(TRANSLATION ONLY)

May 11, 2006

To Those Shareholders with Voting Rights

Takeshi Niinami
Representative Director
LAWSON, INC.
9-1, Toyotsu-cho, Suita, Osaka

NOTICE OF THE 31st ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 31st Ordinary General Meeting of Shareholders to be held as follows:
If you are unable to attend the meeting, please read the attached REFERENCE DOCUMENTS FOR THE EXERCISE OF VOTING RIGHTS and return the Voting Rights Exercise Form with your vote of approval or disapproval and registered seal so that it will reach us by May 25, 2006.

1. Date: 10 a.m., Friday, May 26, 2006
2. Place: Melpark Hall (OsakaYubin-Chokin Hall),
2-1, Miyahara 4-chome, Yodogawa-ku, Osaka
(Please refer to the attached guide map for the location of Ordinary General Meeting of Shareholders.)
3. Objectives of the Meeting:
Reports:

1. **The Business Report, the Consolidated Balance Sheet and the Consolidated Statement of Income for the 31st Fiscal Term (from March 1, 2005 to February 28, 2006), as well as the Audit Reports**
2. **The Non-Consolidated Balance Sheet and the Non-Consolidated Statement of Income for the 31st Fiscal Term (from March 1, 2005 to February 28, 2006), as well as the Purchase of Treasury Stock Pursuant to a Resolution of the Board of Directors Authorized under the Articles of Incorporation**

Agenda for Resolutions:
Proposal No. 1: Approval of the Proposal of Appropriation of Retained Earnings for the 31st Fiscal Term
Proposal No. 2: Partial Amendment to the Articles of Incorporation
The details of the Proposal are summarized in the REFERENCE DOCUMENTS FOR THE EXERCISE OF VOTING RIGHTS on pages 36–42 (in the Japanese version).
Proposal No. 3: Election of Nine (9) Directors
Proposal No. 4: Election of One (1) Corporate Auditor
Proposal No. 5: Decision on the Amount and Substance of Stock Options for Directors
Proposal No. 6: Presentation of Retirement Benefit to a Retiring Corporate Auditor

For those attending, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting. If you wish to attend the meeting by proxy, your attorney-in-fact is requested to present his or her power of attorney together with the Voting Rights Exercise Form at the reception desk. (The qualified attorney-in-fact is limited only to shareholders having voting rights as per relevant provisions in the Articles of Incorporation.)

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

(TRANSLATION ONLY)

(Appendix to the NOTICE OF THE 31st ORDINARY GENERAL MEETING OF SHAREHOLDERS)

BUSINESS REPORT
(March 1, 2005, through February 28, 2006)

1. SUMMARY OF OPERATIONS

(1) Process and Results of Operations of the Corporate Group

During fiscal 2006, the year ended February 28, 2006, the Japanese economy saw rising expectations of a steady recovery, reflecting improved consumer spending and corporate profits. However, business confidence was uneven throughout the country as regional economies outside the three major metropolitan areas experienced no real sense of recovery. Furthermore, negative factors such as rising crude oil prices emerged.
Competition further intensified in the convenience store (CVS) industry with the entry of other businesses such as family restaurants, takeout *Bento* (boxed lunch) stores and drugstores, as well as continued store openings by leading CVS chains and supermarkets extending their service hours or staying open 24 hours a day. In addition, sales expanded rapidly at convenience stores that focus on fresh foodstuffs; these stores target consumers who reside in small, condensed business areas.

Given these environmental changes, conventional CVSs, which primarily provide time-saving and the convenience of assorted goods and services targeting young male customers, had to fight wars of attrition against adjacent, homogenized CVSs, and often registered year-over-year losses at existing stores.

Under these circumstances, the LAWSON Group carried out the following management strategies during the year as the Company celebrated its 30th anniversary:

1) With the three essential elements of “improving product development capability,” “upgrading the service level of store operation” and “reinforcing store development capability,” the Group endeavored to raise its Customer Satisfaction (CS) at every LAWSON store by focusing on improving existing stores and opening of new stores openings.
2) The Group aimed to establish its groupwide three-format store opening system by adding the newly developed “LAWSON STORE 100” format to the existing “LAWSON” and “NATURAL LAWSON” formats.
3) Capitalizing on the opportunity of the 30th anniversary, the Group formulated a new corporate philosophy: “Happiness and harmony in our Community.” To become a truly indispensable corporate group not only for customers but also for the overall society, the Group is actively committed to Corporate Social Responsibility (CSR) activities based on its corporate philosophy.

As a result of implementing these management strategies and the execution of affairs and operations according to such strategies, on a consolidated basis, operating revenues for the year increased 5.4% year over year to ¥268,058 million, and ordinary profit rose ¥1,617 million, or 3.8%, year over year to ¥43,940 million mainly due to an increase of ¥7,821 million in franchise commissions from franchised stores reflecting the increased number of franchised stores. As a consequence, consolidated net income increased ¥1,589 million, or 7.8%, year over year to ¥22,025 million.

Operating results by business segment were as follows:
(Convenience store business)
In this business segment, which experienced significant environmental changes, the Group conducted the following management policies to establish a new CVS business category to appropriately meet customer needs and provide a competitive edge.

First, the LAWSON Group developed “LAWSON STORE 100,” its third format following “LAWSON” and “NATURAL LAWSON,” and opened the first store in May 2005. The core concept of the new format is to supply housewives and elderly customers, whose needs were not well served by the conventional CVS business, with good value (fresh foodstuffs, side dishes and processed foods) at reasonable prices. This new store format should allow the Group to appeal to a wider variety of customer needs while expanding possibilities for further corporate growth through new store openings, in combination with the “LAWSON” with the well-known concept of “the ‘hot’ station in the neighborhood” and “NATURAL LAWSON,” which mainly targets female customers and addresses comfortable lifestyles with the keywords “beauty” and “health.”

Next, CS improvement continued by increasing the quality of the "three elements" of the convenience store business.

1) "Improving product development capability": The Group aimed to raise its product development capability based on original innovations with the keywords "safe, healthy and tasty."
2) "Upgrading the store operation": The Group fortified the Company's leadership in the store management of chain stores to achieve "LAWSON's Three Challenge Practices" (creating stores and store layouts that please our customers, keeping stores clean, serving customers with friendliness and courtesy).
3) "Reinforcing store development capability": The Group strictly complied with the store opening criteria, developed a new format and conducted business tie-ups to identify convenient site locations for customers and open stores with the opportunity for higher profitability.

<Status of Product Strategy>
As for product strategy, we aggressively pursued the diverse innovations described below to differentiate ourselves from other retail competitors in the pursuit of product development commensurate with customer needs.

We proactively launched new products at the pace of two per month in the *"Gohan-tei"* rice meal brand that started in 2004 under the concept of "Surprises and innovative ideas in eating." Under this brand, we developed several new *Bento* (boxed lunch) series using health-oriented ingredients such as *Gokoku* (five coarse cereals) and rice cooked with barley, including *"Kanitama-no-Kurozuan"* and *"Aburi-Chashu-Don,"* which were released in April 2005. We also introduced another *"Gohan-tei"* series, in which the "*Ichiju-Sansai* (one soup and three dishes)" style is reproduced as an authentic Japanese dining culture based on the innovative idea of putting one soup in a lunch box.

