First Half Results for FY2012

(Six months ended August 31, 2012)

Lawson, Inc.

October 4, 2012

Financial Results for the First Half of FY2012

Tomoki Takanishi
Division Director
Finance and Accounting Office

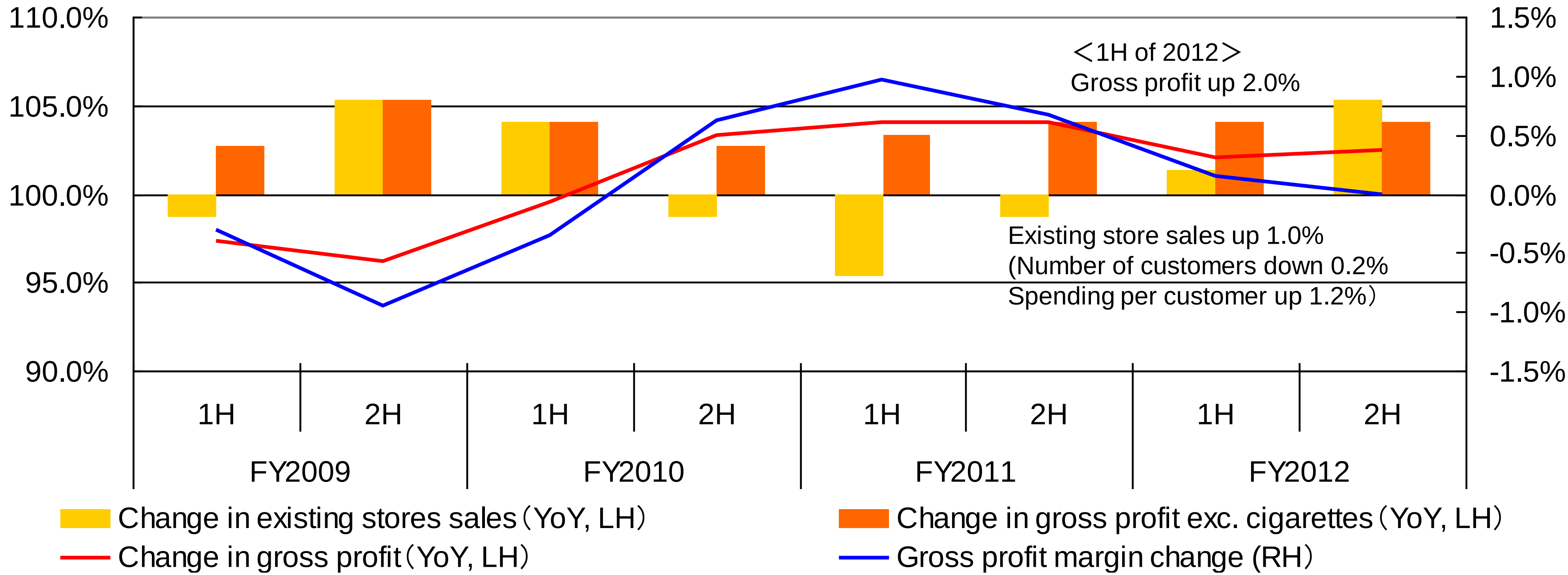
First Half of FY2012 Earnings Summary

(Billions of yen)	FY2010-1H Actual	FY2011-1H Actual	FY2012-1H Actual	FY2012-1H YoY	FY2012-1H vs. Plan
Net sales of all stores	837.8	916.1	**970.9**	106.0%	98.7%
Operating profit	30.1	32.5	**34.5**	106.1%	101.6%
Operating profit ratio	3.6%	3.6%	**3.6%**	0.0%P	0.1%P
Recurring profit	29.6	32.6	**34.2**	105.1%	102.0%
Net profit	12.2	8.9	**17.8**	199.3%	107.0%
EPS（Yen）	123.44	89.72	**178.82**	199.3%	107.0%
Dividend payout ratio	68.9%	97.0%	**55.9%**	▲ 41.1%P	-
Dividend per share (Yen)	85	87	**100**	13	5
Total number of stores in Japan	9,860	10,221	**10,912**	691	145

Note: Change vs. the plan indicates comparison with the initial plan.

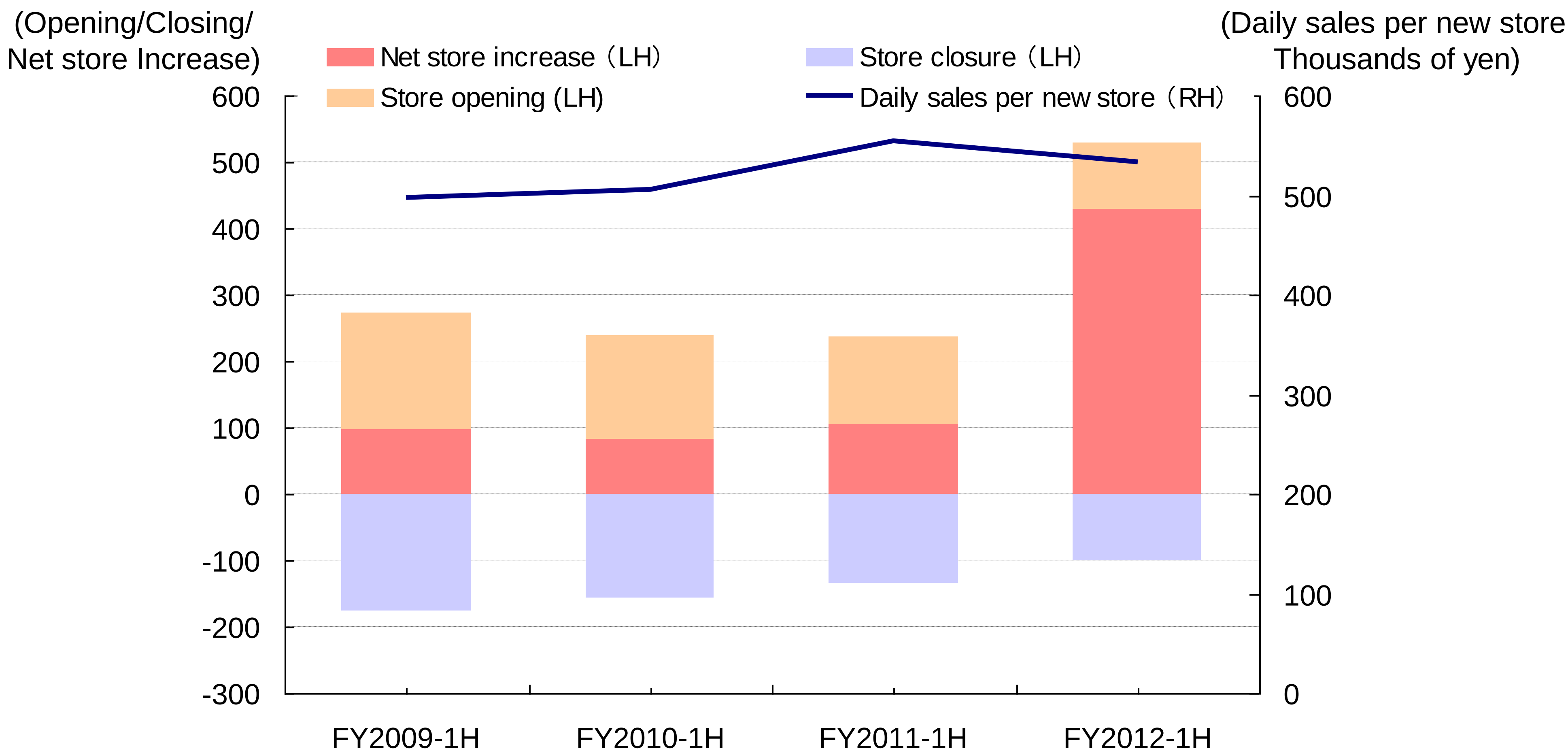
- Consolidated operating profit exceeded the plan by 0.6 billion yen, and increased by 6.1% yoy.
  Sales growth of products with higher GPM and efforts to mark-up processed foods helped improve GPM. Reduction in SG&A expenses by review of IT operational costs and others also helped improve GPM.
- Consolidated net profit exceeded the plan by 1.1 billion yen and almost doubled yoy.
  In addition to profit from organic growth, extraordinary loss decreased from the previous year when asset liability obligations and disaster-related losses of 11.6 billion yen in aggregate were recorded.

