales at all Stores)

(Billions of Yen)

February 28 and 29	2009	2008	2007	2006	2005
LAWSON	**¥1,559**	¥1,415	¥1,387	¥1,362	¥1,329
Seven-Eleven Japan	**2,763**	2,574	2,534	2,499	2,441
FamilyMart	**1,246**	1,122	1,069	1,032	998
Circle K	**517**	495	497	505	503
Sunkus	**374**	365	376	394	403
Total	**6,458**	5,971	5,863	5,792	5,674
(Estimated market share of top 4 chains)	**81.3%**	79.7%	79.2%	78.7%	77.8%

** Circle K and Sunkus are regarded as being in the same chain.*

■ Management Measures in Fiscal 2008

LAWSON executed the following management initiatives in the year ended February 28, 2009 with the goal of strengthening existing stores.

1. To create merchandise assortments matched to individual store locations, we strengthened the development of personnel who are well-versed in using "store charts"* and pushed ahead with developing products designed to broaden the customer base.

   In addition to increasing the number of LAWSON supervisors (management guidance staff), we developed products targeted at a broad customer base. This involved developing private brand "products in appropriately sized small quantities," and "fresh foods and daily delivered foods."**

   In other news, we conducted a tender offer bid (TOB) for the shares of Ninety-nine Plus Inc. to strengthen our relationship with this company, and made it a consolidated subsidiary.

2. We implemented measures to promote sales and bolster our merchandise assortment. This included utilizing our MY LAWSON POINT and LAWSON PASS members'cards.

   We worked to sign up more members by continuing to roll out point card initiatives in order to develop stronger merchandise assortments at individual stores via customer relationship management (CRM). These efforts saw the cardholder base reach approximately 8.5 million members at the end of February 2009. Sales to these cardholders accounted for an average of approximately 14% of all our sales during the fiscal year.

   In December 2008, we began allowing MY LAWSON POINT and LAWSON PASS members to exchange shopping points on their cards for discounts on purchases at the check-out counter, at the rate of ¥1 for every shopping point.

3. As an initiative to strengthen existing LAWSON stores, we continued to convert stores into LAWSON PLUS format stores, which carry a wider range of fresh foods. LAWSON PLUS stores were first opened in fiscal 2006.

4. On the organizational front, we continued to create and execute organic operational initiatives in support of franchised stores, with the COO overseeing the three organizational lines of merchandise, management and development. We established the senior management post of COO in fiscal 2007.

   In March 2009 we abolished the COO position and established a Marketing Strategy Group in a move designed to more flexibly respond to changes in the operating environment.

** A decision-making tool created from analyses of marketing and management at the individual store level.*

*** Includes tofu, natto (fermented soy beans) and other side dishes and delicatessen items as well as cooked noodles and other food products with a relatively short sales period after manufacture. Basically, products that are ordered and delivered every day.*

The following sections explain details of the aforementioned initiatives by organizational line (merchandise, management and development).

■ Product Strategy

LAWSON's merchandise strategy centers on original ready-made meals, such as boxed lunches and rice balls that can be carried easily. In addition to focusing on developing merchandise assortments that appeal to a wide range of customer groups, the Company also developed several dishes with generous servings that are aimed at young men, the traditional core customer base of regular LAWSON stores. These dishes included *Genki Na Omori Katsudon* (super-size pork cutlet rice bowl) and *Niku-tappuri Hiyashi Chuka* (cold Chinese egg noodles with extra white meat topping).

In sales promotions, the Company conducted campaigns with a stronger emphasis on entertainment based on the "Lawson Genki Plan" (in Japanese *Genki* means to be vibrant, cheerful, and vigorous). The Fall Rilakkuma Fair campaign, which ran from September through November 2008, helped immensely in expanding new customer groups, including women. Furthermore, the Company launched sales of *Lemon Flavor Karaage-kun* to a strong customer response. The launch of this new lemon-seasoned Japanese-style fried chicken was based on the results of a customer survey.

On the services front, our stores handled over 156 million bill settlement transactions, including public utility charges; the chain handled transactions amounting to ¥1,506.5 billion on behalf of third-party companies in this way. Furthermore, ATM machines were installed in Akita Prefecture for the first time during the past fiscal year, bringing the number of prefectures with LAWSON stores that have ATMs to 37.

During the year under review, we installed multifunctional terminals at cash registers in almost all of our stores that are capable of handling the major forms of e-money used in Japan. One terminal can handle "iD™,"* "QUICPay™" and "Edy."** In April 2009, we also began accepting "Visa Touch (Smartplus)" and "Suica."***

** iD™ is a trademark and registered trademark of NTT DOCOMO, INC.*
*** Edy is a prepaid electronic money service managed by bitWallet, Inc.*
**** Suica can now be used in the area serviced by East Japan Railway Company, excluding some areas in Niigata, Yamanashi, Nagano and Shizuoka prefectures. Customers can also use PASMO and ICOCA at stores that accept Suica. Suica is a registered trademark of East Japan Railway Company. PASMO is a registered trademark of PASMO Co., Ltd. ICOCA is a registered trademark of West Japan Railway Company.*

■ Store Operations

In store operations, the Company continued providing guidance to franchise owners in order to ensure merchandise assortments match customer needs in each location. Guidance is continuously provided to individual stores based on a thorough understanding of the customers in each area so as to create merchandise assortments that will satisfy these customers. In specific terms, the Company endeavored to refine and make greater use of store charts. The aim is to minimize lost sales opportunities,* and to reduce product disposal losses.**

Furthermore, the Company has commenced store guidance activities designed to promote ordering based on customer-generated data (via a new ordering system planned for deployment in fiscal 2009).

The Three Challenge Practices***—the enhancement of quality (Q), service (S), and cleanliness (C)—are the keystone for LAWSON store operations. We promoted these practices in fiscal 2008 with the aim of raising customer satisfaction. The Company continued to implement the "Mystery Shopper" program, which helps to strengthen store operation capabilities. In this program, researchers visit individual LAWSON stores posing as ordinary shoppers and objectively and quantitatively evaluate them from a customer's perspective.

** When a store is out of stock when a product is needed by customers.*
*** Incurred by franchise owners when disposing of unsold products.*
**** The Three Challenge Practices are points that franchised store owners, employees and store crews (part-time and casual workers) must pay particular attention to in running LAWSON stores. They are (1) ensuring merchandise assortments are matched to individual locations, (2) serving customers courteously, and (3) keeping stores and surrounding areas clean.*

■ Store Development and Store Formats

Development of LAWSON Stores

The Company worked to develop stores that it expects to generate high earnings, by rigorously adhering to proprietary standards for opening stores. This entailed concentrating on opening new stores mainly in major metropolitan areas in the Kanto, Chubu and Kinki regions. As a result, daily sales at new stores grew steadily. Furthermore, we worked to secure quality franchised store owners and focused on gathering information on prime locations for new stores by fostering closer cooperation between store operation and development divisions and by working with leading companies in candidate areas.

Corporate Franchising Agreement With Shinsengumi Honbu

In February 2008, LAWSON signed a Memorandum of Understanding regarding a business alliance with Shinsengumi Honbu K.K. Under this agreement, 44 convenience stores operated by Shinsengumi as either "Shinsengumi" or "Just Spot" stores have been rebranded as LAWSON stores. The stores are still operated by Shinsengumi Honbu, with LAWSON providing operational guidance.

LAWSON PLUS Stores

In fiscal 2006, aiming to develop existing regular LAWSON stores into a format that will better meet the needs of certain areas, we created a new format called LAWSON PLUS that features sales spaces and product mixes particularly for the newer customer groups of the middle-aged, seniors and women. By offering stronger merchandise assortments catering to the needs of these customers, we aimed at expanding the customer base. As of February 28, 2009, there were 747 LAWSON PLUS stores.

NATURAL LAWSON

NATURAL LAWSON is a CVS format targeting mainly working women and health-conscious customers, based on the key words of "beauty," "health" and "convenience." The first store opened in July 2001. In April 2004, one business division in the Head Office was spun off as NATURAL LAWSON, Inc., a wholly owned subsidiary of LAWSON. As a subsidiary, NATURAL LAWSON succeeded in developing a product concept and corporate culture that are distinct from the Head Office. NATURAL LAWSON has therefore been able to develop products that break the conventional CVS mold. With NATURAL LAWSON having achieved its initial goal of establishing a new brand strongly supported by female customers, LAWSON in October 2007 decided to integrate this company back into the LAWSON Head Office. As the next stage of developing this health-conscious format to meet the needs of female customers, LAWSON is currently accelerating efforts to franchise stores, by improving the efficiency of operations and effectively utilizing human resources. As of February 28, 2009, there were 93 NATURAL LAWSON stores, including 22 franchised stores.

Initiatives in Fresh Food Convenience Stores (LAWSON STORE100 and SHOP99)

Subsidiary VALUE LAWSON, Inc. has been developing LAWSON STORE100 fresh food convenience stores in a bid to establish this CVS format, which targets housewives, the middle-aged and the elderly, customer segments whose needs weren't fully met by our core LAWSON format stores. We have found that this fresh food format has garnered the support of precisely these customers, with customer numbers much higher on average than our LAWSON stores.

LAWSON sees sufficient market and growth potential for the fresh foods format. In light of the time and cost that would be required for the LAWSON Group to develop this format on its own, we forged an equity-based business alliance with industry leader Ninety-nine Plus with the goal of becoming the overwhelming number-one in this market segment before other companies. In September 2008, we made Ninety-nine Plus a consolidated subsidiary by way of tender offer.

Looking ahead, at the same time as aiming to grow further to make the fresh food convenience store business that can satisfy the needs of housewives, the middle-aged and elderly a core business, we will introduce fresh foods and *Value Line* private brand merchandise into existing LAWSON stores where appropriate.

As of February 28, 2009, there were 438 SHOP99 stores and 487 LAWSON STORE100 stores, giving a total of 925 fresh food convenience stores.

Future Store-Opening Strategy

LAWSON will continue to focus on picking the right format for the needs of the area from its three main formats: "LAWSON," "NATURAL LAWSON" and "LAWSON STORE100." In candidate locations where use of the regular LAWSON format is highly likely to expose us to stiff competition from other major convenience store chains, we will open "NATURAL LAWSON" and "LAWSON STORE100" stores to differentiate ourselves from other chains.

We believe that one of LAWSON's defining strengths lies in a flexible and dynamic store development system that makes possible alliances with diverse partners such as Japan Post Holdings Co., Ltd. and Shinsengumi. Moving forward, based on mold-breaking concepts, we will rise to the challenge of opening stores in various locations as we pursue the potential of new business opportunities.

Domestic store openings* in fiscal 2008 numbered 501, while store closures were 414, including relocated stores. At February 28, 2009, LAWSON's domestic network comprised 9,527 stores, including 93 NATURAL LAWSON, 438 SHOP99, and 487 LAWSON STORE100 stores, a net increase of 940 stores from a year earlier. The network of SHANGHAI HUALIAN LAWSON CO., LTD., an affiliate in the People's Republic of China accounted for by the equity method, increased by 3 stores year on year to 300 stores as of December 31, 2008.