Sales in the Sushi category, represented by *"Yakisaba-Zushi,"* surged more than 100% over the previous fiscal year.

For the "*Onigiri-ya"* rice ball series, which was launched three years ago, we adopted the industry's first "hand-wrapping, rectangular-type package" (patented) and launched a new product, *"Shin-Fukkura Temaki-Onigiri,"* featuring the good taste of dried laver seaweed and rice in July 2005.

Addressing the feedback of women in their 20s and 30s—"We want to enjoy different tastes a little bit at a time" and "We want to eat vegetables and meats in a good nutritional balance"—we launched the "Deli & Pasta" series in October 2005, whereby customers can enjoy Italian pasta and side dishes simultaneously.

As for the category of hot foods, which are served at the storefront counter, we launched the new series of *"Karaage-kun"* products, "Fried Chicken" and other new products. Sales of the category, driven by aggressive storefront promotions, soared more than 100% over the previous fiscal year.

Furthermore, we released the "30th Anniversary Commemorative *Bento*" and other products in June 2005 with the concept of "high added value to offer surprises and a sense of fun" as part of our "30th Anniversary Commemorative Campaign."

<Status of Store Management>
In store operations, we focused efforts on minimizing the two most common forms of "loss," i.e. the opportunity loss (potential sales loss) when an item sought by a customer is absent from the store's shelves (the store having sold out of that fast-moving item) and the abandonment loss incurred when a product remains on the shelves beyond its sell-by date, owing to lack of popularity. Specifically, we collected and analyzed detailed customer information for individual store to improve the quality of management support activities conducted by supervisors concerning the efficient purchase order by each franchise store. The "Mystery Shopper Program" (a program for providing an objective and quantitative investigation of each store by using undercover examiners who take the customers' viewpoint), which was implemented in 2004, has taken root and has helped franchise storeowners to recognize the areas that need improvement and thereby strengthen their store management capability.

<Status of Store Development>
As for store development, we fortified our store opening system by ensuring optimal locations and store formats through the respective features of "LAWSON," "NATURAL LAWSON" and "LAWSON STORE 100" to enable us to flexibly cope with customer needs in the respective local communities. Even at locations where store openings face stiff competition from other leading CVS chains, the differentiating "NATURAL LAWSON" and "LAWSON STORE 100"

formats provide a competitive edge.

We strove to develop stores with the potential to achieve higher profitability, especially in the Kanto, Kinki and Chubu metropolitan districts, according to our original store opening criteria of “No-good (NG) Line Criteria for unacceptable site locations,” “Grid point (for prime sites)” and “ROI standard.” Furthermore, we recruited excellent franchise owners, collected good site information through a collaboration between the administrative and development departments and entered into tie-up projects with leading enterprises near the planned new store locations. As part of our strategy to extend our presence in diversified real estate locations, we concluded a business alliance agreement with TOKYU CORPORATION in November 2005 and agreed on the joint development of a new category of “In-Station Convenience Store, the first store of which is planned to open during summer of 2006.” In February 2006, we opened “NATURAL LAWSON” stores under a business tie-up with Tokyo Metro Co., Ltd., in addition to conventional “LAWSON” stores in subway stations. This initiative will enhance the name recognition and establish the brand image of “NATURAL LAWSON.”

As a consequence of these measures, during the year 717 new stores were opened and 428 were closed, including those that were relocated, resulting in 8,366 domestic stores (including 51 “NATURAL LAWSON” stores and 35 “LAWSON STORE 100” stores) , an increase of 289 compared with the end of the previous fiscal year.

<Other Conditions>
In terms of services, we handled more than 130 million public utility payments, expanding the total amount of the handled payments to ¥1,165.2 billion. The number of installed ATMs expanded to 27 prefectures with the addition of Miyagi Prefecture. The number of “LAWSON PASS” cardholders, for which services started in August 2002, exceeded 2.0 million, steadily extending popularity among customers.

As for CSR activities, in March 2005 the Company newly established the CSR Promotion Office, a dedicated body directly reporting to the President, to strengthen environmental preservation and social contribution activities as part of our corporate responsibility. In April 2005, various greenery support activities, including the LAWSON Green Fund, which has been operational since 1992, received the first “Green Culture” Award given to a private enterprise from the National Land Afforestation Promotion Organization. In February 2006, the introduction of “Eco Pack” and “Eco Monitor” energy-saving equipment into existing stores was highly appreciated, and we received the CVS industry’s first “Ministry of Economy, Trade and Industry” Award at the “2005 National Conference of Excellent Energy Conservation Models” sponsored by The Energy Conservation Center, Japan. Moreover, we actively participated in emergency restoration support activities such as the collection of relief and condolence money and dispatching food and sundries to areas devastated by earthquakes and typhoons. As a result, the accumulated total raised by the LAWSON Green Fund and other emergency restoration support activities reached approximately ¥2.8 billion for the period from 1992 to the fiscal year under review.

As for internal control systems, the Company, in respect to its corporate philosophy and the “LAWSON Ethical Mission Statement,” addressed compliance and risk management through the efforts of its central organs including the Board of Directors, which has a majority of outside directors; the Board of Corporate Auditors; the Risk & Compliance Committee; and the Internal Audit and Correction Office, which mainly controls internal audits. In February 2006, the Board of Directors adopted a resolution, the “2006 Basic Policy for Improvement of Internal Control Systems,” to implement relevant control systems as of March 1, 2006. Based on this policy, the Company intends to improve its relevant systems and rules relating to internal control systems to reinforce its commitment to upgraded compliance and risk management.

[Operating revenues in the Convenience Store Business]

Operating revenues (¥Millions)	Year over Year (%)
251,982	105.2%

[Net Sales at All LAWSON Stores in the Convenience Store Business]

Product Group	Sales (¥Millions)	Composition Ratio (%)	Year over Year (%)
Processed foods	682,006	50.1	102.5
Fast foods	312,289	22.9	105.0
Daily delivered foods	150,917	11.1	101.9
Non-food products	216,519	15.9	99.4
Total	1,361,731	100.0	102.5

(Other business)
The Group companies engage in ticket sales, e-commerce, financial services-related and consulting businesses, in addition to the mainstay convenience store business.
LAWSON TICKET, INC. which handles various ticket sales, steadily increased sales from theater- and sports-related tickets in addition to the mainstay concert ticket sales.
LAWSON ATM Networks, Inc., which engages in the financial services-related business, successfully improved performance principally owing to considerable increases in the number of ATMs installed inside LAWSON stores and the handling of financial transactions. The number of ATMs totaled 3,812 units as of February 28, 2006, including those in Miyagi Prefecture where installation started in February 2006.