Existing Stores (Non-Consolidated)



- Existing store sales were in line with the plan, up 1.1% yoy, due to favorable sales of OTC fast foods with high gross profit margin (GPM), delicatessen items, salad, and fresh foods, which were enhanced to expand customer base to women and seniors.
- Overall GPM improved 0.2 pp from the previous year despite the negative impact of cigarette sales (0.4 pp). GPM of merchandise excluding cigarettes were 0.2pp higher than the plan and 0.6pp higher than a year ago, thanks to contribution by OTC fast foods, confectionery, and beverages.
- As a result, existing store gross profit, an important figure for the company, was up 2.0% yoy.

Store Opening (Non-Consolidated)



■ Successful expansion of customer base has led to more store opening opportunities, mainly in residential areas. We opened 119 more stores than the plan. Favorable operations of existing stores resulted in 21 less closures. A net increase of 430 stores exceeded the plan.

■ Daily sales per new store were firm and reached 533,000 yen.

Key Components SG&A Expenses

(Billions of yen)		FY2011-1H Actual	FY2012-1H Actual	FY2012-1H Change	FY2011 Forecast
Non-consolidated	Selling, general and administrative expenses	93.1	100.8	7.7	Increase 5-10%
	＜Major Strategic Expenses＞				
	Personnel costs	17.5	17.7	0.2	Almost flat
	IT-related costs	7.6	7.6	0.0	Increase 0-5%
	(Hardware leasing, software amortzation, maintenance, etc.)				
	Advertising and promotional expenses	5.6	7.0	1.4	Increase 20-25%
Consolidated SG&A expenses		128.7	138.8	10.1	Increase 5-10%

	Compared to 1H of FY2011	Compared to Plan
Non-consolidated	➢ Advertising and promotional expenses to enhance promotional activities targeted at Ponta card members and the point-collecting campaign ➢ Other: More expenses for facilities associated with net increase in stores and remodeling	0.5 billion yen less than the plan. ➢ Reduction in IT-related costs due to revision in operation and maintenance costs
Consolidated	➢ Advertising and promotional expenses to enhance Lawson HMV Entertainment's ticket business ➢ Higher lease expenses due to an increase in installation of ATMs operated by Lawson ATM Networks	1.2 billion yen less than the plan (In addition to the above reason) ➢ Contributed by cost cut efforts of Ninety-nine Plus ➢ Opened less stores overseas such as in Shanghai

Earnings of Major Subsidiaries and Affiliates

＜Operating Profit of Major Subsidiaries＞			FY2012-1H		FY2012
	FY-end	Ownership	Actual	Change	Forecast
Ninety-nine Plus, Inc.	Feb.	100.0%	1.08	0.03	2.10
Lawson HMV Entertainment, Inc.	Feb.	100.0%	1.13	0.19	2.30
Shanghai Hualian Lawson, Inc.	Dec.	85.0%	▲ 0.50 *	▲ 0.50	▲ 0.90
Lawson ATM Networks, Inc.	Feb.	76.6%	2.38	0.63	4.30

* Actual results from January 2012 to June 2012

＜Operating Profit of Equity-method Subsidiaries＞			FY2012-1H	
Lawson Okinawa, Inc.	Feb.	49.0%	0.46	0.06

Ninety-nine Plus	Slight increase in operating profit as cost cuts and operational improvement offset the impact from a tough comparison to the previous year's hot summer. Steady progress in conversion to franchise stores.
Lawson HMV Entertainment	The measures to enhance entertainment business resulted to capturing sales opportunities of big performances. Favorable ticket sales led to profit growth.
Shanghai Hualian Lawson	After acquiring a controlling interest, the internal system was reviewed and the measure to improve operation was implemented. Profit dropped du to restructuring costs but was in line with the plan.
Lawson ATM Networks	Net increase in store openings led to more ATM installation. The number of transactions rose and profit increased thanks to being better known.

First Half of FY2012 Balance Sheet and Cash Flow (Consolidated)

(Billions of yen)

	Aug. 31, 2012	Chg. from Feb. 28,
Total current assets	177.7	17.6
（Cash and deposits）	90.5	11.4
（Marketable securities）	4.9	0.0
（Accounts receivable）	38.3	5.6
Total noncurrent assets	385.4	14.1
Property, plant and equipment	196.8	13.0
Intangible assets	36.4	▲ 2.5
Investments and other assets	152.1	3.6
(Long-terms loans receivable）	33.6	1.5
(Guatantee deposits）	85.0	1.4
Total Assets	563.2	31.8

	Aug. 31, 2011	Chg. from Feb. 28,
Total current liabilities	236.7	18.7
（Accounts payable-trade）	105.6	17.4
（Deposits payable）	76.3	1.3
Total noncurrent liabilities	103.7	4.8
(Long-term guarantee deposits）	35.4	▲ 0.2
Net Assets	222.8	8.1
（Common stock）	58.5	0.0
（Retained earnings）	115.8	8.5
Liabilities, and net assets	563.2	31.8

（Billions of yen）

	FY2010-1H	FY2011-1H	FY2012-1H
Cash flows from operating activiti	63.4	67.8	53.3
Cash flows from investing activitie	▲ 12.6	▲ 28.4	▲ 28.9
Free cash flows	50.7	39.3	24.3
Cash flows from financing activitie	▲ 16.1	▲ 13.2	▲ 14.7
（Reference）Cash and deposits	97.6	94.3	90.5