Number of Stores in the LAWSON Network

Years ended February 28 and 29	2009	2008	2007	2006	2005
Number of stores*	**9,527****	8,587	8,564	8,366	8,077
Openings*	**501**	452	700	717	711
Closings*	**414**	429	502	428	455
Net increase (decrease)	**940**	23	198	289	256

* *Openings and closings do not include stores run by Ninety-nine Plus.*
** *Ninety-nine Plus was consolidated from the fiscal year ended February 28, 2009.*

Number of Stores by FC Contract Type

February 28 and 29	2009	2008	2007	2006	2005
B	**1,322**	1,369	1,512	1,674	1,836
Share (%)	**13.9**	15.9	17.7	20.0	22.7
G	**2,041**	2,123	2,209	2,272	2,335
Share (%)	**21.4**	24.7	25.8	27.2	28.9
C*	**4,885**	4,656	4,372	4,012	3,560
Share (%)	**51.3**	54.2	51.1	48.0	44.1
LAWSON STORE100 / SHOP99**	**114**	–	–	–	–
Share (%)	**1.2**	–	–	–	–
Franchised stores	**8,362**	8,148	8,093	7,958	7,731
Share (%)	**87.8**	94.9	94.5	95.1	95.7
Company-operated stores***	**354**	367	391	373	346
Share (%)	**3.7**	4.3	4.6	4.5	4.3
LAWSON STORE100 / SHOP99**	**811**	72	80	35	–
Share (%)	**8.5**	0.8	0.9	0.4	–
Total	**9,527**	8,587	8,564	8,366	8,077
Share (%)	**100.0**	100.0	100.0	100.0	100.0

* *Includes NATURAL LAWSON franchised stores.*
** *LAWSON STORE100 and SHOP99 includes stores run by Ninety-nine Plus from fiscal 2008.*
*** *Includes NATURAL LAWSON*

Outline of Store Contracts

<table>
<tr><td colspan="2">Contract type</td><td>FC-C5</td><td>FC-G</td><td>FC-B4</td></tr>
<tr><td colspan="2">Contract term</td><td colspan="3">10 years from store opening day</td></tr>
<tr><td colspan="2">Owner conditions</td><td colspan="3">At least 20 years old, 2 full-time store workers</td></tr>
<tr><td colspan="2">Land and buildings</td><td colspan="2">Prepared by LAWSON</td><td>Prepared by franchisee</td></tr>
<tr><td colspan="2">Investment in store construction and interior decoration expenses</td><td colspan="2">Borne by LAWSON</td><td>Borne by franchisee</td></tr>
<tr><td colspan="2">Signage and business fixtures</td><td colspan="3">Prepared by LAWSON</td></tr>
<tr><td rowspan="2">Payment by franchisee at time of contract*</td><td>Franchise fee</td><td colspan="3">¥1.5 million (Contract fee, training expenses,
and store opening preparation commission, each ¥500,000)</td></tr>
<tr><td>Investment</td><td colspan="3">¥1.5 million (Including payment for some merchandise purchased on behalf of the store)</td></tr>
<tr><td colspan="2">Guarantee deposit provided by franchisee</td><td>Not required</td><td>Average monthly sales x 2 months</td><td>Not required</td></tr>
<tr><td colspan="2">Head Office income**</td><td>Gross profit x 50%</td><td>Gross profit x 45%</td><td>Gross profit x 34%</td></tr>
<tr><td colspan="2">Burden of utility expenses</td><td colspan="3">Franchisee</td></tr>
<tr><td colspan="2">Minimum guarantee (annual)** (thousands of yen)</td><td>21,000</td><td>22,200</td><td>22,200</td></tr>
</table>

The above amount is paid by the franchisee to Head Office at the time of the franchising contract. In addition, the franchisee needs to separately prepare a total of ¥500,000, including cash register float at time of store opening.

*** Head Office income and minimum guarantee are in the case of stores operating on a 24-hour basis.*

■ Scope of Consolidation

The consolidated results for fiscal 2008 include the performance of eight members of the LAWSON Group—seven consolidated subsidiaries and one affiliate accounted for under the equity method—and the parent company. These subsidiaries and affiliates are broadly involved in four categories of business: CVS operations, financial services, other services, and overseas services. The business operations and fiscal results of companies included within the scope of consolidation are presented below.

CVS Operations

The LAWSON Group is developing four CVS formats: LAWSON, INC. is developing the "LAWSON" and "NATURAL LAWSON" formats, VALUE LAWSON, Inc. is developing the "LAWSON STORE100" format, and some existing LAWSON stores are being converted into LAWSON PLUS stores. Furthermore, Ninety-nine Plus became a consolidated subsidiary in fiscal 2008.

VALUE LAWSON, Inc. (Consolidated Subsidiary)

This consolidated subsidiary operates "LAWSON STORE100" fresh food convenience stores, which wed the CVS and mini-supermarket formats. "LAWSON STORE100" stores target women, the middle-aged and seniors with the concept of "supporting time savings, simplicity, and convenience in everyday life." These stores provide a wide range of products spanning processed foods and daily necessities at a uniform price of ¥100 (excluding consumption tax). The main products comprise high-quality, domestically grown fruit and vegetables, and boxed lunches and side dishes based on the LAWSON Group's know-how. VALUE LAWSON, Inc. was founded in April 2005 as a wholly owned subsidiary to establish the "LAWSON STORE100" business format, as well as to perform product planning and development for these stores. The company opened its first store in May 2005. As of February 28, 2009, there were 72 stores in this format.

(Millions of Yen)

	2009	2008	2007	2006
Operating loss	**¥(131)**	¥(535)	¥ (980)	¥(623)
Net income (loss)	**173**	(688)	(1,311)	(709)
No. of stores	**72**	72	80	35

Ninety-nine Plus Inc. (Consolidated Subsidiary)

LAWSON concluded an equity-based alliance in February 2007 with Ninety-nine Plus Inc., which operates the "SHOP99" chain of convenience stores known for their fresh foods. Ninety-nine Plus was established in October 2000 and since then has grown rapidly as a pioneer in Japan of a new fresh foods store format that provides everything from daily food items, including fresh foods, to sundry goods at a single, everyday low price of ¥99 (excluding tax). As of March 31, 2008, the company had a network of 837 stores. SHOP99 stores have won strong acceptance from housewives and older shoppers for a fresh food CVS format strategy of strengthening the merchandise assortment of fresh and daily delivered foods at stores in residential areas. This is highlighted by a higher percentage of these groups in its customer mix than at conventional convenience stores.

Through this alliance with Ninety-nine Plus, LAWSON believes it can improve the quality of fresh and daily delivered foods sold in suitably sized small portions by making use of the two companies' complementary know-how and strengths in fresh foods and other areas. By doing so, LAWSON believes that it can broaden its customer base of housewives and seniors and attract more customers. Based on the agreement between the two companies, Ninety-nine Plus allotted 31,500 shares of common stock to LAWSON in March 2007 through an increase in capital by way of a private placement of shares.

In January 2008, Ninety-nine Plus made another third-party allotment of shares to strengthen its business alliance with LAWSON and to raise funds to open more stores. LAWSON subscribed to this increase in capital with a view to maximizing the benefits of its alliance with Ninety-nine Plus and as a result became the company's leading shareholder with an equity interest of 34.2%. In September 2008, LAWSON conducted a tender offer for Ninety-nine Plus' shares, raising its equity interest to 76.8%.

LAWSON has set the goal of being the overwhelming number-one in the fresh food convenience store sector. To generate even more alliance benefits such as in the form of sharing expertise in the sale of fresh foods and daily delivered foods and the joint development of uniform private brand products in appropriately small quantities and conveniently sized packages for housewives, the middle-aged and elderly, VALUE LAWSON and Ninety-nine Plus merged on May 1, 2009, with the latter the surviving company.

Ninety-nine Plus is listed on the JASDAQ market (stock code: 3338). Since it has a March 31 fiscal year-end, LAWSON's equity-method earnings in this company in fiscal 2007 included earnings for the nine months through the end of the company's third quarter. In fiscal 2008, six months of earnings through the end of Ninety-nine Plus' second quarter were recorded as equity-method earnings by LAWSON and Ninety-nine Plus was then completely consolidated from the company's third quarter in 2009.

(Millions of Yen)

	2009	2008	2007
Operating income	**¥261**	¥401	¥955
Net income (loss)	**(504)**	47	(886)
No. of stores	**856**	837	780

Note: The above figures are Ninety-nine Plus' results for the fiscal years ended March 31.

Financial Services

LAWSON ATM Networks, Inc. (Consolidated Subsidiary)

This consolidated subsidiary was established in May 2001 with investments by LAWSON, Mitsubishi Corporation and several banks to run ATM operations for LAWSON stores. The company began installing ATMs and started ATM services at some LAWSON stores from October 2001. The company's ATM business installs jointly operated ATMs on a leased basis in LAWSON stores in regions where agreement has been reached with partner banks. It has formed alliances with the major city bank groups and regional banks; partner banks currently number 30. The company's main source of revenue is ATM commissions from banks. Its main expenses are operating center outsourcing fees, ATM line charges and ATM leasing charges. As of February 28, 2009, the number of ATMs installed stood at 5,970 and the number of prefectures where ATMs are installed was 37. LAWSON held a 53.0% stake in this company as of February 28, 2009.

(Millions of Yen)

	2009	2008	2007	2006	2005
Operating revenues	**¥16,964**	¥14,900	¥11,907	¥11,311	¥10,003
Operating income	**1,439**	1,201	866	654	144
Net income	**589**	718	509	675	266

Number of ATMs Installed

	2009	2008	2007	2006	2005
Number of ATMs installed	**5,970**	5,643	4,245	3,812	3,570

Other Services

LAWSON TICKET INC. (Consolidated Subsidiary)

This consolidated subsidiary sells tickets to concerts, sporting events, the theater, movies and other attractions, primarily through *Loppi* multimedia terminals at LAWSON stores. It was established as a ticket sales company in 1992 and became a consolidated subsidiary of LAWSON in 1997. In October 2004, LAWSON TICKET listed on the JASDAQ market (stock code: 2416).

LAWSON TICKET ranks second in sales in the ticket sales industry behind PIA Corporation. and is particularly strong in sales of tickets for J-POP*, sporting events and the theater.

In fiscal 2008, LAWSON TICKET posted higher operating income year on year mainly on the back of strong ticket sales. As of February 28, 2009, LAWSON held a 75.1% equity stake in LAWSON TICKET.

(Millions of Yen)

	2009	2008	2007	2006	2005
Operating revenues	**¥7,620**	¥6,960	¥6,533	¥6,259	¥6,288
Operating income	**791**	636	836	821	719
Net income	**550**	423	507	487	412

** Japanese popular music generally popular among the relatively younger generation.*

i-Convenience, Inc. (Consolidated Subsidiary)

This subsidiary was established in October 2000 with the aim of expanding business in the e-commerce sector, based on joint investment by LAWSON (51% shareholding), Mitsubishi Corporation (18%), Matsushita Electric Industrial Co., Ltd. (now Panasonic Corporation) (18%), and NTT DOCOMO, INC. (13%). It operates the official "LAWSON Mobile" Internet site for mobile phones, and in addition to providing online merchandise sales and related services and information, it manages the LAWSON website. During the fiscal year ended February 28, 2007, Mitsubishi Corporation purchased the shareholdings of Matsushita Electric Industrial and NTT DOCOMO, bringing its stake in i-Convenience to 49%. In fiscal 2008, LAWSON purchased Mitsubishi Corporation's shareholding, to make i-Convenience a wholly owned subsidiary.

On March 1, 2009, LAWSON TICKET and i-Convenience merged, with the former the surviving company. Moving forward, a growth strategy will be promoted that takes full advantage of LAWSON TICKET's customer contacts and i-Convenience's know-how and frameworks in e-commerce. At the same time, efforts will be made to improve operating efficiency and strengthen competitiveness. The goal of these efforts is to raise corporate value.

(Millions of Yen)

	2009	2008	2007	2006	2005
Operating revenues	**¥698**	¥711	¥686	¥ 427	¥ 308
Operating income (loss)	**(29)**	64	46	(64)	(114)
Net income (loss)	**(57)**	66	43	(137)	(155)

BestPractice Inc. (Consolidated Subsidiary)

This company was established in March 2004 as a wholly owned subsidiary. BestPractice implements "Mystery Shopper" on-site inspections of convenience stores to determine the status of operations and offers advice and proposals to improve LAWSON stores at the operational level. Through this program, an undercover researcher who is an employee of BestPractice and has a thorough knowledge of convenience store operations and merchandise assortments, objectively and quantitatively evaluates LAWSON stores from a customer's perspective. The results are fed back to LAWSON's Head Office and franchise owners.

(Millions of Yen)

	2009	2008	2007	2006	2005
Operating revenues	**¥982**	¥919	¥885	¥892	¥628
Operating income (loss)	**50**	8	82	62	(2)
Net income (loss)	**(1)**	1	45	34	(2)

Overseas Business

SHANGHAI HUALIAN LAWSON CO., LTD. (Equity-method Affiliate)

This company has been developing a chain of LAWSON stores in Shanghai, the People's Republic of China, since July 1996. In May 2004, LAWSON relinquished 21.0% of its 70.0% equity interest in the company to partner Hualian Group Corporation**, leaving LAWSON with a current stake of 49.0%, to foster expansion through operation by local partners. At the end of December 2008, there were 300 stores in operation, of which 236 were franchised stores.

(Millions of Yen)

	2008	2007	2006	2005	2004
Operating income (loss)	**¥ 13**	¥ 77	¥ 20	¥ (7)	¥ (13)
Net income	**22**	8	8	3	0
No. of stores	**300**	287	291	283	210

* *SHANGHAI HUALIAN LAWSON CO., LTD. closes its accounts in December. It also changed from a consolidated subsidiary to an equity-method affiliate in fiscal 2004.*

** *Hualian Group Corporation transferred its 51% stake to Shanghai Bailian Group Co., Ltd. in December 2008 along with the cancellation of Hualian Group Corporation's corporate registration.*

■ Overview of Results

1. Sales Figures

Consolidated Total Net Sales

Consolidated net sales of LAWSON stores in fiscal 2008, ended February 28, 2009, rose 10.2% year on year, in line with plans, to ¥1,558,781 million. There was also a large increase in the number of customers, in part because of the introduction of *taspo* nationwide from July 2008.