[Operating revenues in the Other Business]

Operating revenues (¥Millions)	Year over Year (%)
18,888	110.1

(2) Capital Expenditures and Financing of the Corporate Group
Capital expenditures of the Group during the year totaled ¥43,996 million, of which ¥34,680 million was primarily for store facility investment in land and buildings and ¥9,315 million was for the reinforcement of information systems.
The Company's own funds were applied to all the capital expenditures required for capital investments during the year ended February 28, 2006.

(3) Challenge for the Future Success of the Corporate Group
Industrial competition is expected to intensify given lingering deflationary tendencies and continued uncertain economic conditions.

In these harsh circumstances, the LAWSON Group will address five major tasks to realize stable and continued groupwide growth in the intermediate and long term.

1) Expand target customer groups and increase the number of store visitors by creating innovative storefronts with attractive features and product planning to address the needs of target customers
We will expand target customer groups and increase the number of visitors to each store by promoting an innovative assortment of goods, services and storefronts, all of which target women and the elderly, untapped customer group, in addition to the conventional core targets of the CVS industry—male customers in their 20s and 30s.
2) Improve the competitiveness of each store by promoting "LAWSON's Three Challenge Practices"
We will continue to encourage "LAWSON's Three Challenge Practices (creating stores and store layouts that please our customers, keeping stores clean, serving customers with friendliness and courtesy)." In particular, we intend to increasingly focus on supplying products that meet local preferences and "individual store" needs in the pursuit of optimum "shelf assortment to maximize the CS of community inhabitants" and improving the efficiency of product ordering to avoid out-of-stock conditions.
3) Increase earnings of the FC franchise owners and secure a sufficient number of owner candidates
We will support store owners to increase their earnings and expand the attractions of the CVS business by helping them improve the competitive edge of their individual stores. We also intend to enhance morale with measures to reduce their burden for store management. Moreover, we will focus on collecting information to secure excellent real estate and recruiting potential owners to develop high-profitability stores that excel in attracting more customers.
4) Reinforce the "NATURAL LAWSON" and "LAWSON STORE 100" businesses and establish new business models
The "NATURAL LAWSON" stores that are operated around the contemporary keywords "beauty" and "health" have

proven highly successful in terms of product items and store management. Accordingly, we intend to actively open stores with this format, including an increase in franchised stores. We also plan to establish new business models for the "LAWSON STORE 100" format stores, which became operational in 2005, by reinforcing the "Value Line" private brand.

5) Improve internal control systems and thoroughly raise awareness of compliance

Based on the "2006 Basic Policy for Improvement of Internal Control Systems," we will further encourage the improvement of various internal control systems and increased awareness to compliance, thereby ensuring that all employees of the Company are sufficiently informed of the appropriate corporate behaviors that comply with our corporate philosophy. In addition, we will reinforce internal control systems in accordance with the newly implemented Corporate Philosophy.

The LAWSON Group intends to pursue "innovations" in every respect without being constrained by conventional wisdom on CVS to achieve more stable, sound and sustainable growth in the intermediate and long term.

We look forward to the continued support and encouragement of our shareholders.

(4) Changes in Operating Results and Financial Position of the Corporate Group and the Company

① Changes in Operating Results and Financial Position of the Corporate Group

Fiscal term / Category	Fiscal 2003 28th Term	Fiscal 2004 29th Term	Fiscal 2005 30th Term	Fiscal 2006 31st Term
Operating revenues (¥Millions)	250,334	245,601	254,395	268,058
Ordinary profit (¥Millions)	30,656	36,563	42,322	43,940
Net income (¥Millions)	8,861	18,571	20,435	22,025
Net income per Share (¥)	82.35	175.78	198.47	215.50
Total Assets (¥Millions)	342,599	354,831	356,309	375,106
Shareholders' Equity (¥Millions)	151,864	154,317	160,282	175,184
Shareholders' Equity per Share (¥)	1,411	1,479	1,568	1,712

② Changes in Operating Results and Financial Position of the Company

Fiscal term / Category	Fiscal 2003 28th Term	Fiscal 2004 29th Term	Fiscal 2005 30th Term	Fiscal 2006 31st Term
Net Sales of LAWSON Stores including Franchised Stores (¥Millions)	1,291,030	1,285,018	1,329,077	1,360,495
Operating revenues (¥Millions)	239,315	231,099	239,534	248,041
Ordinary profit (¥Millions)	33,209	37,629	42,237	43,639
Net income (¥Millions)	10,263	19,018	20,585	22,707
Net income per Share (¥)	95.38	180.01	199.93	222.18
Total Assets (¥Millions)	338,221	349,328	350,180	368,276
Shareholders' Equity (¥Millions)	154,860	157,843	163,991	179,505
Shareholders' Equity per Share (¥)	1,439	1,513	1,604	1,754

Notes:

1. Effective from fiscal 2005, the year ended February 28, 2005, "Changes in Operating Results and Financial Position of the Corporate Group" have been expressed with figures truncated below the unit compared with the previous method of rounding off.
2. The increases in Net Income of the corporate group and the Company for fiscal 2004, the year ended February 29, 2004, were mainly related to a decrease in the loss on retirement of fixed assets related to the closing of stores.

2. CURRENT STATUS OF THE CORPORATE GROUP AND THE COMPANY (As of February 28, 2006)

(1) Major Business Operations and Principal Offices of the Corporate Group

(Convenience store business)

① LAWSON, INC.

Major Business: LAWSON, INC., operates LAWSON-brand franchise system and Company-operated stores as the headquarters of LAWSON convenience chain stores

Head Office: 9-1, Toyotsu-cho, Suita, Osaka

Principal Offices: Tokyo Head Office (Shinagawa-ku, Tokyo), Hokkaido LAWSON Branch (Chuo-ku, Sapporo), Tohoku LAWSON Branch (Aoba-ku, Sendai), Kanto LAWSON Branch (Shinagawa-ku, Tokyo), Chubu LAWSON Branch (Naka-ku, Nagoya), Kinki LAWSON Branch (Suita, Osaka), Chugoku & Shikoku LAWSON Branch (Okayama, Okayama) and Kyushu LAWSON Branch (Hakata-ku, Fukuoka)

Note: In addition to the above sites, the Company has 103 offices throughout Japan including District Offices.

Stores:

Prefecture	Number of Stores	Prefecture	Number of Stores	Prefecture	Number of Stores	Prefecture	Number of Stores
Hokkaido	500	Tokyo	843	Shiga	118	Kagawa	96
Aomori	139	Kanagawa	485	Kyoto	181	Ehime	152
Iwate	171	Niigata	106	Osaka	837	Kochi	56
Miyagi	162	Toyama	102	Hyogo	471	Fukuoka	311
Akita	131	Ishikawa	73	Nara	100	Saga	58
Yamagata	55	Fukui	74	Wakayama	111	Nagasaki	83
Fukushima	97	Yamanashi	62	Tottori	71	Kumamoto	89
Ibaraki	107	Nagano	136	Shimane	65	Oita	113
Tochigi	105	Gifu	91	Okayama	114	Miyazaki	80
Gunma	68	Shizuoka	151	Hiroshima	122	Kagoshima	110
Saitama	323	Aichi	340	Yamaguchi	110	Okinawa	127
Chiba	287	Mie	80	Tokushima	103	Total	8,366

② NATURAL LAWSON, INC.