FY2012 Consolidated Results Forecasts

	FY2010	FY2011	FY2012 Forecast	
(Billions of yen)	Actual	Actual	Plan	YoY
Net sales of all stores	1,682.8	1,825.8	***1,950.0***	106.8%
Operating profit	55.5	61.7	**66.0**	106.8%
Operating profit ratio	3.3%	3.4%	**3.4%**	0.0%P
Recurring profit	54.5	61.7	**65.1**	105.5%
Net profit	25.3	24.8	**33.4**	134.2%
ROE	12.8%	12.0%	**15.3%**	3.3%P
EPS（Yen）	254.61	249.17	**334.37**	134.2%
Dividend payout ratio	66.8%	72.2%	**59.8%**	▲ 12.4%P
Dividend per share (Yen)	170	180	***200***	20
Total number of stores in Japan	9,994	10,457	***11,047***	590
（Non-Consolidated）				
Gross profit at existing stores (YoY)	101.4%	104.0%	***102.3%***	▲ 1.7%P
Net sales at existing stores (YoY)	100.8%	105.4%	***100.5%***	▲ 4.9%P
Gross profit margin ratio	30.6%	30.1%	**30.6%**	0.0
Change in GPM exc. Cigarettes	0.5%	0.5%	***0.6%***	0.1%P

Note: Figures in italic indicate the revised figures from the initial plan.

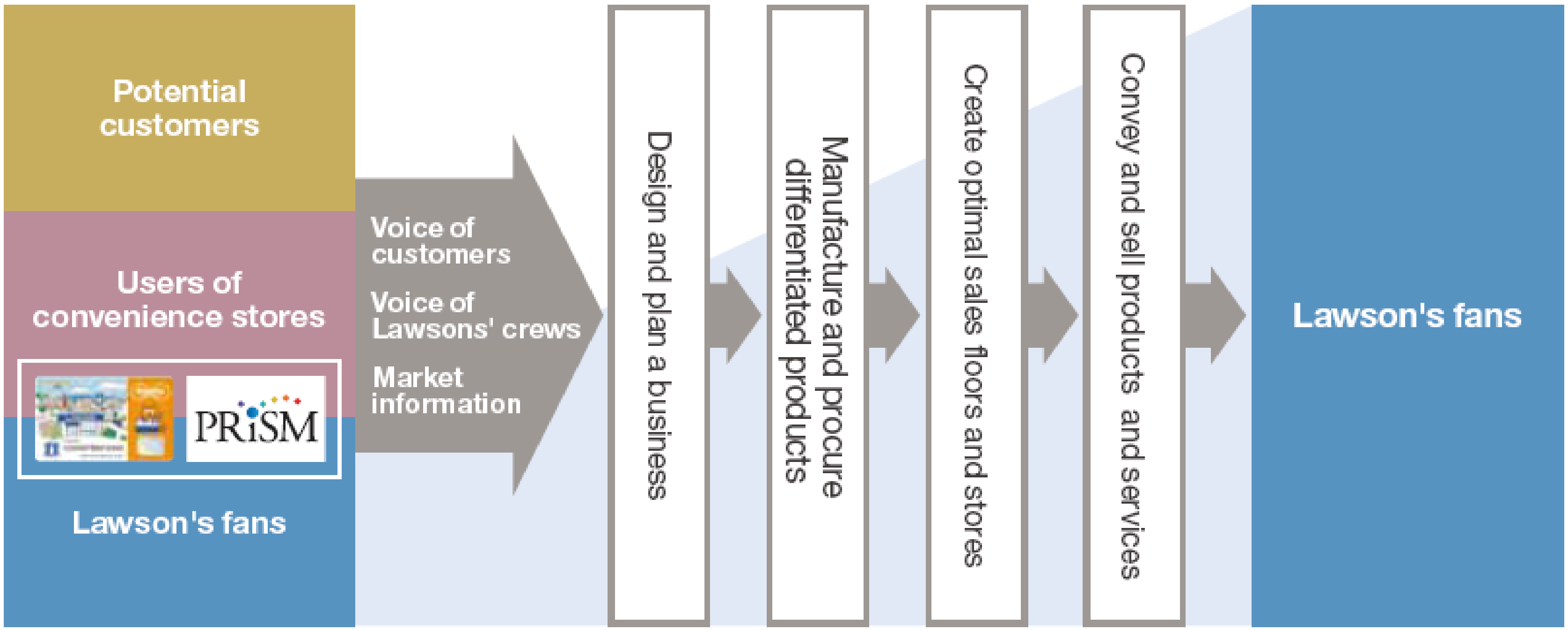
- Strengthen fresh foods, ready-made meals, Lawson select, fresh coffee, etc. to expand customer base.
- Spend strategic expenses such as promotional expenses to become well recognized and increase retention of Ponta card holders.
- Aim at GPM increase by 0.5pp, through growth in sales of high GPM products and the SCM reform.