Existing Store Sales

Existing store sales in fiscal 2008 were 6.5% higher year on year, and 0.8% above plan. In addition to the *taspo* effect previously discussed, sales of products other than cigarettes were also strong. By region, the gap in sales closed between the three major cities of Tokyo, Osaka and Nagoya, and other regions of Japan. However, sales fell visibly in Tokyo and Nagoya from the third quarter due to macroeconomic effects and other factors.

(%)

	2009	2008	2007	2006	2005
Existing store sales (year on year)	**106.5**	99.2	98.2*	97.5	99.7
No. of customers and amount spent per customer (year on year)					
No. of customers	**105.7**	98.9	98.2	99.1	100.1
Amount spent per customer	**100.8**	100.4	100.0	98.3	99.7

** Excluding the effect of terminating Highway Card sales, existing store sales were 99.2% YoY.*

Sales by Product Category (consolidated, total net sales)

During the fiscal year under review, processed foods and daily delivered foods sold well.

In the fast foods category, sales rose 1.6%, to ¥332,894 million. Sales of rice dishes fell year on year, but sales of bread were firm, thanks in part to some shopping point campaigns. Furthermore, new product launches and other factors spurred sales of counter fast foods.

In the daily delivered foods category, sales increased 14.4% to ¥186,109 million, lifted by buoyant sales of desserts and bakery items thanks to new products and a strong response to shopping point campaigns.

In the processed foods category, net sales increased 16.2% to ¥844,324 million. Cigarette sales rose 36.7% year on year on an all-store basis due in part to *taspo*'s introduction. Other main contributors to the higher sales in the processed foods category were new products belonging to national brands and other factors that boosted sales of snacks, including instant noodles, rice snacks and baked goods.

In the non-food products category, sales declined 1.4% year on year to ¥195,453 million, despite strong demand for services. The overall decline was primarily attributable to sluggish magazine sales.

Net Sales by Product Segment (consolidated, total net sales)

(Millions of Yen)

Years ended February 28 and 29	**2009**	2008	2007	2006	2005
Fast foods	**¥ 332,894**	¥ 327,501	¥ 324,993	¥ 312,289	¥ 297,369
Daily delivered foods	**186,109**	162,625	155,575	150,917	148,134
Processed foods	**844,324**	726,750	705,155	682,006	665,687
Cigarettes	**341,573**	249,745	238,406	221,957	208,258
Total food sales	**1,363,328**	1,216,876	1,185,724	1,145,212	1,111,190
Non-food products	**195,453**	198,230	200,907	216,519	217,887
Net sales of all stores	**¥1,558,781**	¥1,415,106	¥1,386,630	¥1,361,731	¥1,329,077

Breakdown of Net Sales by Product Segment (consolidated, total net sales)

(%)

Years ended February 28 and 29	**2009**	2008	2007	2006	2005
Fast foods	**21.4%**	23.1%	23.4%	22.9%	22.4%
Daily delivered foods	**11.9**	11.5	11.2	11.1	11.1
Processed foods	**54.2**	51.4	50.9	50.1	50.1
Cigarettes	**22.5**	17.6	17.2	16.3	15.7
Total food sales	**87.5**	86.0	85.5	84.1	83.6
Non-food products	**12.5**	14.0	14.5	15.9	16.4

Breakdown of Product Segment

Category	Products Included
Fast foods	Rice dishes, noodles, bread, delicatessen items, fast foods, etc.
Daily delivered foods	Daily foods, desserts, etc.
Processed foods	Soft drinks, alcoholic beverages, processed foods, confectionery, cigarettes, etc.
Non-food products	Daily necessities, books, magazines, online merchandise sales and services

Gross Profit Margin by Product Segment (parent company, total net sales)

The overall gross profit margin decreased by about 1.1 percentage points as a whole, and about 0.2 of a percentage point less than planned. This was mainly attributable to a poorer sales mix because of the higher cigarette sales. Margins on products other than cigarettes were on a par with the previous fiscal year and largely in line with plans.

In the fast foods category, the margin on counter fast foods dropped year on year due to a higher price for frying oil, reflecting higher prices for basic ingredients. In the processed foods category, the gross profit margin declined substantially due to the greater share of sales from cigarettes in the product mix. However, as mentioned earlier, margins on products other than cigarettes were unchanged for the most part. In the non-food products category, there was an improvement in the markup from the previous fiscal year. This was due to a lower share of sales of low markup products such as books and magazines in the sales mix, and increased sales of services.

Gross Profit Margin by Product Segment (parent company)

(%)

Years ended February 28 and 29	2009	2008	2007	2006	2005
Fast foods	**36.1%**	36.3%	36.5%	36.8%	36.4%
Daily delivered foods	**33.7**	33.6	33.8	33.6	33.3
Processed foods*	**24.8**	26.3	26.4	26.7	26.7
Non-food products**	**39.5**	38.5	38.0	35.8	34.0
Gross profit margin	**30.1**	31.2	31.3	31.2	30.8

* *The processed foods category includes cigarettes.*
** *Calculation of the gross profit margin for non-food products includes bill settlement and other commission income.*

Bill Settlement Services (parent company)

Years ended February 28 and 29	2009	2008	2007	2006	2005
Bill settlements (millions of yen)	**¥1,506,531**	¥1,412,335	¥1,294,004*	¥1,165,255	¥1,035,936
No. of transactions (millions)	**156.6**	149.9	140.9	130.6	118.9
Commission income (millions of yen)	**8,415**	8,275	8,141	7,507	6,768

* *Bill settlements for the fiscal year ended February 28, 2007 have been corrected from the 2007 Annual Report where they were incorrectly reported as ¥1,204,004 million.*

2. Consolidated Income Statement Items

Total Operating Revenues

Total operating revenues comprise net sales from Company-operated stores, franchise commission from franchised stores, and other operating revenues.

Total operating revenues increased ¥48,299 million to ¥349,476 million, or 16.0%. This result was ¥2,524 million less than planned*. While franchise commission increased due to improved existing store sales, the number of operating days declined due to delays opening stores. Additionally, the rate of total operating revenue growth was higher than total net sales growth. This was because franchise commission from franchised stores has risen at a faster pace than growth in the number of stores, as the percentage of Company-operated stores has declined and the share of C-type stores (contract whereby LAWSON prepares the store), which pay a high rate of franchise commissions, was approximately 80%.

* *Revised plan announced with operating results for the first six months of the fiscal year under review (Same below).*

Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose ¥18,542 million, or 9.6%, to ¥211,932 million. This increase was mainly due to a ¥3,761 million, or 6.4%, rise in rents associated with an increase in the opening of mainly C-type franchised stores, and a ¥6,275 million, or 15.7%, increase in personnel expenses due to increased bonuses in line with performance-linked evaluations. In addition, advertising and promotional expenses increased ¥4,395 million, or 46.8%, due to measures to counter higher costs of basic materials and to help franchise owners, as well as instant refunds on shopping point cards. Nevertheless, this was largely as planned. IT-related costs fell due to efforts to rationalize expenses. In addition, slower-than-planned store openings and delays refurbishing stores, meant that SG&A expenses were ¥2,069 million lower than planned.

Breakdown of Main SG&A Expenses

(Millions of Yen)

Years ended February 28 and 29	2009	2008	2007	2006	2005
Personnel expenses*	**¥ 46,203**	¥ 39,927	¥ 37,888	¥ 35,450	¥ 34,114
Advertising and promotional expenses	**13,781**	9,385	9,693	9,177	9,704
Rents	**62,323**	58,562	55,318	51,236	46,785
Equipment leasing charges	**14,988**	18,414	17,475	16,734	16,263
Depreciation expenses	**16,752**	16,630	16,185	15,859	15,059
Amortization expenses	**4,126**	4,815	5,163	5,034	4,574
Other	**53,755**	45,653	41,446	42,402	38,136
Total	**¥211,932**	¥193,390	¥183,169	¥175,894	¥164,635

** Effective from the fiscal year ended February 28, 2007, expenses for temporary employees have been included in "Personnel expenses," whereas they were previously recorded under "Other." Expenses for temporary employees included in "Personnel expenses" in fiscal 2006 were ¥1,375 million, while expenses for temporary employees included in "Other" in fiscal 2005 were ¥750 million.*

Composition of SG&A Expenses

(%)

Years ended February 28 and 29	2009	2008	2007	2006	2005
Personnel expenses	**21.8%**	20.6%	20.7%	20.2%	20.7%
Advertising and promotional expenses	**6.5**	4.9	5.3	5.2	5.9
Rents	**29.4**	30.3	30.2	29.1	28.4
Equipment leasing charges	**7.1**	9.5	9.5	9.5	9.9
Depreciation expenses	**7.9**	8.6	8.8	9.0	9.1
Amortization expenses	**1.9**	2.5	2.8	2.9	2.8
Other	**25.4**	23.6	22.6	24.1	23.2
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

Operating Income

Operating income rose ¥2,576 million, or 5.5%, to ¥49,186 million. This result was ¥1,186 million, or 2.5%, above plan.

Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests increased ¥4,073 million, or 10.7%, to ¥42,207 million. Impairment of long-lived assets declined ¥436 million from the previous fiscal year to ¥2,014 million.

Net Income

Net income increased ¥3,187 million, or 14.4%, to ¥25,306 million. Net income per share increased 18.9% to ¥255.22.

■ Financial Position

1. Consolidated Balance Sheet Items

Current Assets

Total current assets increased ¥16,510 million, or 11.9%, to ¥154,761 million. "Due from franchised stores" increased ¥9,426 million due to the fiscal year-end falling on a bank holiday. Furthermore, cash and cash equivalents increased ¥21,159 million due to the collection of ¥20.0 billion in short-term loans following the April 2008 sale of LAWSON CS Card and received ¥5,793 million boost from the consolidation of Ninety-nine Plus.

Property and Store Equipment, Investments and Other Assets

Net property and store equipment rose ¥8,567 million, or 8.0%, to ¥114,999 million, the result of a rise of ¥18,198 million in buildings, owing to an increase in the opening of C-type stores prepared by LAWSON among newly opened franchise stores. Investments and other assets increased ¥13,987 million, or 9.2%, to ¥166,412 million.

Current Liabilities

Total current liabilities increased ¥25,825 million, or 16.6%, to ¥181,804 million. There was a ¥13,165 million increase in other accounts payable due to the fiscal year-end falling on a bank holiday. Money held as agent such as in bill settlement services increased ¥2,550 million. The consolidation of Ninety-nine Plus had an ¥8,657 million impact on accounts payable (trade). Income taxes payable decreased ¥1,971 million due to the sale of LAWSON CS Card.

Long-term Liabilities

Total long-term liabilities decreased ¥1,366 million, or 2.6%, to ¥51,189 million, the result mainly of a ¥3,390 million decrease in guarantee deposits received from franchised stores and lease deposits from lessees due to a decrease in the number of G-type franchised stores, which operate under franchise agreements requiring the payment of a guarantee deposit.

Total Equity

Total equity, including minority interests, amounted to ¥203,179 million at the end of February 2009. Retained earnings increased ¥11,919 million to ¥99,310 million, reflecting mainly net income of ¥25,306 million and cash dividends of ¥13,386 million. Minority interests increased due to the third-party placement to increase capital by Ninety-nine Plus. As a result of the aforementioned and other factors, the equity ratio dropped 1.5 points to 45.1%.

2. Special Account Items on the Balance Sheet

The following items are special features of LAWSON's financial statements.

Due From Franchised Stores

LAWSON makes bulk purchases of products ordered by all franchised stores and calculates and pays amounts payable for such to the vendors on the stores' behalf. LAWSON records the cost of the merchandise in the "Accounts receivable—Due from franchised stores" account since such costs are recovered from franchised stores. "Due from franchised stores" represents mainly the obligations of franchised stores to Head Office for these amounts at the balance sheet date. As of February 28, 2009, this asset account was ¥21,376 million, ¥9,426 million higher than a year ago because the fiscal year-end fell on a bank holiday.

Accounts Receivable—Other

Other accounts receivable such as income due from vendors is included in "Other" in "Accounts receivable" on the balance sheet. The constituent elements of this item stood at ¥26,692 million at February 28, 2009, a decrease of ¥292 million.