Major Business: NATURAL LAWSON, INC. engages in the operations entrusted by the Company with regard to “NATURAL LAWSON” stores. The number of “NATURAL LAWSON” stores (51) is included in the table above.

Head Office: 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo

③ VALUE LAWSON, Inc.

Major Business: VALUE LAWSON, Inc. engages in the operations of “LAWSON STORE 100” stores. The number of “LAWSON STORE 100” stores (35) is included in the table above.

Head Office: 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo

(Other business)

Company Name	Head Office	Major Business	
LAWSON TICKET, INC.	Shibuya-ku, Tokyo	Ticket sales business	Sells tickets for various events inside LAWSON stores
i-Convenience, Inc	Shinagawa-ku, Tokyo	e-commerce business	Provides settlement service and delivery service at LAWSON stores on receiving goods or service orders through i-mode terminals
LAWSON ATM Networks, Inc	Shinagawa-ku, Tokyo	Financial services–related business	Establishes shared ATMs in LAWSON stores
BestPractice Inc.	Shinagawa-ku, Tokyo	Consulting business	Engages in actual-condition surveys concerning convenience stores to give

			advice and specific proposals for the improvement of LAWSON stores

(2) Shares

① Total Number of Shares Authorized to Be Issued: 409,300,000 shares

② Total Number of Shares Issued and Outstanding: 104,600,000 shares

③ Number of Shareholders: 45,036

④ Major Shareholders:

Shareholder's Name	Investment in the Company		The Company's Investment in Major Shareholders	
	Number of shares held (Thousands)	Investment ratio rights (%)	Number of shares held (Thousands)	Investment ratio rights (%)
Mitsubishi Corporation	32,089	30.7	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	6,601	6.3	—	—
Marubeni Foods Investment Co., Ltd.	5,939	5.7	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,688	4.5	—	—
STATE STREET BANK AND TRUST COMPANY 505103	2,428	2.3	—	—
THE CHASE MANHATTAN BANK. N.A. LONDON	1,782	1.7	—	—
Mitsui Asset Trust and Banking Company, Limited Account 1	1,241	1.2	—	—

Notes:

1. The number of shares in the above table is based on the register of shareholders.
2. The Company, which held 2,313 thousand shares of treasury stock as of February 28, 2006, is excluded from the above table.

(3) Acquisition, Disposal and Holding of Treasury Stock

① Shares Acquired

Common stock: 423 shares
Total acquisition price: ¥1,790,380

② Shares Disposed

Common stock: 109,300 shares
Total disposal price: ¥431,952,226

③ Shares Held at the Balance Sheet Date

Common stock: 2,313,932 shares

(4) Status of Stock Options

1. Stock Options Previously Issued

① Preemptive rights under Article 280-19, Paragraph 1, of the former Commercial Code are stated in the Notes to the Balance Sheet.

② Stock options under Articles 280-20 and 280-21 of the Commercial Code

Date of special resolution adopted by the general meeting of shareholders	May 29, 2002	May 27, 2003	May 28, 2004	May 27, 2005	May 27, 2005
Number of stock options issued (units)	1,243	482	990	1,140	224
Class of the shares subject to stock options	Common stock of LAWSON, INC.	Common stock of LAWSON, INC.	Common stock of LAWSON, INC.	Common stock of LAWSON, INC.	Common stock of LAWSON, INC.
Number of shares subject to stock options	124,300	48,200	99,000	114,000	22,400
Issue price of stock options	No charge	No charge	No charge	No charge	No charge

2. Substance of Stock Options Issued in the Year to Those Other than Shareholders under Advantageous Conditions
[Stock options issued in October 2005 (Ordinary stock options)]
① Number of stock options issued: 1,140 units (100 shares per stock option)
② Class and number of the shares subject to stock options: 114,000 shares of LAWSON, INC., common stock
③ Issue price of the stock options: No charge
④ Amount to be subscribed upon exercise of stock options: ¥4,160
⑤ Exercisable period of the stock options: October 12, 2007, to December 31, 2010
⑥ Exercise conditions

i) The qualified persons to whom stock options are granted shall be limited to those who have positions as directors, corporate auditors, executive officers or employees of the Company at the time of exercising the rights, or those who have concluded a corporate adviser agreement with the Company. Provided, however, that this clause shall not apply to cases where a qualified person retires from any post of the Company due to the expiry of term of office or retires from the Company because of any reasons that the Board of Directors deems reasonable such as age-limit retirement.

ii) A person entitled to stock options may apply to the Company to exercise his or her rights only when the stock price of the Company's common stock at the Tokyo Stock Exchange exceeds the amount to be subscribed per share (¥4,160) upon exercising the stock options by 10% or more.

iii) Other applicable conditions shall be as prescribed in the "Stock Options Application Certificate" and the "Stock Options Granting Agreement."

⑦ Cause and conditions of the cancellation

i) In case a consolidation agreement that determines the Company is to cease to exist is approved, or if a proposal on approval of a stock swap agreement or a proposal on stock transfer to the effect that the Company would become a fully owned subsidiary of another corporation is approved by a general meeting of shareholders, then the Company may cancel the stock options at no charge.

ii) The Company may cancel the stock options at no charge if a qualified person to whom the stock options are granted is forfeited because he or she no longer meets the condition set forth in paragraph ⑥ i). Provided, however, that the Company may, in such a case, take the cancellation procedure for relevant stock options collectively after the exercisable period of the stock options has elapsed.

⑧ Content of advantageous conditions for stock options
The Company issued the stock options without charge to certain directors and executive officers.
⑨ Restriction on transfer of stock options
The transfer of stock options shall require the approval of the Board of Directors.
⑩ Name of qualified persons to whom stock options have been granted and the number of stock options granted
Directors:

Name	Number of Stock Options (Ordinary stock options) (Units)
Takeshi Niinami	100
Eiichi Tanabe	70
Katsuhiko Yamasaki	40
Hiroshi Tasaka	30
Reiko Yonezawa	30
Muneaki Masuda	30
Koji Furukawa	30
Koichi Narita	30
Takehiko Kakiuchi	30
For the 9 persons above	Total: 390 units

Executive Officers:

Name	Number of Stock Options (Ordinary stock options) (Units)
Susumu Hasegawa	40
Taketoshi Kunisaki	40
Hiromichi Ogawa	40
Ichiro Okuda	30
Takatoshi Kawamura	30
Kounoshin Deguchi	30
Isamu Ochiai	30
Yoshio Shinozaki	30
Kiyoteru Suzuki	30
Sadayuki Nobayashi	30
Manabu Asano	30
Josuke Kishimoto	30
Katsuyuki Imada	30
Kenji Morimoto	30
Itsuo Iga	30
Takaki Mizuno	30
Hisashi Yasuhira	30
Masatoshi Okada	30
Shigeaki Kawahara	30
Tadanao Watanabe	30
Yukimasa Shimohata	30
Satoshi Matsubara	30
Toru Moriyama	30
Shigeru Niikura	30
For 24 persons above	Total: 750 units

Note: Taketoshi Kunisaki, Hiromichi Ogawa, Takatoshi Kawamura, Kounoshin Deguchi, Isamu Ochiai, Josuke Kishimoto, Masatoshi Okada, Shigeaki Kawahara, Tadanao Watanabe and Yukimasa Shimohata had the additional position of director (including the post of representative director) and Katsuyuki Imada had the additional post of corporate auditor at a subsidiary when the stock options were granted to them.