Initiatives for the CVS Business

Genichi Tamatsuka
Chief Operating Officer,
CVS Operating Group CEO

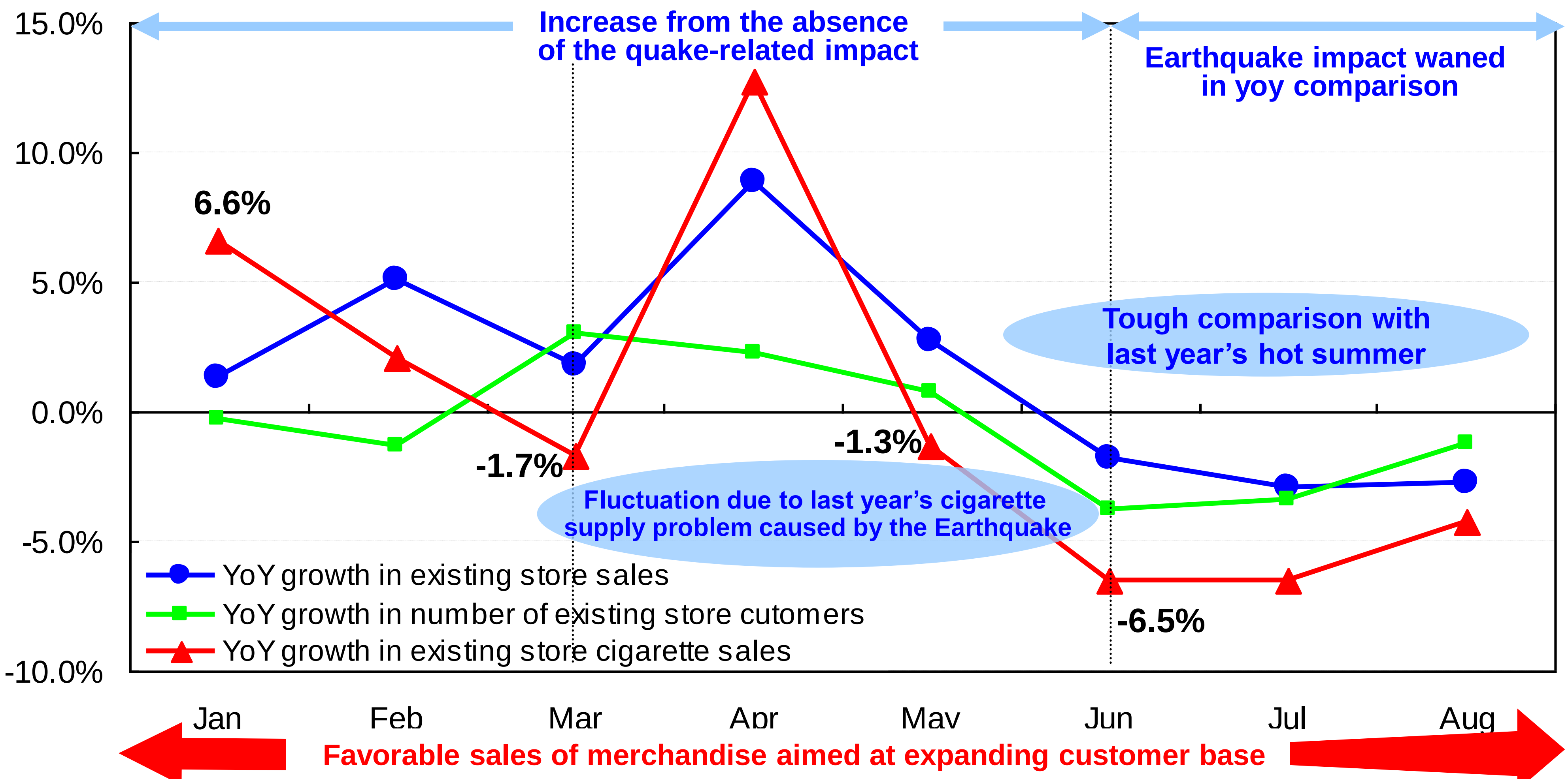
Key Points

1. Review of the First Half of FY2012
2. Fresh food-type convenience stores
3. Private brand strategy
4. Enhancing fast foods
5. Initiatives for the Second Half of FY2012



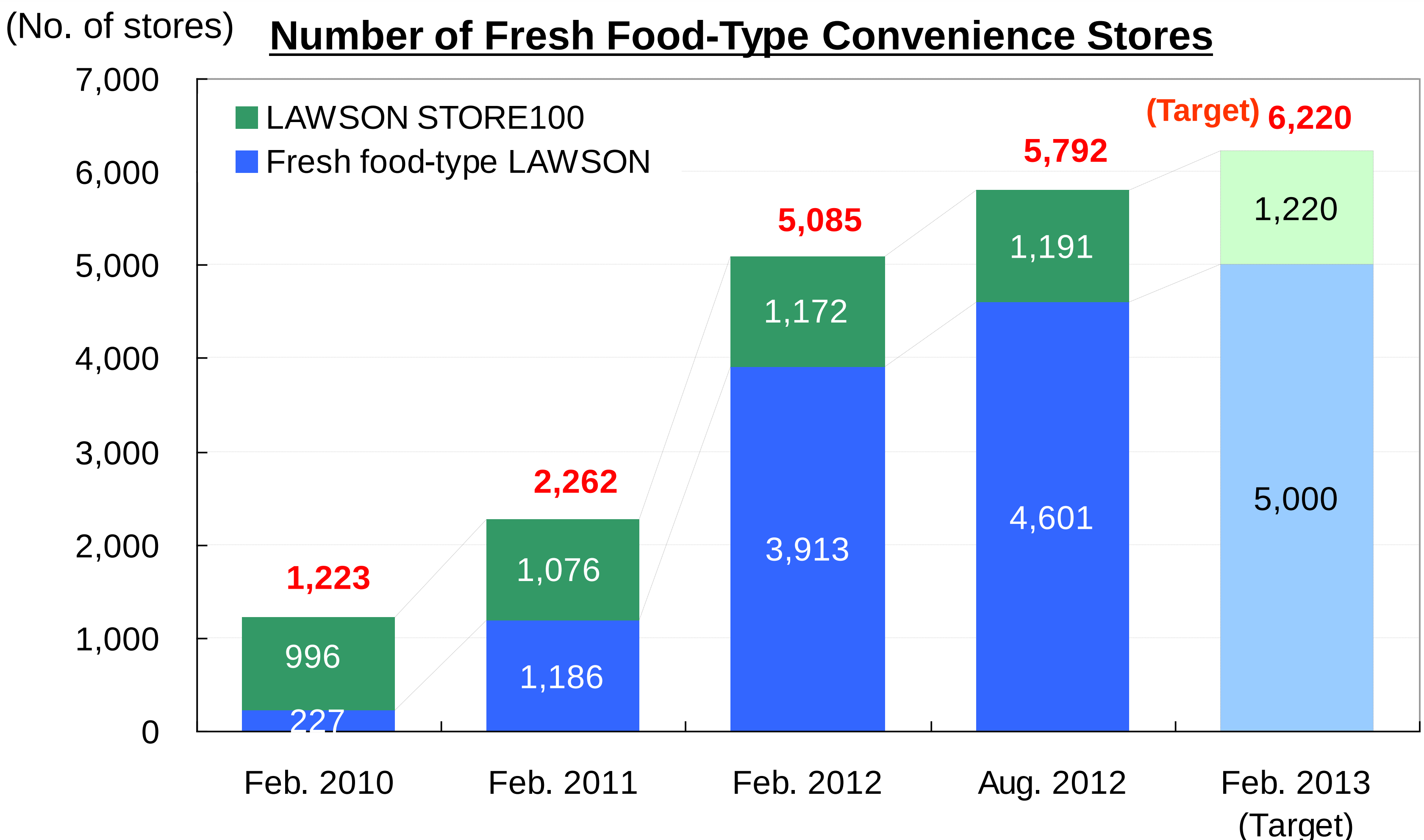
1. Review of the First Half of FY2012

Existing Store Sales, Number of Customers, Cigarette Sales (Jan to Aug 2012)



The number of customers decreased because of a tough comparison with last year's hot summer and lower cigarette sales

2. Fresh Food-type CVS Attract Customers



Note: The number of LAWSON STORE 100 stores includes the former SHOP99 stores. The number of fresh food-type LAWSON stores from the end of fiscal 2011 includes those with three rows of shelves in addition to the former hybrid type (with one gondola shelving.)

The number of fresh food-type CVS increased by over 700 in six months

3. Private Brand Strategy "Lawson select"

Steady sales growth for our private brand "Lawson select"

Sales increased three times more than a year ago, as of August 2012

Lawson Group's Private Brands

Lawson select, Oyatsugoro (snack items), Value Line

PB sales (exc. ready-made meals) account for over 7% of total sales

Lawson's PB strategy

- Capture customers' needs with our Ponta card data analysis
- Optimize the balance of PB and NB (national brand) for each item in developing PB.
  → No reckless PB category expansion

4. Enhancing Fast Foods by Promoting MACHI café

MACHI café

Achieve good flavor and savor
which cannot copied by peers

”Good flavor and taste”
that beats the conventional expectation regarding Convenience stores

“Hospitable savor”
Warm customer services

By achieving good flavor and savor, we stayed out of price competition and substantially improved the gross profit margin.

Simply placing self-service coffee machine doesn’t make success.
⇒ We offer face-to-face selling with good store operation
⇒ Effective in peer competition

We aim to increase repeat customers with good taste and savor and establish another differentiating competence.