Long-Term Loans Receivable

This account mainly represents money paid to landlords (owners of land and buildings for stores) to help with construction, and investments and finance from Head Office to franchised stores. As of February 28, 2009, this account was ¥1,776 million higher than a year ago at ¥27,423 million, due to an increase in money paid to landlords to help with construction for store openings.

Lease Deposits

This account represents leasehold deposits paid to landlords equivalent to several months' rent under lease agreements at LAWSON. As of February 28, 2009, this account was ¥85,357 million, an increase of ¥2,602 million.

Due to Franchised Stores

This account represents Head Office obligations to franchised stores. All franchised stores make remittances of cash proceeds from daily sales to the Head Office. If franchised store remittances of cash proceeds from daily sales to the Company exceed the balance of "Accounts receivable—Due from franchised stores," the excess will be shown on the balance sheet as "Accounts payable—Due to franchised stores." As of February 28, 2009, this account was ¥822 million, down ¥1,379 million from a year ago.

Money Held as Agent

This account mainly comprises money held on behalf of third-party companies for which LAWSON provides bill settlement services, including public utility charges. There was an increase in money held as agent due to a rise in the number of transactions and the number of companies for which settlement services were provided. As a reflection of this, the balance of payments to third-party companies increased, leading to a rise of ¥2,550 million to ¥58,844 million in this account at February 28, 2009.

Guarantee Deposits Received From Franchised Stores

This represents guarantee deposits received by LAWSON from store owners operating under FC-G contracts. As of February 28, 2009, this account was ¥41,610 million, ¥3,344 million less than the previous year due to a decline in the number of FC-G contract stores.

■ Capital Expenditure, Etc.

In fiscal 2008, capital expenditure totaled ¥42,907 million, down ¥21,506 million year on year. New store investments increased ¥3,248 million to ¥15,635 million due to increased store openings compared to the previous fiscal year. Existing store investments decreased ¥746 million to ¥6,747 million, reflecting underachievement of plans to convert existing stores into LAWSON PLUS stores. IT-related investments increased ¥4,331 million to ¥12,064 million, principally due to investments in a next-generation IT system. Leases increased ¥4,290 million to ¥19,140 million due to an increase in leased assets. A breakdown of capital expenditure is as follows.

Capital Expenditure

(Millions of Yen)

Years ended February 28 and 29	2009	2008	2007	2006	2005
New store investments	**¥ 15,635**	¥12,387	¥23,444	¥26,047	¥21,695
Existing store investments	**6,747**	7,493	5,887	6,592	8,175
IT-related investments	**12,064**	7,733	4,662	9,084	2,765
Other	**3,886**	2,260	(1,395)	1,615	4,186
Investments and advances	**(14,564)**	19,690	3,013	1,250	(1,000)
Leases*	**19,140**	14,850	14,211	9,829	11,052
Total	**¥ 42,907**	¥64,413	¥49,822	¥54,417	¥46,873

** The amount equivalent to the acquisition cost of leased property acquired during each fiscal year.*

■ Cash Flows

Operating activities provided net cash of ¥51,717 million, ¥4,057 million less than in the previous fiscal year. While other accounts payable to suppliers increased, there was an increase in income taxes paid and an increase in accounts receivable.

Investing activities used net cash of ¥15,647 million, ¥20,877 million less than in the previous fiscal year. This mainly reflected a fall in proceeds from redemption of marketable securities, which was outweighed by decrease in short-term loan accompanying the sale of LAWSON CS Card.

As a result of changes in cash flows from operating and investing activities, free cash flow—the difference between the two figures—increased ¥16,821 million to ¥36,070 million.

Financing activities used net cash of ¥14,911 million, ¥17,062 million less than the previous fiscal year. Although cash was used to pay dividends, the decrease reflects the absence of stock buybacks.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥83,982 million, ¥21,159 million more than a year earlier.

■ Capital Policy: Dividends and Purchase of Treasury Stock

LAWSON regards returning profits to shareholders as one of its most important management policies, and the Company is run with sufficient recognition that the level of capital cost reflects the profit expectations of investors toward the Company. To select and develop businesses that achieve earnings above the cost of capital, LAWSON uses ROE, an indicator of capital efficiency, as its most important management indicator. We secure the necessary level of internal reserves for investment aimed at achieving sustained corporate growth over the medium and long terms so as to maintain high profitability and secure our financial soundness. We also pursue optimal capital efficiency by looking at the appropriate balance between the distribution of profits through dividends and the purchase and cancellation of treasury stock. Our medium-term goal is ROE of 15%.

During the four-year period from fiscal 2001 to fiscal 2004, LAWSON cancelled approximately ¥43.0 billion of treasury stock. In fiscal 2007, the Company bought back more of its own shares, repurchasing approximately 5.3 million shares for approximately ¥21.0 billion from October 2007 to January 2008. It cancelled a total of 5 million shares of treasury stock in February 2008.

As regards cash dividends, in fiscal 2004, we increased the annual cash dividend per share by ¥29 to ¥70, and in fiscal 2005 we raised it by ¥20 to ¥90. In fiscal 2006, the dividend was increased by a further ¥10 to ¥100 per share, followed by another ¥10 increase to ¥110 for fiscal 2007, as we actively returned profits to shareholders. We further increased shareholder returns for fiscal 2008 by raising the dividend by ¥50 to ¥160 per share. Although we expect a difficult operating environment in fiscal 2009, we regard shareholder returns as of the utmost importance and therefore plan to maintain the dividend at a minimum of ¥160 per share through the fiscal year ended February 28, 2011.

■ Business Cooperation and Alliances

The main business cooperation and alliances are as follows. Please refer to "Scope of Consolidation" on page 35 of this report for information concerning the equity-based alliance with Ninety-nine Plus Inc.

Mitsubishi Corporation

LAWSON formed a comprehensive tie-up, including a capital alliance, with Mitsubishi Corporation in February 2000. Mitsubishi Corporation is LAWSON's leading shareholder with an equity interest of 32.4% as of February 28, 2009. The two firms have built a cooperative relationship in the areas of personnel resources, store development, new businesses, product development and other areas.

Japan Post Holdings Co., Ltd.

LAWSON formed a business alliance in December 2002 with the Postal Services Agency (as it was at that time). After this announcement, the two worked on various initiatives, including installing mailboxes in LAWSON stores (January 2003), opening convenience stores inside post offices (the first store was opened inside the Yoyogi Post Office on August 1, 2003) and handling You-Pack parcels (November 2004). In February 2008, LAWSON signed an agreement for a comprehensive business alliance with Japan Post Holdings Co., Ltd. Moving forward, the two companies will develop initiatives that effectively utilize their respective business resources to jointly open stores and expand joint distribution and deliveries, for example. The goals are to improve the level of convenience for customers and contribute to regional communities across Japan.

NTT DOCOMO, INC.

In March 2006, LAWSON signed a business alliance agreement, including capital alliance, with NTT DOCOMO, INC. LAWSON sold 2,092,000 shares of treasury stock, representing 2.0% of total issued shares (at the time), to NTT DOCOMO for about ¥9.0 billion. By March 2007, this alliance had led to the introduction of iD™ electronic money services provided by NTT DOCOMO in all LAWSON stores. Furthermore, in March 2007, the LAWSON PASS iD™ service was launched. This service allows holders of the LAWSON PASS Visa credit card issued by LAWSON CS Card to use the iD™ service.

* *iD™ is a mobile phone-based credit card payment service enabling shopping, etc., via NTT DOCOMO's Osaifu-Keitai® wallet services. iD™ is a trademark and registered trademark of NTT DOCOMO.*

SAN-A CO., LTD.

In January 2009, LAWSON and SAN-A CO., LTD. agreed to form a business alliance in Okinawa Prefecture, Japan. SAN-A is a leading retailing group in Okinawa, operating mainly supermarkets. Through this alliance with SAN-A, which has overwhelming customer support in Okinawa, LAWSON aims to create products and stores better meshing with this region of Japan, which is known for its unique way of life and food preferences. In specific terms, the two companies will explore the possibilities of working together across various fields, including jointly developing boxed lunches and delicatessen items using local ingredients, proposing new products and other offerings, sharing sales information, and conducting joint sales promotions and store development. A special committee has been formed by the two companies to study these possibilities. As the first step in cooperative efforts, the two companies launched 22 products to mark the alliance in May 2009. Looking ahead, the two companies will also look at the possibility of joint venture CVS operations in Okinawa or the possibility of SAN-A operating as an area franchisee.

■ Outlook

In fiscal 2009, Japan's economy is expected to continue worsening based on the strong yen resulting from economic stagnation in the U.S. and Europe, and other factors. It is therefore unlikely that we will see any improvement in consumer spending, which has been weakened by concerns about job security and declining personal income due to sluggish corporate results.

With regard to the CVS sector, if LAWSON focuses on opening conventional format stores, which predominantly provide merchandise assortments and services for the core target of young male customers, addressing only customers' need to save time and convenience, it will be forced into a war of attrition with other homogenized CVS stores in a mature market. This will in turn make it increasingly difficult to achieve stable and sustainable growth in an aging society with a falling birthrate.

In this environment, the LAWSON Group is pursuing a strategy aimed at creating stores that bring joy to customers, as outlined in the management policy for fiscal 2009, "Your Choice of CVS LAWSON—Cheerful and Happy Communities." In line with this policy, the Company will carry out the following measures.

Enhance existing customer satisfaction

In order to offer merchandise assortments and develop shops that suit the needs of customers in each store location, the Company is making use of data gathered from the approximately 8.5 million MY LAWSON POINT and LAWSON PASS card members to create customer-oriented merchandise assortments.

Concerning merchandise, LAWSON will base its product development efforts on market analysis, particularly on data gathered from the card member programs, in order to develop products that reflect customers' opinions. In addition, the Company will pass the benefits of the lower cost of fuel and raw materials and the strong yen on to customers. Moreover, in order to enhance ties with local communities, the Company will work together with local governments to promote initiatives targeting local and non-local consumption of locally produced products.

With regard to sales promotions, the Company will seek to utilize the MY LAWSON POINT and LAWSON PASS cards in an effective manner.

These measures are also expected to lead to a greater number of customers and generate higher earnings, thereby raising the satisfaction levels of franchised store owners.

Improve asset efficiency by opening high-quality new stores and curbing store closures

The Group aims to improve asset efficiency as a whole by developing high-quality stores in accordance with proprietary store opening guidelines and decreasing the number of store closures to reduce associated extraordinary losses.

Strengthening personnel development

In accordance with our corporate philosophy and action guidelines, we are determined to nurture people who can think for themselves and not rely on direction from the top. In addition, personnel rotations are implemented to prepare future management candidates.

Next-generation IT system

In fiscal 2009, we will begin introducing a next-generation IT system with the goal of improving merchandise assortments from the customer's perspective. The backbone for this new system will be an optical fiber network. The new system will involve both an upgrade and extension of our total company information system encompassing store-related systems such as *Loppi* multimedia terminals, POS systems, store computers and store operational equipment as well as systems for merchandise development, store development, financial accounting and integration master code systems, which manage products, business partners and other operational aspects. The new system is expected to lead to a reduction in lost sales opportunities at stores and losses from product disposals as well as improve ordering precision and enhance product development.

Developing internal controls

Regarding internal controls over financial reporting, effective from fiscal 2009, companies in Japan will be subject to the internal control reporting system stipulated by the Japanese Financial Instruments and Exchange Law. LAWSON will establish a dedicated internal organization to ascertain and document the status of internal controls throughout the Company and the various business processes that occur at the major operating bases. Through this process, the Company will put in place internal and third-party evaluation systems and related improvements, and implement them appropriately. The Company will follow its "Fiscal 2009 Basic Policy on Development and Operation of Internal Control System" to implement the necessary frameworks for ensuring legal compliance, information storage and control and risk management.

We believe that steady implementation of these and other management initiatives will enhance customer satisfaction, and ultimately lead to improved corporate earnings from an increase in customers as well as higher profits for franchised owners and greater corporate value.

For fiscal 2009, we are forecasting consolidated operating income of ¥50.5 billion, up 2.7% year on year, and net income of ¥25.5 billion, up 0.8% year on year.

■ Business Risk Factors

The eight main risks that may impact on the LAWSON Group's performance and financial position are described below. Sufficiently aware that these risks may occur, the LAWSON Group conducts risk management and has also put in place an internal control system so as to be able to respond in the best manner possible should a risk materialize. Nevertheless, these risks are only within the range of what can be forecast based on information currently available to the Company, and we do not believe that they cover all potential risks relating to the LAWSON Group's business operations.

Risks relating to changes in the business environment

Because the LAWSON Group's main business is the operation of convenience stores, changes in consumer expenditure produced by changes in the economic environment, business cycle trends, or the social structure in Japan and overseas countries where the Company operates, as well as changes in competition with other companies in the CVS sector or different retail sectors, may impact the LAWSON Group's earnings and financial condition.