[Stock options issued in October 2005 (Stock acquisition rights)]

① Number of stock options issued: 224 units (100 shares per stock option)

② Class and number of the shares subject to stock options: 22,400 shares of LAWSON, INC. common stock

③ Issue price of the stock options: No charge

④ Amount to be subscribed upon exercise of stock options: ¥1

⑤ Exercisable period of the stock options: October 13, 2005, to May 31, 2025

⑥ Exercise conditions

i) A qualified person to whom stock options are granted may exercise such rights for a period of five years computed from the day (hereinafter referred to as "Right-Exercising Start Date") following the day when he or she loses the director's position of the Company. Provided, however, that such a qualified person is allowed to exercise his or her rights in the following cases (a) and (b) below for a specified period prescribed in the respective clauses.

(a) If a person entitled to stock options does not have a Right-Exercising Start Date before May 31, 2020, the exercisable period for such a person shall be from June 1, 2020, to May 31, 2025.

(b) Whether before or after the Right-Exercising Start Date, if a consolidation agreement that determines the Company is to cease to exist is approved, or if a proposal on approval of a stock swap agreement or a proposal on stock transfer to the effect that the Company would become a fully owned subsidiary of another corporation is approved by a general meeting of shareholders, then the exercisable period shall be 15 days computed from the day following the date of such approval.

ii) A partial exercise of the stock options shall not be authorized.

iii) Other applicable conditions shall be as prescribed by the "Stock Options Application Certificate" and the

"Stock Options Granting Agreement."

⑦ Cause and conditions of the cancellation

i) In case a consolidation agreement that determines the Company is to cease to exist is approved, and if a proposal on approval of a stock swap agreement or a proposal on stock transfer to the effect that the Company would become a fully owned subsidiary of another corporation is approved by a general meeting of shareholders, then the Company may cancel the stock options that have not been exercised under paragraph ⑥ i) above at no charge.

ii) The Company may at any time cancel without charge the stock options that it has acquired and currently owns. The Company may also cancel forfeited stock options at no charge if any cause for invalidation of the stock options prescribed in the "Stock Options Granting Agreement" to be entered under paragraph ⑥ iii) above takes place. Provided, however, that the Company may, in these cases, take the cancellation procedure for relevant stock options collectively after the exercisable period of the stock options has elapsed.

⑧ Content of advantageous conditions for stock options

The Company issued the stock options without charge to all the directors.

⑨ Restriction on transfer of stock options

The transfer of stock options shall require the approval of the Board of Directors.

⑩ Name of qualified persons to whom stock options have been granted and the number of stock options granted

Directors:

Name	Number of Stock Options (Stock acquisition rights) (Units)
Takeshi Niinami	112
Eiichi Tanabe	52
Katsuhiko Yamasaki	24
Hiroshi Tasaka	11
Reiko Yonezawa	5
Muneaki Masuda	5
Koji Furukawa	5
Koichi Narita	5
Takehiko Kakiuchi	5
For the 9 persons above	Total: 224 units

(5) Employees of the Corporate Group

① Employees of the Corporate Group

Designation of Business Segment	Number of Employees (Increase/Decrease from the Previous Fiscal Year)
Convenience store business	3,305 (177)
Ticket sales business	156 (-1)
e-commerce business	20 (2)
Financial services–related business	13 (1)
Consulting business	91 (15)
Total	3,585 (194)

② Employees of the Company

Number of Employees	(Increase from the Previous Fiscal Year)	Average Age	Average Years of Service
3,120	(25)	37.1	10.7

(6) Status of Major Business Combinations

① Important Subsidiaries

Company Name	Common Stock (¥Millions)	The Company's Ratio of Voting Rights (%)	Major Business
NATURAL LAWSON, INC.	98	100.0	Convenience store business
VALUE LAWSON, Inc	99	100.0	Convenience store business
LAWSON TICKET, INC.	2,892	50.8	Ticket sales business
i-Convenience, Inc	2,000	51.0	e-commerce business
LAWSON ATM Networks, Inc	3,000	59.0	Financial services–related business
BestPractice Inc.	10	100.0	Consulting business

② Important Affiliated Companies

Company Name	Common Stock	The Company's Ratio of Voting Rights (%)	Major Business
SHANGHAI HUALIAN LAWSON CO., LTD.	CNY165,898 thousand	49.0	Convenience store business
LAWSON CS Card, Inc.	¥4,200 million	50.0	Financial services–related business

③ Changes in Business Combinations

1. VALUE LAWSON, Inc, was established in April 2005.
2. As in September 2005, the Company purchased 3,000 shares of LAWSON ATM Networks, Inc, common stock, which the Bank of Tokyo-Mitsubishi, Ltd. (currently Bank of Tokyo-Mitsubishi UFJ, Inc., as a result of the merger with the former UFJ Bank Limited in January 2006), then held, the Company's ratio of voting rights in LAWSON ATM Networks, Inc, increased to 59.0% from 54.0%.

④ Results of Business Combinations

The consolidated subsidiaries and others of the LAWSON Group are the above six important subsidiaries. Two companies are accounted for by the equity method. Consolidated operating results for the current fiscal year are as follows:

Operating revenues (Year over year)	Ordinary profit (Year over year)	Net income (Year over year)
¥268,058 million (105.4%)	¥43,940 million (103.8%)	¥22,025 million (107.8%)

⑤ Important Business Alliance

Mitsubishi Corporation holds 31.7% of the total voting rights (32,399 thousand shares) of the Company (including indirect holdings). Recognizing Mitsubishi Corporation as the most important strategic partner, the Company has entered into extensive business tie-up agreements with Mitsubishi Corporation for the enhancement of existing businesses and the development of new businesses.