4. Enhancing Fast Foods：MACHI café Ingredients and Machines

■ Selected coffee beans

- ●Quality green coffee beans procured from partner growers in Brazil
- ●Imported green beans, then roasted in Japan
- ●Different beans are used, depending on the menu
- ●Use beans stamped with “Rainforest Alliance Certified”

■ Fresh milk

- ●Use pasteurized milk to realize raw milk flavor

■ Authentic coffee extract machines

- ●Enable extraction of milk, which our peers struggle to achieve
- ●Direct negotiation with the Italian manufacturer enabled us to offer original coffee at lower prices

Offer great flavored coffee, beyond the conventional expectation regarding convenience store coffee

4. Enhancing Fast Foods：MACHI café Introduction and Effects

Example of a Store in Minami Kanto Branch

Sales: 165 cups of coffee/day
Purchasing ratio: 21.8% (One out of 5 customers purchased coffee)

Change since introduction of MACHI café

OTC fast food sales: from 23,800 yen/day to **56,000 yen/day**
YoY increase in the number of customers: from decrease of 10% to **increase of 9%**

Introduction of MACHI café led to an increase in the number of customers, despite being surrounded by competitors' stores

MACHI café introduction	By Aug. 2012	By Feb. 2013
	1,700 stores	Expand to 3,000 stores

5. Initiatives to take in the Second Half of FY2012

Handle fresh foods in all stores

Enhance OTC fast food sales

Strategic, proactive sales promotion

↓

Increase the number of customers with two major strategies: Customer base expansion and increase in loyal customers

↓

Aim to increase gross profits and achieve full-year earnings forecasts

Strategy for Value Creation

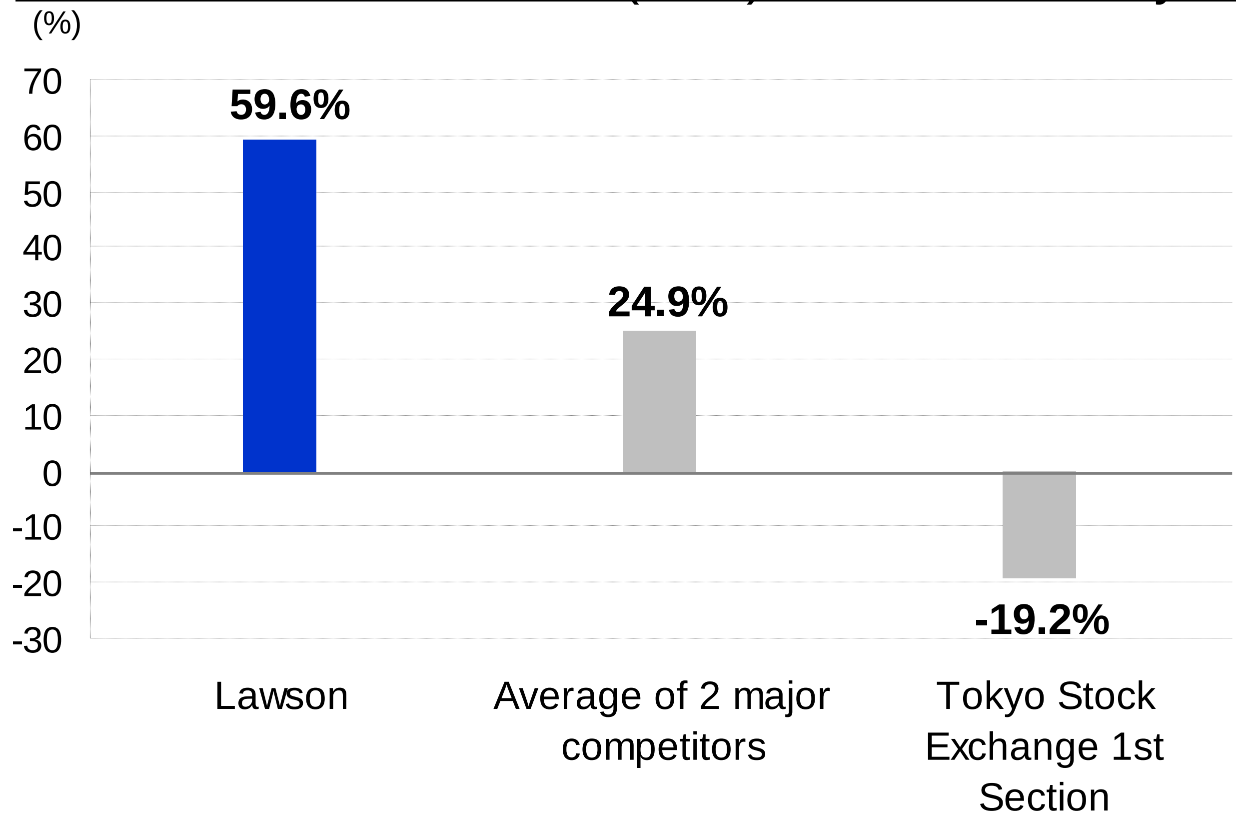
Takeshi Niinami
President & CEO

Key Points

- Shareholder-oriented capital policy
  - Emphasis on high level of Total Shareholder Return
  - Sustainable dividend growth
  - ROIC standards in store openings
- Our growth drivers and ROE improvement
  - Differentiation through products with higher GPM and health care businesses
  - High customer retention through CRM
  - Productivity improvement through SCM reform
- Cash flow allocation strategies