Risks relating to food safety and hygiene management

In the CVS business, the LAWSON Group's main business, the Company sells food products to customers. From the manufacturing process to sales in stores, in cooperation with suppliers, the LAWSON Group strictly observes quality standards by performing thorough management and also performs rigorous hygiene management and sales data management within stores, at the same time as properly labeling items in terms of consumption date, expiry date, place produced, raw materials and so forth. However, in the event of a serious incident such as food poisoning or contamination by foreign matter, or food mislabeling, the resulting loss of customer trust could have an impact on the Group's performance and financial position. Should such an incident occur, the Group intends to make the utmost effort to minimize the effect on customers and maintain customer trust by making a public announcement as quickly as possible through the mass media and other channels.

Risks relating to handling of personal information

In the process of business operations, the LAWSON Group handles personal information of customers, shareholders, suppliers, franchise owners and other parties. The Group recognizes that the leakage of personal information or improper access to personal information are serious risks. Consequently, we have devised the best possible information security measures and formulated a policy to protect personal information. We have also ensured that personnel within the Company are thoroughly aware of these matters. However, should personal information be leaked or divulged outside the Company under any circumstances, the LAWSON Group's performance or financial position may be affected.

Legal and regulatory risks

The LAWSON Group operates numerous stores in various regions throughout Japan and in Shanghai, China, and the majority of stores operate 24 hours a day. Because of this, in operating its business, the Company must comply with various laws and regulations regarding store development, store operations, hygiene management, product transactions, environmental protection, and other matters in Japan and Shanghai, China, and must obtain various permits and licenses. Therefore, should events arise such as an unforeseen change in laws or regulations or a change in the enforcement methods of administrative authorities, new compliance costs could arise, which could have an impact on the LAWSON Group's performance or financial position.

Risks relating to franchise operations

In the CVS business, the LAWSON Group's main business, the Company has adopted the franchise system. Based on franchise agreements concluded with franchised stores, LAWSON operates a chain of stores via store brand names that are owned by the LAWSON Group. Therefore, if the brand image of the overall chain is affected by illegal or improper actions at a franchised store, there may be an impact on the LAWSON Group's performance or financial position.

Furthermore, the franchise system is designed to encourage improved business performance for both franchised stores and the Company, based on a relationship of mutual trust. If this relationship of trust between LAWSON and franchised stores is damaged for any reason, and, as a consequence, many franchise agreements are cancelled, there may be an impact on the LAWSON Group's performance or financial position.

Risks relating to unseasonable weather or disasters

Substantial differences in climate and temperatures from the average year could have an impact on the LAWSON Group's performance or financial position.

Moreover, LAWSON is a national chain with stores located throughout Japan's 47 prefectures, as well as in Shanghai, China. Therefore, an earthquake, typhoon or other natural disaster that physically damages LAWSON Group stores or other facilities, could have an impact on the LAWSON Group's performance or financial position.

Risks involving damage to IT systems

There is a risk that operation of the Group's IT system might be impeded by a computer virus, or affected by natural disasters such as an earthquake in the Tokyo area, which could cause interference to the information network, creating delays in the delivery of products to stores and causing the suspension of store services. Such developments could impact on the LAWSON Group's performance or financial position.

Risks involving soaring materials prices

The LAWSON Group's performance or financial position could be materially affected by increases in raw materials prices due to unpredictable developments, such as rising oil and other raw materials prices, an outbreak of avian influenza, or unusual weather.

CONSOLIDATED BALANCE SHEETS

LAWSON, INC. and Subsidiaries
February 28, 2009 and February 29, 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2009**	2008	**2009**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 83,982**	¥ 62,823	**$ 858,624**
Marketable securities (Note 5)	**3,800**	2,900	**38,851**
Accounts receivable:			
Due from franchised stores (Notes 3 and 10)	**21,376**	11,950	**218,546**
Other	**26,692**	26,984	**272,896**
Allowance for doubtful accounts	**(141)**	(103)	**(1,442)**
Inventories	**5,293**	1,724	**54,115**
Short-term loan to associated company (Note 17)		20,000	
Short-term loan to other	**300**		**3,067**
Deferred tax assets (Note 15)	**4,061**	3,633	**41,519**
Prepaid expenses and other current assets	**9,398**	8,340	**96,086**
Total current assets	**154,761**	138,251	**1,582,262**
PROPERTY AND STORE EQUIPMENT (Notes 4 and 6)**:**			
Land (Note 7)	**6,899**	5,845	**70,534**
Buildings	**174,067**	155,869	**1,779,644**
Furniture, fixtures and equipment	**61,920**	59,040	**633,064**
Total	**242,886**	220,754	**2,483,242**
Accumulated depreciation	**(127,887)**	(114,322)	**(1,307,504)**
Net property and store equipment	**114,999**	106,432	**1,175,738**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	**700**	826	**7,157**
Investments in associated companies	**532**	7,334	**5,439**
Long-term loans receivable	**27,423**	25,647	**280,370**
Goodwill	**3,699**	518	**37,818**
Software	**26,586**	16,942	**271,813**
Lease deposits (Note 8)	**85,357**	82,755	**872,682**
Deferred tax assets (Note 15)	**14,545**	12,809	**148,707**
Deferred tax assets for land revaluation (Note 7)	**181**	468	**1,851**
Other assets	**9,795**	7,529	**100,142**
Allowance for doubtful accounts	**(2,406)**	(2,403)	**(24,599)**
Total investments and other assets	**166,412**	152,425	**1,701,380**
TOTAL	**¥ 436,172**	¥ 397,108	**$ 4,459,380**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2009	Millions of Yen 2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 9 and 17)	¥ 77,216	¥ 65,587	$ 789,449
Due to franchised stores (Note 10)	822	2,202	8,404
Other	27,681	14,765	283,008
Current portion of long-term debt (Note 11)	937	154	9,580
Income taxes payable (Note 15)	9,456	11,427	96,677
Money held as agent	58,844	56,294	601,615
Accrued expenses and other current liabilities	6,848	5,550	70,014
Total current liabilities	181,804	155,979	1,858,747
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 12)	5,051	4,175	51,641
Allowance for retirement benefits to executive officers and corporate auditors	201	183	2,055
Guarantee deposits received from franchised stores	41,610	44,954	425,417
Lease deposits from lessees	830	877	8,485
Allowance for impairment loss on leased property (Note 16)	481	314	4,918
Long-term debt (Note 11)	1,371	403	14,017
Other	1,645	1,649	16,818
Total long-term liabilities	51,189	52,555	523,351
EQUITY (Notes 13 and 20):			
Common stock—authorized, 409,300,000 shares in 2009 and 2008; issued, 99,600,000 shares in 2009 and 2008	58,507	58,507	598,170
Capital surplus	41,520	41,520	424,496
Stock acquisition rights	275	160	2,812
Retained earnings	99,310	87,391	1,015,336
Net unrealized gain (loss) on available-for-sale securities	(28)	135	(286)
Deferred gain (loss) on the derivatives under hedge accounting		(1)	
Land revaluation difference (Note 7)	(969)	(682)	(9,907)
Foreign currency translation adjustments	59	140	603
Treasury stock—at cost, 432,015 shares in 2009 and 463,629 shares in 2008	(1,713)	(1,838)	(17,514)
Total	196,961	185,332	2,013,710
Minority interests	6,218	3,242	63,572
Total equity	203,179	188,574	2,077,282
TOTAL	¥436,172	¥397,108	$4,459,380

CONSOLIDATED STATEMENTS OF INCOME

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2009 and February 29, 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING REVENUES:			
Franchise commission from franchised stores	¥186,928	¥177,443	$1,911,134
Net sales from Company-operated stores	119,099	83,321	1,217,657
Other	43,449	40,413	444,218
Total	349,476	301,177	3,573,009
COST AND OPERATING EXPENSES:			
Cost of sales for Company-operated stores	88,358	61,177	903,364
Selling, general and administrative expenses (Notes 12 and 16)	211,932	193,390	2,166,772
Total	300,290	254,567	3,070,136
Operating income	49,186	46,610	502,873
OTHER INCOME (EXPENSES):			
Interest income—net	912	905	9,324
Equity in losses of associated companies	(631)	(201)	(6,451)
Loss on disposal of property and store equipment	(4,053)	(5,011)	(41,437)
Impairment of long-lived assets (Note 6)	(2,014)	(2,450)	(20,591)
Other—net	(1,193)	(1,718)	(12,198)
Other expenses—net	(6,979)	(8,475)	(71,353)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	42,207	38,135	431,520
INCOME TAXES (Note 15):			
Current	17,675	17,494	180,707
Deferred	(1,183)	(1,971)	(12,094)
Total	16,492	15,523	168,613
MINORITY INTERESTS IN NET INCOME	(409)	(493)	(4,181)
NET INCOME	¥ 25,306	¥ 22,119	$ 258,726

	Yen		U.S. Dollars
	2009	2008	2009
PER SHARE OF COMMON STOCK (Notes 2.p and 18):			
Net income—basic	¥255.22	¥214.69	$2.61
Net income—diluted	254.99	214.57	2.61
Cash dividends applicable to the year	160.00	110.00	1.64

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2009 and February 29, 2008

							Thousands of Shares/Millions of Yen
	Common Stock						
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE, MARCH 1, 2007	104,600	¥58,507	¥42,254	¥ 78	¥95,344	¥ 320	
Net income					22,119		
Year end cash dividends, ¥50 per share					(5,220)		
Interim cash dividends, ¥55 per share					(5,743)		
Treasury stock—at cost:							
Purchase of treasury stock							
Retirement of treasury stock	(5,000)		(710)		(19,109)		
Exercise of stock options			(24)				
Others—net				82		(185)	¥(1)
BALANCE, FEBRUARY 29, 2008	99,600	58,507	41,520	160	87,391	135	(1)
Net income					**25,306**		
Year end cash dividends, ¥55 per share					**(5,453)**		
Interim cash dividends, ¥80 per share					**(7,933)**		
Treasury stock—at cost:							
Purchase of treasury stock							
Exercise of stock options					**(1)**		
Others—net				**115**		**(163)**	**1**
BALANCE, FEBRUARY 28, 2009	**99,600**	**¥58,507**	**¥41,520**	**¥275**	**¥99,310**	**¥ (28)**	

							Thousands of Shares/Millions of Yen
			Treasury Stock				
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Shares	Amount	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2007	¥(682)	¥135	(187)	¥ (739)	¥195,217	¥ 4,276	¥199,493
Net income					22,119		22,119
Year end cash dividends, ¥50 per share					(5,220)		(5,220)
Interim cash dividends, ¥55 per share					(5,743)		(5,743)
Treasury stock—at cost:							
Purchase of treasury stock			(5,298)	(21,001)	(21,001)		(21,001)
Retirement of treasury stock			5,000	19,819			
Exercise of stock options			21	83	59		59
Others—net		5			(99)	(1,034)	(1,133)
BALANCE, FEBRUARY 29, 2008	(682)	140	(464)	(1,838)	185,332	3,242	188,574
Net income					**25,306**		**25,306**
Year end cash dividends, ¥55 per share					**(5,453)**		**(5,453)**
Interim cash dividends, ¥80 per share					**(7,933)**		**(7,933)**
Treasury stock—at cost:							
Purchase of treasury stock				**(1)**	**(1)**		**(1)**
Exercise of stock options			**32**	**126**	**125**		**125**
Others—net	**(287)**	**(81)**			**(415)**	**2,976**	**2,561**
BALANCE, FEBRUARY 28, 2009	**¥(969)**	**¥ 59**	**(432)**	**¥ (1,713)**	**¥196,961**	**¥ 6,218**	**¥203,179**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE, FEBRUARY 29, 2008	$598,170	$424,496	$1,636	$ 893,477	$ 1,380	$(10)
Net income				**258,726**		
Year end cash dividends, $0.56 per share				**(55,751)**		
Interim cash dividends, $0.82 per share				**(81,106)**		
Treasury stock—at cost:						
Purchase of treasury stock						
Exercise of stock options				**(10)**		
Others—net			**1,176**		**(1,666)**	**10**
BALANCE, FEBRUARY 28, 2009	**$598,170**	**$424,496**	**$2,812**	**$1,015,336**	**$ (286)**	