(7) The Company's Directors and Corporate Auditors

Position	Name	Assignment in the Company or Principal Occupation
Representative Director	Takeshi Niinami	President and CEO
Representative Director	Eiichi Tanabe	Senior Executive Vice President and CFO, in charge of Corporate Planning Office
Director	Katsuhiko Yamasaki	Executive Vice President and CRO, in charge of Corporate Ethics, Business Planning, Internal Audit
Director	Hiroshi Tasaka	Professor, Graduate School of Tama University
Director	Reiko Yonezawa	President, The R Co., Ltd.
Director	Muneaki Masuda	President and Representative Director, Culture Convenience Club Co., Ltd.
Director	Koji Furukawa	Senior Advisor to the President, Mitsubishi Corporation
Director	Koichi Narita	General Manager, Living Essentials Group CEO Office, Mitsubishi Corporation
Director	Takehiko Kakiuchi	General Manager, Planning & Coordination, Investment Administration & Credit, Living Essentials Group CEO Office, Mitsubishi Corporation
Standing Corporate Auditor	Masaaki Kojima	
Standing Corporate Auditor	Kenji Yamakawa	
Corporate Auditor	Tetsuo Ozawa	Lawyer
Corporate Auditor	Hiroshi Kuwata	Manager, Investment Administration Team, Controller's Office, Mitsubishi Corporation

Notes:

1. Directors Hiroshi Tasaka, Reiko Yonezawa, Muneaki Masuda, Koji Furukawa, Koichi Narita and Takehiko Kakiuchi are outside directors stipulated in Article 188, Paragraph 2, Item 7-2, of the Commercial Code.
2. Standing Corporate Auditor Masaaki Kojima and Corporate Auditors Tetsuo Ozawa and Hiroshi Kuwata are outside corporate auditors stipulated in Article 18, Paragraph 1, of the "Law Concerning Special Measures under the Commercial Code with Respect to Audit, etc., of Corporations (*Kabushiki-Kaisha*) in Japan."
3. Transfers of directors and corporate auditors during the fiscal year are as follows:
   Changes in positions as approved by the 30th Ordinary General Meeting of Shareholders held on May 27, 2005

Appointment	Director	Koichi Narita
	Director	Takehiko Kakiuchi
	Corporate Auditor	Hiroshi Kuwata
Retirement from office	Director	Teruo Aoki
	Director	Hiroshi Mino
	Corporate Auditor	Yoshiyuki Sanada

4. Executive officers who are not directors are as follows:

Executive Vice President	Susumu Hasegawa	Senior Vice President	Katsuyuki Imada
Executive Vice President	Taketoshi Kunisaki	Senior Vice President	Kenji Morimoto
Executive Vice President	Toru Moriyama	Senior Vice President	Itsuo Iga
Senior Vice President	Ichiro Okuda	Senior Vice President	Takaki Mizuno
Senior Vice President	Takatoshi Kawamura	Senior Vice President	Hisashi Yasuhira
Senior Vice President	Kounoshin Deguchi	Senior Vice President	Masatoshi Okada
Senior Vice President	Manabu Asano	Senior Vice President	Shigeru Niikura

Senior Vice President	Isamu Ochiai	Senior Vice President	Shigeaki Kawahara
Senior Vice President	Yoshio Shinozaki	Senior Vice President	Tadanao Watanabe
Senior Vice President	Kiyoteru Suzuki	Senior Vice President	Yukimasa Shimohata
Senior Vice President	Sadayuki Nobayashi	Senior Vice President	Satoshi Matsubara
Senior Vice President	Josuke Kishimoto		

(8) Amounts of Remuneration, etc., Paid to Directors and Corporate Auditors

(¥Millions)

Category	Directors		Corporate Auditors		Total	
	No. of qualified persons	Amount Paid (¥Million)	No. of qualified persons	Amount Paid (¥Million)	No. of qualified persons	Amount Paid (¥Million)
Remuneration according to a resolution at a general meeting of shareholders	11	176	5	53	16	230
Retirement benefits according to a resolution at a general meeting of shareholders	2	31	1	4	3	36
Total		208		58		266

Notes:

1. As of February 28, 2006, the number of directors in office was nine and that of corporate auditors was four.
2. The number of qualified persons above includes two directors who resigned as of May 27, 2005.
3. The number of qualified persons above includes a corporate auditor who resigned as of May 27, 2005.
4. The upper limit of the total remuneration to directors is ¥400 million annually (according to a resolution adopted by the Ordinary General Meeting of Shareholders on May 24, 2001).
5. The upper limit of the total remuneration to corporate auditors is ¥60 million annually (according to a resolution adopted by the Ordinary General Meeting of Shareholders on May 30, 1998).

(9) Remunerations, etc., to be Paid to the Independent Auditors

(¥Millions)

	Amount to Be Paid
(1) Total of remuneration, etc., to be paid by the Company and its subsidiaries to the independent auditors	60
(2) Of the total (1) above, a sum of remuneration to be paid by the Company and its subsidiaries to the independent auditors in compensation for the business duty (certification of audit) as set forth in Article 2, Paragraph 1, of the Certified Public Accountant Law	56
(3) Of the sum (2) above, the amount of remuneration, etc., to be paid by the Company to the independent auditors	42

Note: The audit agreement entered into by the independent auditors and the Company does not clearly distinguish the amount being derived from the audit under the "Law Concerning Special Measures under the Commercial Code with respect to Audit, etc., of Corporations (*Kabushiki-Kaisha*) in Japan" and that being derived from the audit under the Securities and Exchange Law, and the two amounts cannot be substantially distinguished from each other. Therefore, the amount in (3) above indicates the total of these two kinds of amounts.

3. SIGNIFICANT SUBSEQUENT EVENTS OF THE CORPORATE GROUP AFTER THE CLOSING OF ACCOUNTS

As of March 28, 2006, the Company entered into agreements with NTT DoCoMo, Inc., regarding a business alliance and a capital alliance. Accordingly, the Company decided to transfer 2,092,000 shares of treasury stock (which corresponds to 2.0% of the total shares issued and outstanding) at a value of ¥9,020,704,000.

The above amounts and the number of shares in this Business Report are truncated below the unit and the ratios are rounded to the nearest whole number.

Consolidated Balance Sheet (As of February 28, 2006)

(Millions of yen)

Assets		Liabilities and Shareholders' Equity	
Account item	Amount	Account item	Amount
(Assets)	(375,106)	(Liabilities)	(196,099)
Current assets	129,841	Current liabilities	141,241
Cash and bank deposits	60,940	Accounts payable —trade	63,169
Accounts receivable—due from franchised stores	10,762	Accounts payable— due to franchised stores	3,416
Marketable securities	19,651	Accounts payable—other	13,415
Merchandise inventories	1,573	Income taxes payable	10,323
Prepaid expenses	5,116	Deposits received	44,614
Short-term loans receivable	6,250	Accrued employees' bonuses	2,544
Accounts receivable—other	21,578	Provision for use of LAWSON PASS points	364
Deferred tax assets	3,188	Other	3,391
Other	861	Long-term liabilities	54,858
Allowance for doubtful accounts	(81)	Allowance for employees' retirement benefits	2,816
Fixed assets	245,265	Allowance for retirement benefits to executive officers and corporate auditors	317
Property and store equipment at net book value	99,271	Deposits received from franchisees and lessees	51,336
Buildings and structures	74,593	Allowance for impairment loss on leased property	140
Furniture, fixtures and equipment	18,271	Other	247
Land	5,236	(Minority Interest)	(3,822)
Construction in progress	1,169	Minority Interest	3,822
Intangible fixed assets	17,272	(Shareholders' Equity)	(175,184)
Software	9,843	Common stock	58,506
Software development in Progress	5,964	Capital surplus	41,520
Goodwill	1,009	Retained earnings	88,355
Consolidated adjustment account	13	Land revaluation difference	(4,854)
Other	441	Net unrealized gain on available-for-sale securities	695
Investments and other	128,720	Foreign currency translation adjustments	105
Investments in securities	2,538	Treasury stock-at cost	(9,144)
Long-term loans receivable	20,630		
Long-term prepaid expenses	3,125		
Lease deposits	89,928		
Deferred tax assets	11,046		
Deferred tax assets for land revaluation	3,330		
Other	2,583		
Allowance for doubtful accounts	(4,462)		
Total Assets	375,106	Total Liabilities, Minority Interest and Shareholders' Equity	375,106