Emphasis on High Level of Total Shareholder Return

Total Shareholder Return (TSR) for recent three years*

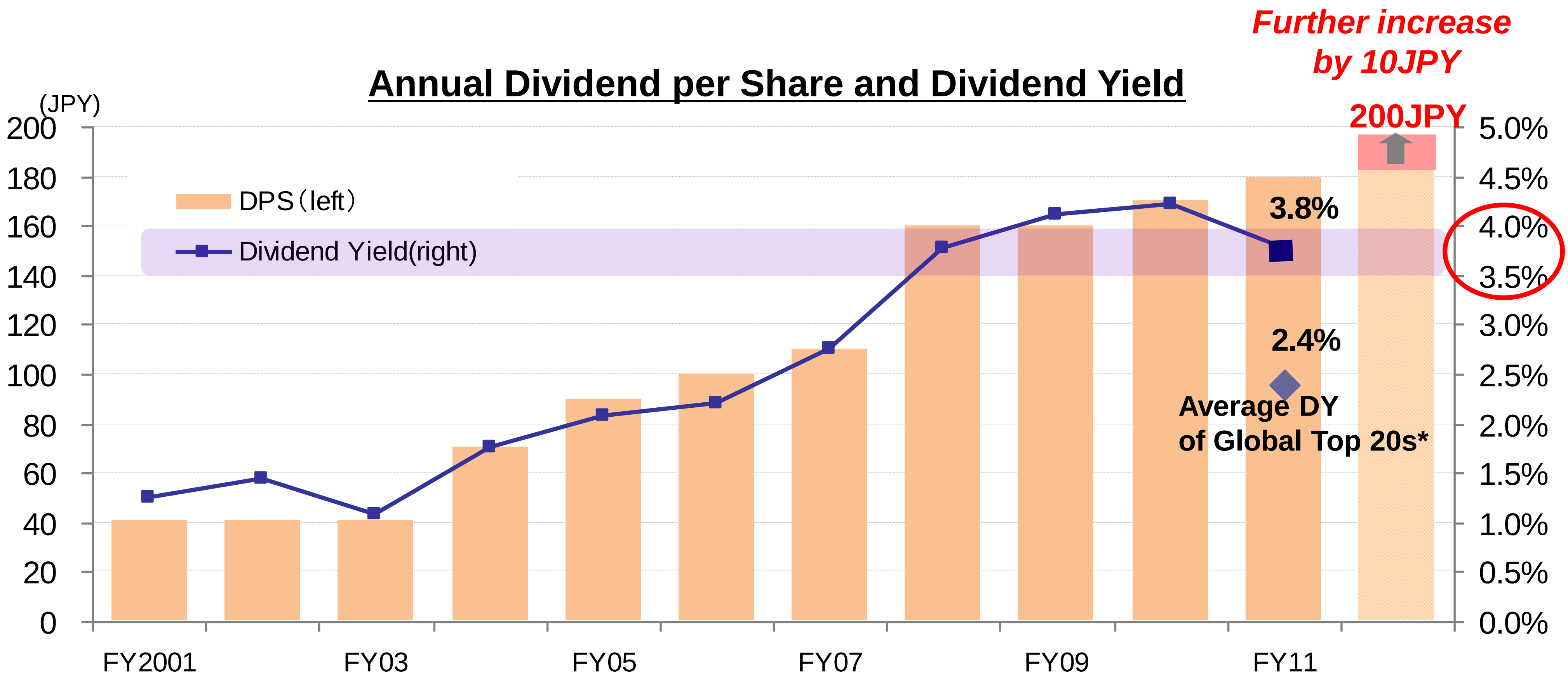


We are focusing on sustainable profit growth and dividend growth and achieving a high level of TSR

* Three-year TSR = Total return of a stock (capital gain plus dividends) from September 2009 to August 2012
Average of 2 major competitors = Simple average of Seven & i Holdings and FamilyMart (Company estimates)

Sustainable Dividend Growth

Consider the appropriate level of dividend yield as a cost which we should pay as the return to our shareholders

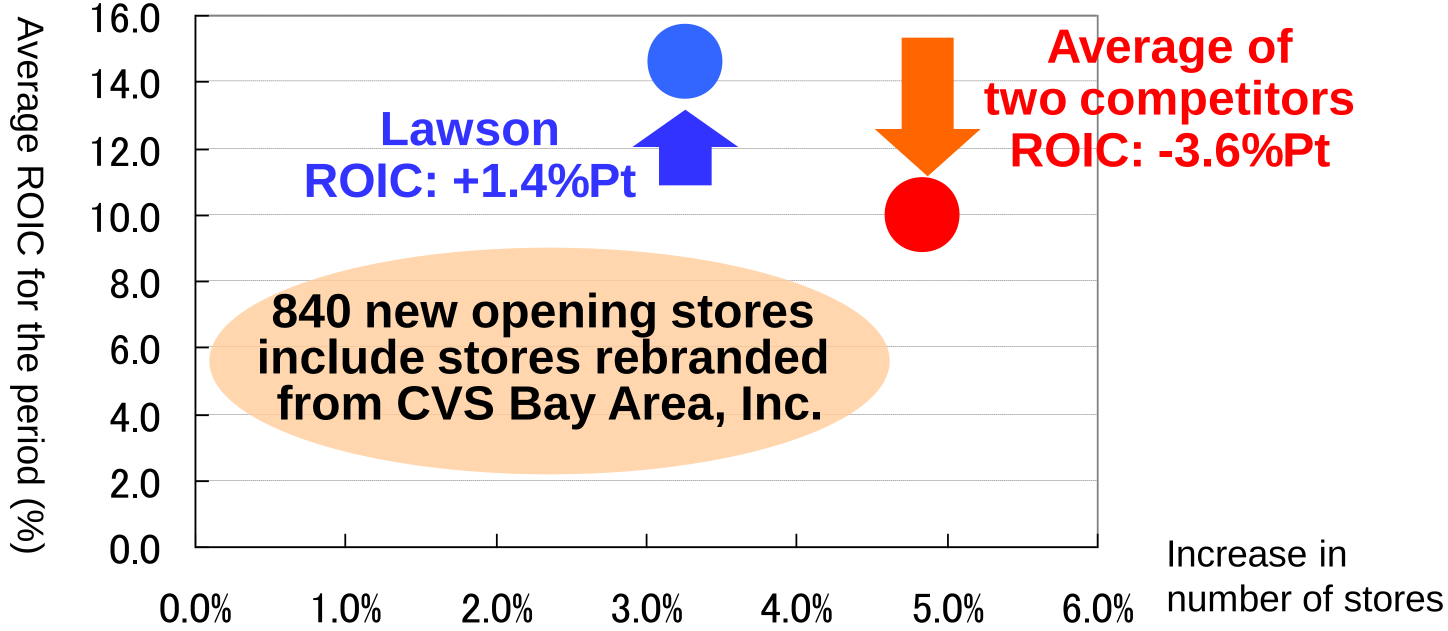


• Global top 20 retailers (excluding apparel retailers) by market capitalization

ROIC Standards in Store Openings

LAWSON

Change in ROIC in Comparison to Competitors (FY2002-FY2011)



Although competitors continue to reduce ROIC by excessive store openings, we are focusing on opening strategies based on ROIC criteria.

Note 1 ROIC = After-tax operating profit (@40% tax rate)/Averaged invested capital for the period (equity + interest-bearing debts)
Note 2 The horizontal axis indicates changes in number of stores (from fiscal 2002 to fiscal 2011)
Note 3 The arrows indicate changes in ROIC from fiscal 2002 to fiscal 2011

Raising ROE through Three Profit Growth Drivers

ROE target: 15.1% => 20%

Operating profit ratio target: 3.5% => 5.0%

Profit growth drivers

Card data analysis

Differentiation through products with higher GPM and various store formats

Productivity improvement through advanced SCM reform

High customer retention through CRM

Increasing Original Products with Higher GPM

	Gross Profit Margin (GMP) Present	Medium-term targets
OTC Fast Food Prepared food, fresh-brewed coffee, etc.	Over 50%	↑
Fast Food on Shelves Rice balls, lunch boxes, pasta, etc.	33%	↑
Others Beverages, alcohol, non-food items, etc.	35%	↑
Fresh Food	20%	↑
Cigarettes	10%	
Average	31%	35%

Improve GPM for each category

×

Increase the share of products with higher GPM

⇓

Improve overall GPM

- ✓ **Enhance the line-up of products with higher GPM through SCM reform**
- ✓ **More than double sales ratio of OTC Fast Food to over 10% of total sales**