	Thousands of U.S. Dollars (Note 1)					
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 29, 2008	$(6,973)	$1,431	$(18,792)	$1,894,815	$33,146	$1,927,961
Net income				**258,726**		**258,726**
Year end cash dividends, $0.56 per share				**(55,751)**		**(55,751)**
Interim cash dividends, $0.82 per share				**(81,106)**		**(81,106)**
Treasury stock—at cost:						
Purchase of treasury stock			**(10)**	**(10)**		**(10)**
Exercise of stock options			**1,288**	**1,278**		**1,278**
Others—net	**(2,934)**	**(828)**		**(4,242)**	**30,426**	**26,184**
BALANCE, FEBRUARY 28, 2009	**$(9,907)**	**$ 603**	**$(17,514)**	**$2,013,710**	**$63,572**	**$2,077,282**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2009 and February 29, 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 42,207**	¥ 38,135	**$ 431,520**
Adjustments for:			
Income taxes paid	**(19,763)**	(10,865)	**(202,055)**
Depreciation and amortization	**20,879**	21,446	**213,465**
Impairment of long-lived assets	**2,014**	2,450	**20,591**
(Reversal of) provision for allowance for doubtful accounts	**(19)**	137	**(194)**
Loss on disposal of property and store equipment	**2,039**	2,383	**20,847**
Equity in losses of associated companies	**631**	201	**6,451**
Other—net	**2,151**	2,289	**21,992**
Changes in assets and liabilities:			
Increase in accounts receivable	**(8,299)**	(1,224)	**(84,848)**
Increase in prepaid expenses and other current assets	**(597)**	(1,167)	**(6,104)**
(Increase) decrease in inventories	**(277)**	65	**(2,832)**
Increase (decrease) in accounts payable	**11,457**	(2,206)	**117,135**
Increase in money held as an agent	**2,456**	7,539	**25,110**
Decrease in accrued expenses and other liabilities	**(662)**	(497)	**(6,768)**
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	**894**	582	**9,140**
Decrease in guarantee deposits received from franchised stores	**(3,344)**	(3,496)	**(34,189)**
(Decrease) increase in lease deposits from lessees	**(50)**	2	**(511)**
Total adjustments	**9,510**	17,639	**97,230**
Net cash provided by operating activities	**51,717**	55,774	**528,750**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(25,957)**	(28,750)	**(265,382)**
Proceeds from redemption of marketable securities	**25,900**	40,893	**264,799**
Proceeds from sales of investment securities	**111**		**1,135**
Acquisition of a subsidiary, net of cash acquired (Note 19)	**2,228**		**22,779**
Purchases of property and store equipment	**(22,440)**	(21,392)	**(229,424)**
Purchases of software and other intangible assets	**(14,925)**	(8,520)	**(152,592)**
Decrease in lease deposits—net	**769**	1,485	**7,862**
Decrease (increase) in short-term loan	**19,700**	(11,150)	**201,411**
Increase in long-term loan	**(1,698)**	(1,267)	**(17,360)**
Acquisition of associated companies	**(50)**	(5,976)	**(511)**
Purchase of subsidiaries' stocks from minority shareholders	**(78)**	(2,131)	**(797)**
Other—net	**793**	283	**8,107**
Net cash used in investing activities	**(15,647)**	(36,525)	**(159,973)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	**(308)**		**(3,149)**
Decrease in short-term debt	**(1,293)**		**(13,220)**
Cash dividends paid	**(13,386)**	(10,964)	**(136,857)**
Proceeds from issuance of share upon exercise of stock option	**125**	59	**1,278**
Purchase of treasury stock	**(1)**	(21,001)	**(10)**
Cash dividends paid to minority shareholders	**(48)**	(67)	**(491)**
Net cash used in financing activities	**(14,911)**	(31,973)	**(152,449)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**21,159**	(12,724)	**216,328**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**62,823**	75,547	**642,296**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 83,982**	¥ 62,823	**$ 858,624**

See notes to consolidated financial statements.

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 Financial Instruments and Exchange Law (formerly, 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. In addition, certain reclassifications have been made in the 2008 financial statements to conform to the 2009 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 ¥97.81 to $1, the approximate rate of exchange at February 28, 2009. 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") owns 32,399 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2009 which represent 32.7% 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.

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.

Ninety-nine Plus Inc. and Ninety-nine Plus Kansai Inc. became consolidated subsidiaries from associated companies effective this fiscal year, after increase in shares by public tender finalized on September 5, 2008. Because of sales of the shares of LAWSON CS Card, INC. and NaturalBeat, Inc. respectively, these two companies are no longer group companies.

The excess of the cost of the Company's investments in consolidated subsidiaries, associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period of not exceeding 20 years.

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 primarily 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 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 7). 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. Long-lived Assets—The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group, mainly by each store, 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 assets or the net selling price at disposition.

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

i. Employees' Retirement Benefits—The Company and a 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.

j. Allowance for Retirement Benefits to Executive Officers and Corporate Auditors—The provisions are calculated to state the liability at 100% of the amount that would be required if all executive officers and corporate auditors resigned as of each balance sheet date.

k. Stock Options—On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The standard and guidance are applicable to stock options granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

l. 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. All other leases are accounted for as operating leases.

m. 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.

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

o. Foreign Currency Financial Statements—The balance sheet accounts of an associated company denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for 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 equity. Revenue and expense accounts of an affiliated company denominated in foreign currencies are translated into yen at the current exchange rate.

p. 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 99,155 thousand shares for 2009 and 103,027 thousand shares for 2008.

Diluted net income per share for the years ended February 28, 2009 and February 29, 2008 is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

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.

q. New Accounting Pronouncement

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

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The revised accounting standard requires all finance lease transactions to be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 the 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, 2009 and February 29, 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Used by franchised stores:			
Land	**¥ 4,581**	¥ 3,382	**$ 46,835**
Buildings	**150,703**	140,484	**1,540,773**
Furniture, fixture and equipment	**49,891**	50,278	**510,081**
Total	**205,175**	194,144	**2,097,689**
Accumulated depreciation	**110,193**	102,115	**1,126,602**
Net	**94,982**	92,029	**971,087**
Used by Company-operated stores and other:			
Land	**2,318**	2,463	**23,699**
Buildings	**23,364**	15,385	**238,871**
Furniture, fixture and equipment	**12,029**	8,762	**122,983**
Total	**37,711**	26,610	**385,553**
Accumulated depreciation	**17,694**	12,207	**180,902**
Net	**20,017**	14,403	**204,651**
Net property and store equipment—total	**¥114,999**	¥106,432	**$1,175,738**

5. Marketable and Investment Securities

Marketable and investment securities as of February 28, 2009 and February 29, 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Current—Bonds	**¥3,800**	¥2,900	**$38,851**
Non-current—Marketable and other equity securities	**700**	526	**7,157**
Non-current—Bonds		300	

The costs and aggregate fair values of marketable and investment securities at February 28, 2009 and February 29, 2008, were as follows:

	Millions of Yen			
February 28, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	**¥3,000**		**¥ 1**	**¥2,999**
Available-for-sale:				
Equity securities	**61**		**16**	**45**
Bonds	**800**			**800**
February 29, 2008				
Securities classified as:				
Held-to-maturity	¥2,000	¥ 2		¥2,002
Available-for-sale:				
Equity securities	76	226		302
Bonds	1,199	1		1,200

February 28, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Thousands of U.S. Dollars			
Securities classified as:				
Held-to-maturity	**$30,672**			**$30,672**
Available-for-sale:				
Equity securities	**624**		**$164**	**460**
Bonds	**8,179**			**8,179**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2009 and February 29, 2008, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Available-for-sale—Equity securities	**¥655**	¥224	**$6,697**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at February 28, 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	**¥800**	**¥3,000**	**$8,179**	**$30,672**
Total	**¥800**	**¥3,000**	**$8,179**	**$30,672**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2009 and February 29, 2008 were ¥111 million ($1,135 thousand) and ¥0 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥91 million ($930 thousand) for the year ended February 28, 2009 and gross realized losses on these sales were ¥0 million for the year ended February 29, 2008.

6. Long-Lived Assets

The Companies mainly group each store as the smallest cash generating unit. The Companies recognized an impairment loss in the case where the value of long-lived assets declined, mainly due to continuous operating losses. The carrying amounts of those assets written down to the recoverable amounts and an impairment loss was recorded in other expenses in the consolidated statements of income.

The Companies recognized an impairment loss on the following asset category for the years ended February 28, 2009 and February 29, 2008:

Category	Related Assets	Location	Millions of Yen **2009**	Millions of Yen 2008	Thousands of U.S. Dollars **2009**
Stores	Buildings and furniture, fixtures and equipment	Tokyo	**¥ 205**	¥ 131	**$ 2,096**
		Osaka	**165**	428	**1,687**
		Others	**1,644**	1,891	**16,808**
Total			**¥2,014**	¥2,450	**$20,591**

The above assets, which incurred impairment losses for the years ended February 28, 2009 and February 29, 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Fixed assets and leased property:			
Buildings	¥1,458	¥1,773	$12,821
Leased property	341	425	3,486
Others	215	252	4,284
Total	¥2,014	¥2,450	$20,591

The recoverable amount of those assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or an expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rate used was mainly 5.3% and 6.8% for the years ended February 28, 2009 and February 29, 2008, respectively.

7. 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 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, 2009, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥264 million ($2,699 thousand).

8. 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 the Company to pay leasehold deposits equivalent to several months' rent, which are non-interest bearing and refundable only when the leases are terminated.

Lease deposits as of February 28, 2009 and February 29, 2008, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Lease deposits for franchised stores	¥71,869	¥72,985	$734,782
Lease deposits for Company-operated stores and other	13,488	9,770	137,900
Total	¥85,357	¥82,755	$872,682

9. 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, 2009 and February 29, 2008, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Accounts payable—trade for franchised stores	**¥64,326**	¥61,234	**$657,663**
Accounts payable—trade for Company-operated stores	**12,890**	4,353	**131,786**
Total	**¥77,216**	¥65,587	**$789,449**

10. Accounts Payable—Due to Franchised Stores

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

11. Current Portion of Long-Term Debt and Long-Term Debt

The current portion of long-term debt consisted of notes to banks and lease obligations at February 28, 2009 and lease obligations at February 29, 2008.

The current portion of long-term debt at February 29, 2008 consisted of lease obligations.

The annual interest rates applicable to the current portion of long-term debt ranged from 1.47% to 1.65% at February 28, 2009 and was 1.37% at February 29, 2008.

Long-term debt less the current portion at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Loans from banks and leasing companies, due serially to 2013 with interest rates ranging from 1.53% to 1.67% (2009) and 1.37% (2008)—Unsecured	**¥2,308**	¥ 557	**$23,597**
Less current portion	**(937)**	(154)	**(9,580)**
Long-term debt, less current portion	**¥1,371**	¥ 403	**$14,017**

Annual maturities of long-term debt as of February 28, 2009 for the next five years thereafter are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 937	$ 9,580
2011	943	9,641
2012	410	4,192
2013	16	164
2014 and thereafter	2	20
Total	¥2,308	$23,597

12. Employees' Retirement Benefits

The Company and a certain domestic subsidiary each have a 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 a 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, 2009 and February 29, 2008 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Projected benefit obligation	**¥12,227**	¥11,223	**$125,008**
Fair value of plan assets	**(5,575)**	(5,567)	**(56,998)**
Unrecognized prior service cost	**(878)**	(1,054)	**(8,977)**
Unrecognized actuarial loss	**(723)**	(427)	**(7,392)**
Net liability	**¥ 5,051**	¥ 4,175	**$ 51,641**

The costs of defined benefit pension plans are accrued based on amounts determined principally using an actuarial method. The Company and a certain subsidiary also each have a defined contribution plan. The costs of defined contribution plans are charged to expense when incurred.

The components of net periodic benefit costs for the years ended February 28, 2009 and February 29, 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Service cost	**¥ 872**	¥1,137	**$ 8,916**
Interest cost	**223**	213	**2,280**
Amortization of prior service cost	**176**	176	**1,799**
Recognized actuarial loss	**98**	89	**1,002**
Contribution to defined contribution plan	**265**	249	**2,709**
Net periodic benefit costs	**¥1,634**	¥1,864	**$16,706**

Assumptions used for the years ended February 28, 2009 and February 29, 2008, were as follows:

	2009	2008
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

13. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. Stock Options

The Company has stock option plans as an incentive for directors, executive officers and selected employees.