Consolidated Statement of Income
(From March 1, 2005 to February 28, 2006)

(Millions of yen)

Account item	Amount	
(Ordinary Profit and Loss Section)		
Operating income or loss		
Operating revenues		
Net sales	66,645	
Franchise commissions from franchised stores	170,784	
Other	30,628	268,058
Costs and operating expenses		
Cost of goods sold	48,296	
Selling, general and administrative expenses	175,894	224,190
Operating income		43,867
Non-operating income or loss		
Non-operating income		
Interest received	396	
Equity in gains of affiliated companies	285	
Other	944	1,626
Non-operating expenses		
Loss on cancellation of store lease contract	1,290	
Other	263	1,553
Ordinary profit		43,940
(Special Profit and Loss Section)		
Special gains		
Gain on sales of investments in securities	988	
Reversal of allowance for doubtful accounts	263	
Other	56	1,308
Special losses		
Loss on disposal of fixed assets	3,013	
Loss on impairment of long-lived assets	2,708	
Other	803	6,525
Income before income taxes		38,722
Income taxes - current	17,823	
Deferred income taxes	(1,606)	16,216
Minority interests in net income		480
Net income		22,025

(Significant Accounting Policies)

1. Scope of consolidation

   Consolidated subsidiaries: 6 (Domestic)

   LAWSON TICKET, INC.
   i-Convenience, Inc
   LAWSON ATM Networks, Inc
   BestPractice Inc.
   NATURAL LAWSON, INC.
   VALUE LAWSON, Inc

   VALUE LAWSON, Inc was incorporated in this fiscal year.

2. Application of the equity method

   Affiliated companies to which the equity method is applied: 2

   (Domestic) LAWSON CS Card, Inc.
   (Foreign) SHANGHAI HUALIAN LAWSON CO., LTD.

3. Closing day for settlement of accounts of consolidated subsidiaries

   The closing date of all consolidated subsidiaries is the same as the Company's closing date.

4. Summary of Significant Accounting Policies

   (1) Valuation basis and method for important assets

   Marketable securities and investments in securities:

   Held-to-maturity debt securities: Carried at amortized cost.

   Available-for-sale securities:

   Securities whose market value is readily determinable: Reported at market value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

   Other: Stated at cost determined by the moving-average method.

   Inventories:

   Merchandise inventories: Retail method applied on an annual average cost basis.

   (2) Depreciation method of depreciable assets

   Property and store equipment:

   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 from 10 to 34 years for buildings and from 5 to 8 years for furniture, fixtures and equipment.

   Intangible fixed assets:

   Amortization of intangible assets is computed by the straight-line method.
   Software costs for internal use are amortized by the straight-line method over 5 years, which is the internal useful life.

   Long-term prepaid expenses:

   Amortization of long-term prepaid expenses is computed by the straight-line method.

   (3) Accounting policies for important reserves

   Allowance for Doubtful Accounts:

   Allowance for doubtful accounts is provided at an amount of possible losses from uncollectable receivables based on the actual rate of losses from bad debt for ordinary receivables, and on estimated recoverability for specific doubtful receivables.

   Accrued Employees' Bonuses:

Accrued employees' bonuses are provided for payments of employees' bonuses based on the estimated amounts.

Reserve for use of LAWSON PASS points:

The Company provides LAWSON PASS holders when purchasing goods, an entitlement to certain points that the holder can redeem for a discount on subsequent purchases from LAWSON stores.

Allowance for Employees' Retirement Benefits:

Allowance for employees' retirement benefits are provided at the amount accrued based on the projected benefit obligations and plan assets at the balance sheet date. Actuarial differences are amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of their occurrence. Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period (10 years) within an average remaining service period of employees.

Allowance for Retirement Benefits to Executive officers and Corporate Auditors:

Allowance for retirement benefits to corporate auditors and executive officers of The Company, and to directors and corporate auditors of the certain consolidated subsidiary are calculated to state the liability at 100% of the amount that would be required if all corporate auditors, executive officers and directors resigned their services with the Company at the balance sheet date.

At the general shareholders' meeting held on may 27, 2005, the Company abolished the conventional retirement benefit for directors. The retirement payments previously recognized for directors are recorded in Account payable-other (Current liabilities).

(4) Foreign Currency Transactions and Foreign Currency Financial Statements

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income. The balance sheet accounts as well as revenue and expense accounts of foreign affiliated companies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "foreign currency translation adjustments" in a separate component of shareholders' equity.

(5) Lease

Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.

(6) Accounting for Consumption Tax

Consumption tax is excluded from income and expense.

5. Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries, including the portion attributable to minority interests, are valued at their fair values at the respective dates when the subsidiaries were initially consolidated.

6. Amortization of consolidated adjustment account

The amount included in the consolidated adjustment account is amortized over 5 years on a straight-line basis.

The above statement amounts are rounded down to the nearest ¥ million.

（Change in significant accounting policy）

Long-Lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for impairment of Fixed Assets,” and in October 2003 the Accounting Standards Board of Japan (“ASB”) issued ASB Guidance No. 6, “Guidance for Accounting Standard for impairment of Fixed Assets.” These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group early adopted the new accounting standard for impairment of fixed assets effective from the year ended February 28, 2006.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase operating income and ordinary profit by ¥132 million, and to decrease income before income taxes by ¥1,854 million for the ended February 28, 2006, respectively.

In addition, the Group represents accumulated impairment losses in the form deductible directly from assets in pursuant to revised regulations of consolidated financial statements.

（Additional information)

With the passage of the Law Partially Amending the Regional Taxation Law (Law No. 9 of 2003), in conjunction with the introduction of a system of estimated standard April 1, 2004, in accordance with the guideline entitled "Practical Procedures for Reporting Profit and Loss Under Estimated Standard Tax Based on Enterprise Size for Corporation Taxes" (Practical Solution Report No.12 issued by the Accounting Standards Board of Japan on February 13, 2004), from the current consolidated fiscal year, the percentages for value adding and capital for corporation tax purposes are reported under selling, general and administrative expenses.

As a result, selling, general and administrative expenses increased by ¥741 million, and operating income, ordinary profit and income before income taxes were decreased by the same amount.