Pharmacy LAWSON and Healthcare Businesses

NATURAL LAWSON

Pharmacy LAWSON
⇒Lawson's unique system to handle prescription drugs

Hospital LAWSON

Pharmacy-combined NATURAL LAWSON

We acquired 5% of outstanding shares of our business alliance partner Qol Co., Ltd., the pharmacy chain.
⇒ Enhance our credibility among senior customers, as convenience stores with a registered pharmacist
⇒High growth potential in the rapidly aging society

High Customer Retention through CRM

Uniqueness of Ponta Card
(Aug 2012)

- ✓ Large number of card holders: 44 million
- ✓ High customer loyalty: Over 40% of our sales come from Ponta card members

⇒ 50% (End of FY2012)
⇒ 60% (End of FY2013)
‥⇒

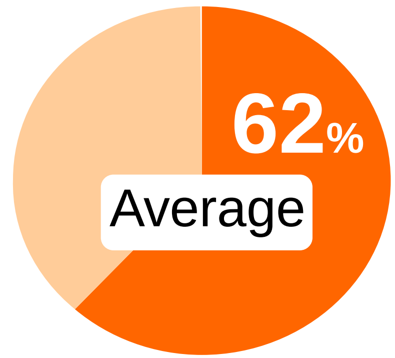
Product develop-ment

Sales promotion

CRM through card data analysis

Case of Akita Prefecture

Purchases by Ponta card members as % of all sales (Apr 2012)



Raised customer retention by merchandise assortment meeting the customer needs

⇒ Keep resilience even after competitors' invasion

Differentiated analysis with high accuracy and full leverage of customer profiles
⇒ Achieve high customer retention and expansion of customer base

Productivity Improvement through SCM Reform

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SCM Reform since FY2008

CRM Reform since FY2010

R&D | Procure-ment | Manufacturing | Distribution | Sales

Ponta card data analysis

Set up the Procurement Department

PRiSM

Current operating profit margin: 3.5%

Advanced SCM Reform since FY2012

R&D | **Procure-ment** | **Manufacturing** | **Distribu-tion** | Sales

Ponta card data analysis

Enhance procurement efficiency

Improve productivity of factories and distribution centers

PRiSM

Target operating profit margin: 5.0%

We will add value in the value chain and raise GPM (exc. cigarettes) by 4 percentage points in the mid-term through product differentiation, CRM, and advanced SCM reform.

Optimal Cash Flow Allocation and ROE Growth Cycle

How to allocate operating cash flow

*The figures indicated the accumulated amount for the recent five years.