The following is a summary of the Company's stock option plans:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2nd Stock Option	9 directors and 17 executive officers	92,000 shares	2003.7.3	¥3,517 ($35.96)	From July 3, 2005 to July 2, 2008
3rd Stock Option	9 directors and 20 executive officers	99,000 shares	2004.6.10	¥4,320 ($44.17)	From June 10, 2006 to June 9, 2009
4th Stock Option	9 directors and 24 executive officers	114,000 shares	2005.10.12	¥4,160 ($42.53)	From October 12, 2007 to December 31, 2010
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 ($0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 ($0.01)	From October 27, 2006 to May 26, 2026
6th (b) Stock Option	9 directors and 14 executive officers	83,000 shares	2006.10.26	¥4,053 ($41.44)	From October 28, 2008 to October 26, 2011
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 ($0.01)	From September 6, 2007 to August 20, 2027
7th (b) Stock Option	14 executive officers	45,000 shares	2007.9.5	¥3,949 ($40.37)	From September 7, 2009 to August 20, 2012
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 ($0.01)	From January 17, 2009 to December 15, 2028
8th (b) Stock Option	11 executive officers	36,000 shares	2009.1.16	¥5,174 ($52.90)	From January 18, 2011 to December 15, 2013

The following is a summary of Ninety-nine Plus Inc.'s stock option plans:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2nd Stock Option	9 directors and auditors 226 managers (including store manager) 58 Ninety-nine Plus Kansai Inc.'s managers (including store manager)	3,824 shares	2003.10.31	¥90,000 ($920.15)	From September 4, 2005 to September 3, 2010

The stock option activity is as follows:

	2nd Stock Option	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option (Shares)
For the Year Ended February 29, 2008						
Non-vested:						
February 28, 2007—outstanding			114,000			83,000
Granted						
Canceled						
Vested			(114,000)			
February 29, 2008—outstanding						83,000
Vested:						
February 28, 2007—outstanding	43,600	99,000		20,000	21,300	
Vested			114,000			
Exercised				(5,000)		
Canceled						
February 29, 2008—outstanding	43,600	99,000	114,000	15,000	21,300	

	7th (a) Stock Option	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	Ninety-nine Plus Inc.'s 2nd Stock Option (Shares)
For the Year Ended February 29, 2008					
Non-vested:					
February 28, 2007—outstanding					
Granted	18,000	45,000			
Canceled					
Vested	(18,000)				
February 29, 2008—outstanding		45,000			
Vested:					
February 28, 2007—outstanding					
Vested	18,000				
Exercised					
Canceled					
February 29, 2008—outstanding	18,000				

The assumptions used to measure the fair value of the stock options were as follows:

	2nd Stock Option	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option (Shares)
For the Year Ended February 28, 2009						
Non-vested:						
February 29, 2008—outstanding						83,000
Granted						
Canceled						**(3,000)**
Vested						**(80,000)**
February 28, 2009—outstanding						
Vested:						
February 29, 2008—outstanding	**43,600**	**99,000**	**114,000**	**15,000**	**21,300**	
Vested						**80,000**
Exercised	**(13,400)**	**(8,100)**	**(10,400)**			
Canceled	**(30,200)**		**(3,000)**			
February 28, 2009—outstanding		**90,900**	**100,600**	**15,000**	**21,300**	**80,000**
Exercise price	**¥3,517** **($35.96)**	**¥4,320** **($44.17)**	**¥4,160** **($42.53)**	**¥1** **($0.01)**	**¥1** **($0.01)**	**¥4,053** **($41.44)**
Average stock price at exercise	**¥5,180** **($52.96)**	**¥5,356** **($54.76)**	**¥4,885** **($49.94)**			
Fair value price at grant date					**¥3,178** **($32.49)**	**¥618** **($6.32)**

	7th (a) Stock Option	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	Ninety-nine Plus Inc.'s 2nd Stock Option (Shares)
For the Year Ended February 28, 2009					
Non-vested:					
February 29, 2008—outstanding		45,000			
Granted			**26,400**	**36,000**	
Canceled		**(3,000)**			
Vested			**(26,400)**		
February 28, 2009—outstanding		**42,000**		**36,000**	
Vested:					
February 29, 2008—outstanding	**18,000**				**1,000**
Vested			**26,400**		
Exercised					**(24)**
Canceled					
February 28, 2009—outstanding	**18,000**		**26,400**		**976**
Exercise price	**¥1** **($0.01)**	**¥3,949** **($40.37)**	**¥1** **($0.01)**	**¥5,174** **($52.90)**	**¥90,000** **($920.15)**
Average stock price at exercise					
Fair value price at grant date	**¥2,852** **($29.16)**	**¥397** **($4.06)**	**¥3,477** **($35.55)**	**¥582** **($5.95)**	

The assumptions used to measure the fair value of the stock options were as follows:

	7th (a) Stock Option	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	35.19%	21.82%	35.59%	28.09%
Estimated remaining outstanding period	10 years	3.5 years	10 years	3.5 years
Estimated dividend	¥100 per share	¥100 per share	¥135 per share	¥135 per share
Interest rate with risk free	1.58%	0.99%	1.22%	0.52%

15. 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 40.7% for the years ended February 28, 2009 and February 29, 2008.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2009 and February 29, 2008, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Deferred tax assets:			
Accrued enterprise tax	**¥ 902**	¥ 954	**$ 9,222**
Accrued employees' bonuses	**1,302**	1,084	**13,312**
Excess of depreciation	**4,969**	4,218	**50,803**
Excess of amortization of software	**794**	688	**8,118**
Employees' retirement benefits	**4,324**	3,964	**44,208**
Allowance for doubtful accounts	**626**	1,102	**6,400**
Tax loss carryforward	**2,216**	1,616	**22,656**
Impairment loss	**2,165**	1,618	**22,135**
Loss on replacement of computer system	**841**	896	**8,598**
Other	**2,435**	2,015	**24,895**
Less valuation allowance	**(1,968)**	(1,621)	**(20,121)**
Total	**18,606**	16,534	**190,226**
Deferred tax liabilities—Unrealized gain on available-for-sale securities		92	
Net deferred tax assets	**¥18,606**	¥16,442	**$190,226**

At February 28, 2009, certain subsidiaries have tax loss carryforwards aggregating to approximately ¥5,445 million ($55,669 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
2010	¥ 422	$ 4,314
2011	415	4,243
2012	287	2,934
2013	920	9,406
2014	1,671	17,084
2015	744	7,607
2016 and thereafter	986	10,081
Total	¥5,445	$55,669

16. 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, 2009 and February 29, 2008, were ¥14,434 million ($147,572 thousand) and ¥18,103 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and impairment loss 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, 2009 and February 29, 2008 was as follows:

Leased property used by franchised stores:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Furniture, Fixtures and Equipment:			
Acquisition cost	**¥48,860**	¥68,232	**$499,540**
Accumulated depreciation	**28,046**	47,407	**286,740**
Accumulated impairment loss	**690**	511	**7,054**
Net leased property	**¥20,124**	¥20,314	**$205,746**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Due within one year	**¥ 6,452**	¥ 7,702	**$ 65,965**
Due after one year	**14,766**	13,543	**150,966**
Total	**¥21,218**	¥21,245	**$216,931**

An allowance for impairment loss on leased property of ¥351 million ($3,589 thousand) as of February 28, 2009 is included in obligations under finance leases.

Leased property used by Company-operated stores and other:

	Millions of Yen		
	2009		
	Furniture, Fixtures and Equipment	Software	Total
Acquisition cost	**¥27,192**	**¥734**	**¥27,926**
Accumulated depreciation	**11,697**	**636**	**12,333**
Accumulated impairment loss	**86**		**86**
Net leased property	**¥15,409**	**¥ 98**	**¥15,507**

	Millions of Yen		
	2008		
	Furniture, Fixtures and Equipment	Software	Total
Acquisition cost	¥19,114	¥734	¥19,848
Accumulated depreciation	9,480	489	9,969
Accumulated impairment loss	58		58
Net leased property	¥ 9,576	¥245	¥ 9,821

	Thousands of U.S. Dollars		
	2009		
	Furniture, Fixtures and Equipment	Software	Total
Acquisition cost	**$278,008**	**$7,504**	**$285,512**
Accumulated depreciation	**119,589**	**6,502**	**126,091**
Accumulated impairment loss	**879**		**879**
Net leased property	**$157,540**	**$1,002**	**$158,542**

Obligation under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Due within one year	**¥ 4,834**	¥ 3,455	**$ 49,422**
Due after one year	**11,324**	7,213	**115,775**
Total	**¥16,158**	¥10,668	**$165,197**

Allowance for impairment loss on leased property of ¥333 million ($3,405 thousand) as of February 28, 2009 is included in obligations under finance leases.

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

Depreciation expense, interest expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	**2009**
Depreciation expense	**¥13,658**	¥16,785	**$139,638**
Interest expense	**1,210**	1,011	**12,371**
Lease payments	**14,434**	18,103	**147,572**
Reversal of allowance for impairment loss on leased property	**377**	207	**3,854**
Impairment loss	**341**	425	**3,486**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at February 28, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	**2009**
Due within one year	**¥ 560**	**$ 5,726**
Due after one year	**462**	**4,723**
Total	**¥1,022**	**$10,449**

17. Related Party Transactions

Transactions with LAWSON CS Card, INC. for the year ended February 28, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	**2009**
Decrease in short-term loan receivable	**¥20,000**	**$204,478**
Interest received	**37**	**378**

Amounts presented between the Company and LAWSON CS Card, INC. are related to transactions from March 1, 2008 through April 30, 2008 because the Company sold all shares on April 30, 2008. All short-term loan receivables were repaid on April 30, 2008.

Mitsubishi has been treated as an associated company of the Company because it owns, including indirect holdings, 32.7% of the total voting rights of the Company. Therefore, the Company discloses transactions with subsidiaries of Mitsubishi, including those transactions related to the franchised stores.

Balances and transactions with subsidiaries of Mitsubishi as of and for the year ended February 28, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	**2009**
RYOSHOKU LIMITED:		
Accounts payable—trade	**¥ 6,572**	**$ 67,191**
Purchases	**91,630**	**936,816**
Food Service Network Co., Ltd.:		
Accounts payable—trade	**16,442**	**168,101**
Purchases	**227,597**	**2,326,930**
SAN-ESU INC.:		
Accounts payable—trade	**2,930**	**29,956**
Purchases	**33,465**	**342,143**

Purchase prices and other conditions are determined at arm’s length basis.

18. Net Income Per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2009 and February 29, 2008 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2009	Net Income	Weighted-average Shares		EPS
Basic EPS—Net income available to common shareholders	**¥25,306**	**99,155**	**¥255.22**	**$2.61**
Effect of dilutive securities—Stock options		**88**		
Diluted EPS—Net income for computation	**¥25,306**	**99,243**	**¥254.99**	**$2.61**

Year Ended February 29, 2008			
Basic EPS—Net income available to common shareholders	¥22,119	103,027	¥214.69
Effect of dilutive securities—Stock options		56	
Diluted EPS—Net income for computation	¥22,119	103,083	¥214.57

19. Supplement Cash Flows Information

Ninety-nine Plus Inc. and Ninety-nine Plus Kansai Inc. became consolidated subsidiaries from associated companies effective this year, after an increase in the number of shares owned on September 5, 2008.

The breakdown of assets and liabilities of the acquired companies, at the time of acquisition was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2009	**2009**
Current assets	**¥ 13,529**	**$ 138,319**
Non-current assets	**13,661**	**139,669**
Goodwill	**3,283**	**33,565**
Current liabilities	**(14,565)**	**(148,911)**
Non-current liabilities	**(2,039)**	**(20,847)**
Minority interests	**(2,459)**	**(25,141)**
Equity acquired before August 31, 2008	**(5,562)**	**(56,865)**
Acquired price of stock	**5,848**	**59,789**
Cash and cash equivalents of acquired companies	**8,076**	**82,568**
Difference: Acquisition of a subsidiary, net of cash acquired	**¥ 2,228**	**$ 22,779**

20. Subsequent Events

The following appropriation of retained earnings was approved at the general shareholders meeting held on May 26, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥80 ($0.82) per share	**¥7,933**	**$81,106**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
LAWSON, INC.:

We have audited the accompanying consolidated balance sheets of LAWSON, INC. (the "Company") and subsidiaries as of February 28, 2009 and February 29, 2008, and the related consolidated statements of income, changes in 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, 2009 and February 29, 2008, 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 26, 2009

Member of
Deloitte Touche Tohmatsu

DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

(As of May 27, 2009)

President and CEO	Takeshi Niinami	CEO
Member of the Board and Senior Executive Vice President	Yoshiyuki Yahagi	CFO, General Manager, Management Services Office
Member of the Board and Executive Vice President	Manabu Asano	Chief Compliance Officer (CCO)
Member of the Board	Toru Moriyama	Senior Vice President, Assistant to Group CEO, Living Essentials Group, Mitsubishi Corporation
Members of the Board (Outside)	Hiroshi Tasaka	Professor, Graduate School of Tama University
	Reiko Okutani	President, The R Co., Ltd.
	Takehiko Kakiuchi	Division COO, Foods (Commodity) Div., Mitsubishi Corporation
Standing Corporate Auditor (Outside)	Munehiko Nakano	
Standing Corporate Auditor	Kenji Yamakawa	
Corporate Auditors (Outside)	Tetsuo Ozawa	Lawyer
	Hiroshi Kuwata	General Manager, Risk Management Department, Mitsubishi Corporation
Senior Executive Vice President	Takatoshi Kawamura	In charge of Corporate Business Strategy Division
Executive Vice President	Yoichi Yokomizo	Chief Information Officer (CIO), General Manager, Information Systems Office
Senior Vice Presidents	Norikazu Nishiguchi	General Manager, Store Development Planning Division
	Shigeaki Kawahara	Executive Assistant to CEO, Senior Executive Vice President, Ninety-nine Plus Inc.
	Takaki Mizuno	General Manager, Chubu LAWSON Branch
	Jyun Miyazaki	General Manager, PR, Corporate Communications Office
	Noriyuki Nobayashi	General Manager, Entertainment & Service Development Division
	Hajime Nakai	General Manager, Merchandizing & Logistics Division
	Syuichi Imagawa	General Manager, Marketing Strategy Group
	Kei Murayama	General Manager, Human Resources Office
	Ichiro Kijima	General Manager, Corporate Business Strategy Division
	Atsushi Maeda	Director, Ninety-nine Plus Inc. Assistant to General Manager, Merchandizing & Logistics Division
	Kazuo Togasa	Deputy General Manager, Store Development Planning Division
	Masahiro Oyama	Deputy General Manager, Merchandizing & Logistics Division

CORPORATE DATA

(As of February 28, 2009)

Company Name

LAWSON, INC.

Address

Head Office:
East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan

Number of Employees

5,186 (Consolidated)

Business Activities

Development of LAWSON convenience store franchise chain and NATURAL LAWSON stores, etc.

Net Sales of All Stores

¥1,558.7 billion (Consolidated)

Operating Area

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

Established

April 15, 1975

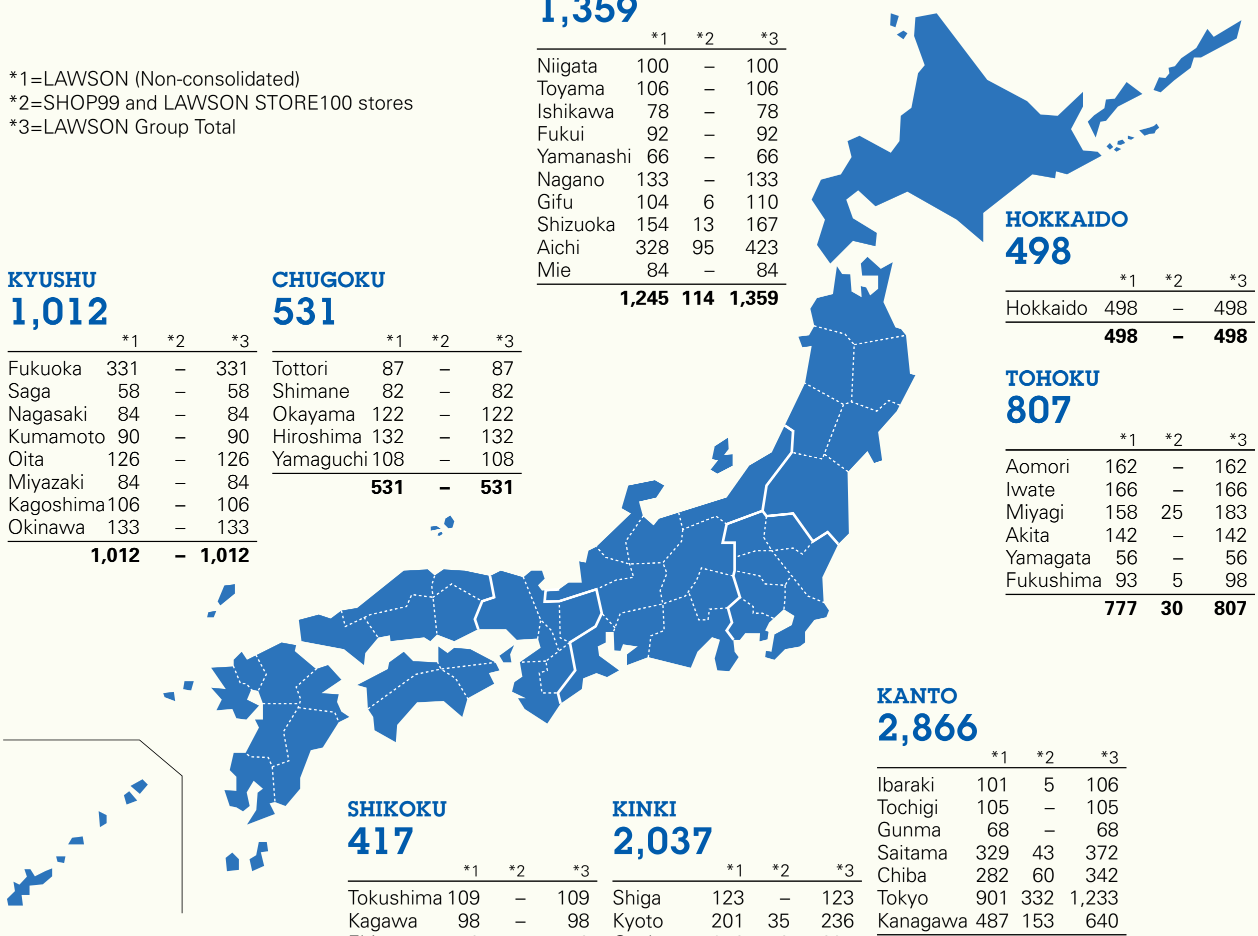
Capital

¥58.5 billion

Number of Stores

9,527 (Consolidated)

*1=LAWSON (Non-consolidated)
*2=SHOP99 and LAWSON STORE100 stores
*3=LAWSON Group Total



HOKKAIDO
498

	*1	*2	*3
Hokkaido	498	–	498
	498	**–**	**498**

TOHOKU
807

	*1	*2	*3
Aomori	162	–	162
Iwate	166	–	166
Miyagi	158	25	183
Akita	142	–	142
Yamagata	56	–	56
Fukushima	93	5	98
	777	**30**	**807**

KANTO
2,866

	*1	*2	*3
Ibaraki	101	5	106
Tochigi	105	–	105
Gunma	68	–	68
Saitama	329	43	372
Chiba	282	60	342
Tokyo	901	332	1,233
Kanagawa	487	153	640
	2,273	**593**	**2,866**

CHUBU
1,359

	*1	*2	*3
Niigata	100	–	100
Toyama	106	–	106
Ishikawa	78	–	78
Fukui	92	–	92
Yamanashi	66	–	66
Nagano	133	–	133
Gifu	104	6	110
Shizuoka	154	13	167
Aichi	328	95	423
Mie	84	–	84
	1,245	**114**	**1,359**

KINKI
2,037

	*1	*2	*3
Shiga	123	–	123
Kyoto	201	35	236
Osaka	816	119	935
Hyogo	497	32	529
Nara	102	2	104
Wakayama	110	–	110
	1,849	**188**	**2,037**

CHUGOKU
531

	*1	*2	*3
Tottori	87	–	87
Shimane	82	–	82
Okayama	122	–	122
Hiroshima	132	–	132
Yamaguchi	108	–	108
	531	**–**	**531**

SHIKOKU
417

	*1	*2	*3
Tokushima	109	–	109
Kagawa	98	–	98
Ehime	150	–	150
Kouchi	60	–	60
	417	**–**	**417**

KYUSHU
1,012

	*1	*2	*3
Fukuoka	331	–	331
Saga	58	–	58
Nagasaki	84	–	84
Kumamoto	90	–	90
Oita	126	–	126
Miyazaki	84	–	84
Kagoshima	106	–	106
Okinawa	133	–	133
	1,012	**–**	**1,012**

Store Information
SHANGHAI HUALIAN LAWSON CO., LTD.: 300 (as of December 31, 2008)

Note: LAWSON non-consolidated figures include 93 NATURAL LAWSON stores as of February 28, 2009.

SHAREHOLDER INFORMATION

(As of February 28, 2009)

Authorized Shares

409,300,000

Shares Issued

99,600,000

Shareholders

33,358

Stock Exchange Listings

Tokyo Stock Exchange (1st Section)

Osaka Securities Exchange (1st Section)

Stock Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

4-5, Marunouchi, 1-chome, Chiyoda-ku,

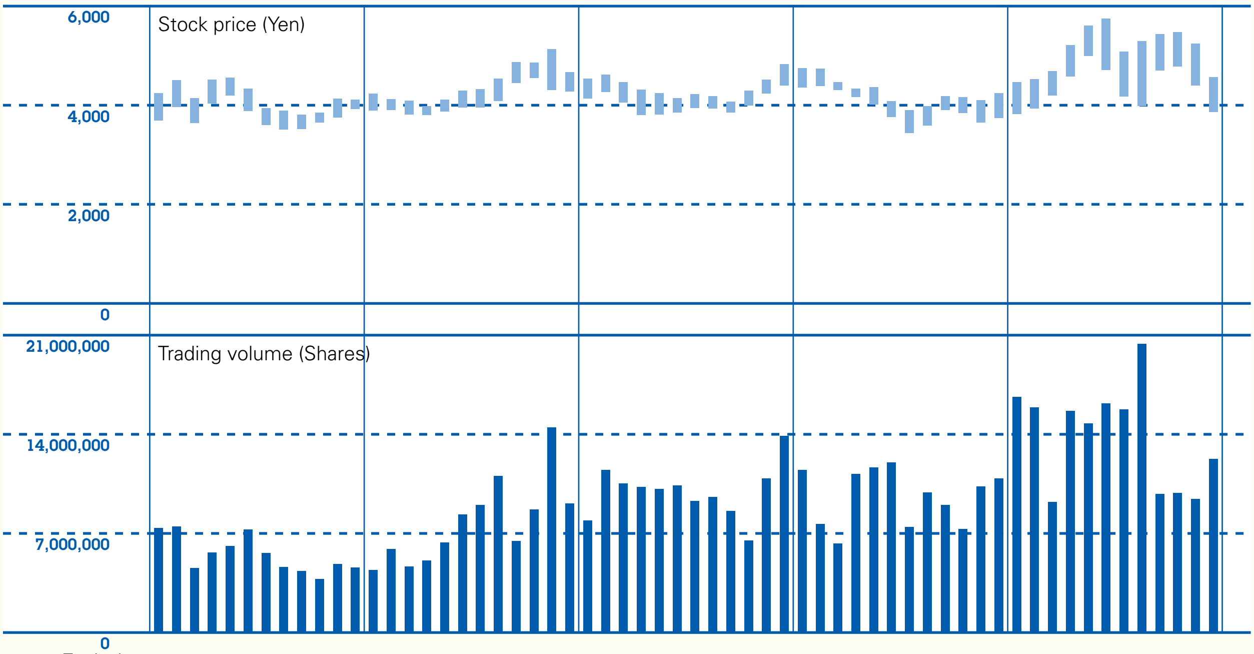
Tokyo 100-8212, Japan

Major Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Held*
1. Mitsubishi Corporation	32,089	32.4
2. Japan Trustee Services Bank, Ltd. (Trust Account)	6,613	6.7
3. The Master Trust Bank of Japan, Ltd. (Trust Account)	6,031	6.1
4. Japan Trustee Services Bank, Ltd. (Trust Account 4G)	5,035	5.1
5. Marubeni Foods Investment Co., Ltd.	4,786	4.8
6. NTT DoCoMo, Inc.	2,092	2.1
7. Trust & Custody Services Bank, Ltd. (Securities Investment Trust Company)	1,185	1.2
8. STATE STREET BANK AND TRUST COMPANY 505223	1,178	1.2
9. The Nomura Trust & Banking Co., Ltd. (Trust Account)	1,038	1.0
10. STATE STREET BANK AND TRUST COMPANY 505225	979	1.0

** The above shareholding ratios exclude treasury stock (432,015).*

Stock Price and Trading Volume on the Tokyo Stock Exchange



Years Ended February 28 and 29	2005	2006	2007	2008	2009
High	4,560	5,130	4,830	4,750	5,750
Low	3,510	3,800	3,800	3,440	3,820
At Year-End	3,980	4,350	4,540	4,000	4,250

LAWSON

LAWSON, INC.

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