Return / Equity

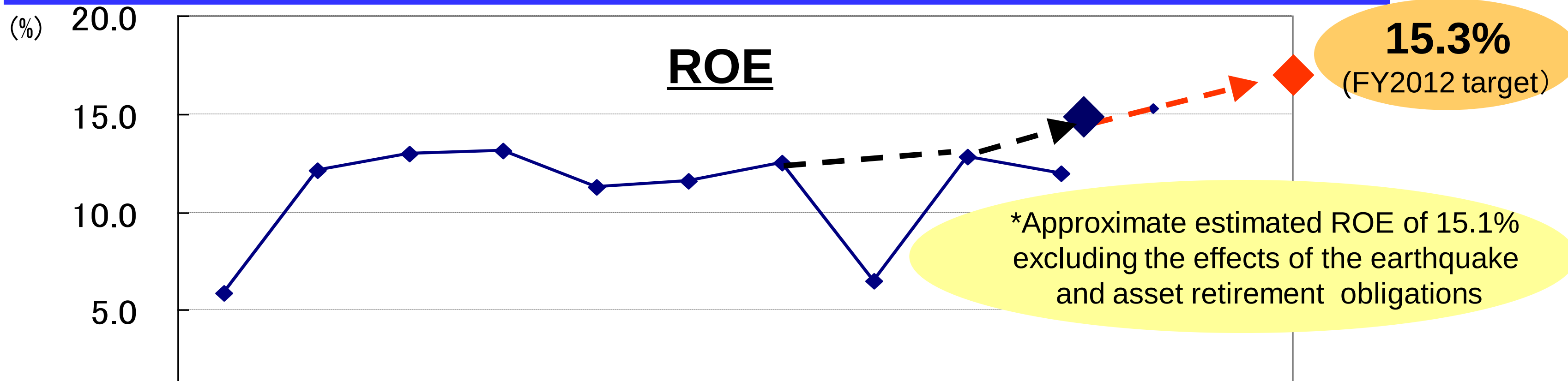
Operating cash flow 300 bln yen

Investing cash flow 180 bln yen

Shareholder return 99 bln yen

Dividend increase 74 bln yen

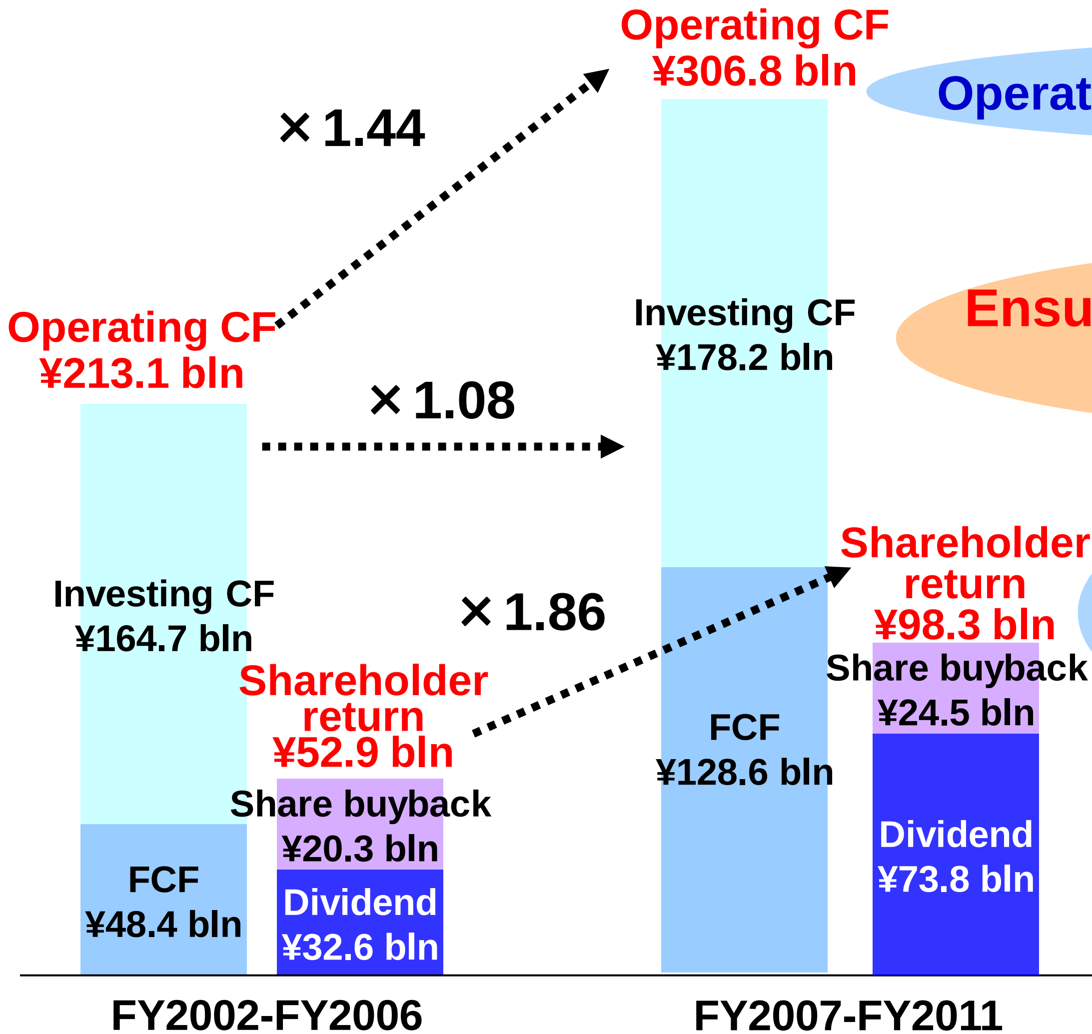
Share buyback & cancelation 25 bln yen



Reinvest cash with emphasis on ROI =>Increase in operating cash flow
=> Generate free cash flow after reinvestment => Proactive reward shareholders
(esp. dividend increase) => Realize sustainable growth

Realize Both Cash Flow Growth and Shareholder Return

How we have allocated operating cash flow in the past 10 years (FY2002 to FY2011)

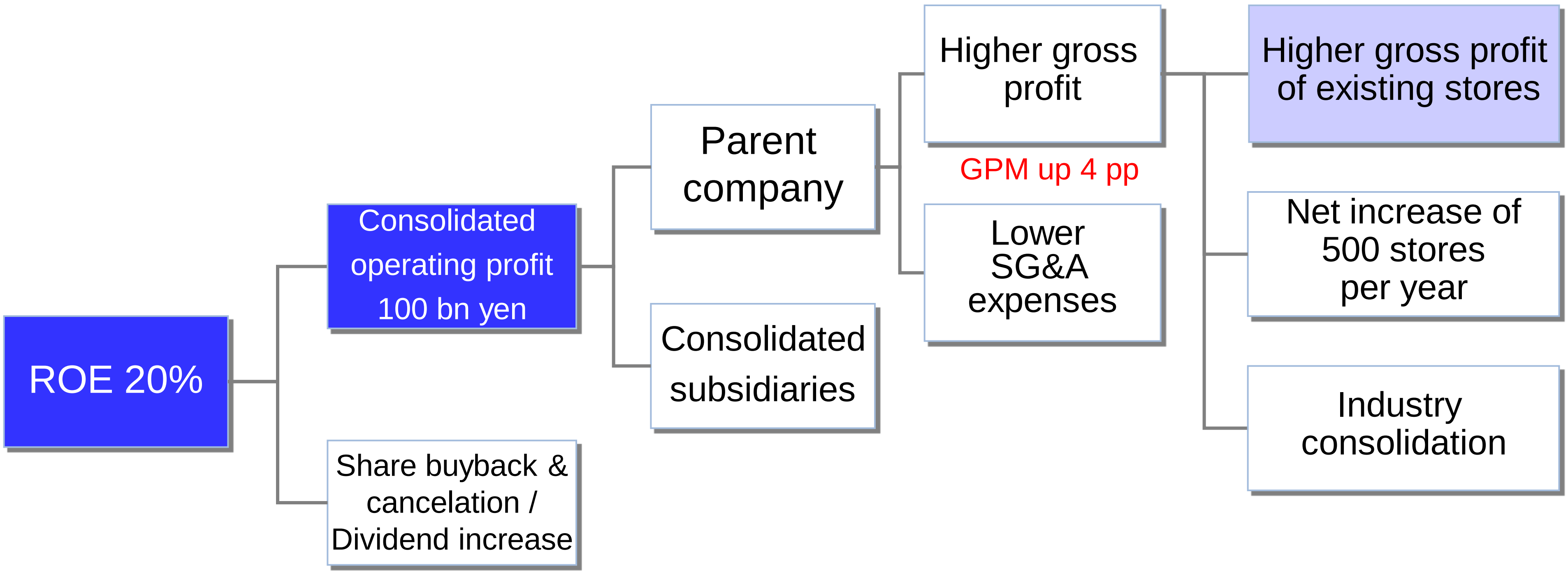


Operating cash flow increased steadily

Ensured investment in business and stores for growth

Free cash flow after investment was not reserved but used for shareholder returns

Roadmap of Medium-term Growth and ROE Target 20%



Initiatives toward our goals of 100 billion yen in operating profit and ROE of 20%

- Maintain capital discipline with emphasis on ROIC
- Improve GPM by product differentiation, CRM leveraged by Ponta card data analysis and advanced SCM reform
- Capitalize consolidation opportunities with accumulated lessons learned from M&A

Reference

Half Year Breakdown of FY2012 Forecast

LAWSON

(Consolidated: Billions of yen)	FY2012 1H Initial Plan	FY2012 1H Actual	FY2012 2H Plan	FY2012 Full-Year Plan
Net sales of all stores	984.0	970.9	*979.0*	*1950.0*
Operating profit	34.0	34.5	*31.4*	66.0
Operating profit ratio	3.5%	3.6%	*3.2%*	3.4%
Recurring profit	33.6	34.2	*30.8*	65.1
Net profit	16.7	17.8	*15.5*	33.4
(Non-consolidated)				
Gross profit at existing stores (YoY)	102.4%	102.0%	*102.5%*	*102.3%*
Net sales at existing stores (YoY)	101.0%	101.0%	*100.0%*	*100.5%*
Gross profit margin ratio	30.6%	30.4%	*30.9%*	30.6%
Change in GPM exc. Cigarettes	+0.4%P	+0.6%P	+0.6%P	*+0.6%P*

Note: Figures in italic indicate the revised figures from the initial plan.

Capital Expenditure

LAWSON

(Consolidated: Billions of yen)	FY2010-1H Actual	FY2011-1H Actual	FY2012-1H Actual	FY2012 Plan
New stores	7.1	9.8	18.6	*34.0*
Existing stores	3.7	4.8	3.9	*11.0*
IT-related	4.3	3.7	2.7	6.0
Other	0.6	0.4	1.3	*2.0*
Subtotal for capital expenditure	15.8	18.8	26.7	*53.0*
Depreciation and amortization	15.7	17.9	20.8	*44.1*

Note: Figures in italic indicate the revised figures from the initial plan.

Cautionary Statement

This presentation contains forward-looking statements and forecasts regarding the future plans, strategies and performances of Lawson and its subsidiaries and affiliates. These statements and forecasts are not historical fact. They are expectations based on assumptions and beliefs derived from information currently available to the Company and are subject to risks and uncertainties including, but not limited to, economic trends, heightened competition in the domestic convenience store sector, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from estimates. Figures in this presentation have been rounded down.