(Notes to the Consolidated Balance Sheets)

1. Accumulated depreciation for property and store equipment: ¥ 96,483 million

2. Major leased fixed assets under lease arrangements

In addition to the fixed assets presented on the balance sheet, the Group uses leased store equipment in its business.

3. Guarantees of bank loans ¥ 9,925 million

4. Income taxes

Deferred tax assets and liabilities were described as follows:

(Millions of yen)

Enterprise taxes payable	¥	832
Accrued employees' bonuses		1,143
Excess of depreciation		3,320
Excess of amortization of software		929
Allowance for employees' retirement benefits		3,255
Allowance for doubtful accounts		1,771
Impairment loss		2,197
Other		2,952
Subtotal of deferred tax assets	¥	16,403
Valuation allowances		(1,690)
Total deferred tax assets		14,713
Net unrealized gain on available-for-sale securities	¥	(478)
Total deferred tax liabilities		(478)
Deferred tax assets-net	¥	14,234

5. Accounting for retirement benefits

Summary of the retirement benefit plans:

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

In addition, the Company has a defined contribution plan for severance payments.

Projected benefit obligations

	(Millions of yen)
a. Projected benefit obligations	(10,710)
b. Plan assets	5,536
c. Projected benefit obligations in excess of plan assets (= a + b)	(5,173)
d. Unrecognized prior service cost	1,405
e. Unrecognized actuarial differences	950
f. Allowance for employees' retirement benefits (=c + d + e)	(2,816)

Notes: Consolidated subsidiaries adopted the simplified method to calculate the projected benefit obligation.

Net periodic benefit cost

		(Millions of yen)
a. Service cost	¥	813
b. Interest cost		196
c. Amortization of prior service cost		175
d. Amortization of actuarial differences		118
e. Net periodic benefit cost	¥	1,304
f. Contribution to defined contribution plan		248
g. Total (= e + f)		1,552

Notes: Net periodic benefit cost for consolidated subsidiaries, which adopted the simplified method, are included in "a. Service cost."

Basis of calculation of projected benefit obligations

a. Discount rate	2.0%
b. Expected rate of return on plan assets	0%
c. Allocation method of estimated total retirement benefits	Straight-line basis (a method to allocate estimated total retirement benefits equally to respective periods in employee's whole service period)

6. Revaluation of land used for business

The Company revalued the land used for its business on the basis prescribed by the Law Concerning Revaluation of Land (Law No.34, March 31,1998).
Revaluation difference has been included in shareholders' equity as land revaluation difference, net of the related tax, which is included in assets as deferred tax assets for land revaluation.

Revaluation method:

The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance.

Date of revaluation: February 28, 2002

(Note to the Consolidated Statement of Income)

1. Net income per share 215.50 yen

2. Long-lived assets

The Group recognized an impairment loss mainly for each stores as the smallest cash generating unit.
The Group recognized impairment loss on following assets that decline in value due mainly to continuous operating losses. The carrying amount of those assets was written down to the recoverable amount and was recorded in special losses.

Category by use	Location	Assets	Million of yen
Stores	Tokyo	Buildings and structures・furniture, fixtures and equipment and others	272
	Osaka	〃	182
	Others	〃	1,869
Others	Tokyo	Software・furniture, fixtures and equipment and others	67
	Kyoto and others	Land	316
Total	—	—	2,708

Category by fixed assets

Buildings and Structures	1,675
Furniture, fixtures and equipment	452
Leased property	203
Land	316
Software and others	59

Recoverable value of the impairment assets is calculated based on net selling price or value in use. Net selling price of land was calculated based on appraised value by real estate appraiser or expected contract price, and the value in use was calculated by discounting estimated future cash flows to which the 6.0% discount rate was applied.

Significant subsequent events of the corporate group after the closing of accounts

As of March 28, 2006, the Company entered into agreements with NTT DoCoMo, Inc., regarding a business alliance and a capital alliance. Accordingly, the Company decided to transfer 2,092,000 shares of treasury stock (which corresponds to 2.0% of the total shares issued and outstanding) at a value of ¥9,020,704,000.

Non-consolidated Balance Sheet (As of February 28, 2006)

(Millions of yen)

Assets		Liabilities and Shareholders' Equity	
Account item	Amount	Account item	Amount
(Assets)	(368,276)	(Liabilities)	(188,770)
Current assets	117,096	Current liabilities	134,240
Cash and bank deposits	53,093	Accounts payable —trade	62,943
Accounts receivable—due from franchised stores	10,783	Accounts payable— due to franchised stores	3,416
Marketable securities	16,011	Accounts payable—other	12,215
Merchandise inventories	1,382	Income taxes payable	10,059
Prepaid expenses	5,062	Accrued expenses	1,996
Short-term loans receivable	6,640	Deposits received	39,909
Accounts receivable—other	20,439	Accrued employees' bonuses	2,328
Deferred tax assets	2,929	Reserve for use of LAWSON PASS points	361
Other	834	Other	1,008
Allowance for doubtful accounts	(80)	Long-term liabilities	54,530
Fixed assets	251,180	Allowance for employees' retirement benefits	2,775
Property and store equipment at net book value	99,019	Allowance for retirement benefits to executive officers and corporate auditors	285
Buildings	62,014	Deposits received from franchisees and lessees	51,329
Structures	12,425	Allowance for impairment loss on leased property	140
Furniture, fixtures and equipment	18,173	(Shareholders' Equity)	(179,505)
Land	5,236	Common stock	58,506
Construction in progress	1,169	Capital surplus	41,520
Intangible fixed assets	16,740	Additional paid-in capital	41,520
Software	9,349	Retained earnings	92,781
Software development in progress	5,964	Legal reserve	727
Goodwill	1,009	Voluntary reserve	50,000
Other	416	General reserve	50,000
Investments and other	135,419	Unappropriated retained earnings	42,053
Investments in securities	5,464	Land revaluation difference	(4,854)
Investments in subsidiaries	3,519	Net unrealized gain on available-for-sale securities	697
Long-term loans receivable	20,630	Treasury stock-at cost	(9,144)
Long-term prepaid expenses	3,104		
Lease deposits	89,754		
Deferred tax assets	11,566		
Deferred tax assets for land revaluation	3,330		
Other	2,511		
Allowance for doubtful accounts	(4,462)		
Total Assets	368,276	Total Liabilities and Shareholders' Equity	368,276

Non-consolidated Statement of Income
(From March 1, 2005 to February 28, 2006)

(Millions of yen)

Account item	Amount	
(Ordinary Profit and Loss Section)		
Operating income or loss		
Operating revenues		
Net sales	62,274	
Franchise commissions from franchised stores	170,812	
Other	14,954	248,041
Costs and operating expenses		
Cost of goods sold	44,933	
Selling, general and administrative expenses	159,303	204,236
Operating income		43,804
Non-operating income or loss		
Non-operating income		
Interest and dividend income	405	
Other	936	1,341
Non-operating expenses		
Loss on cancellation of store lease contract	1,257	
Other	249	1,507
Ordinary profit		43,639
(Special Profit and Loss Section)		
Special gains		
Gain on sales of investments in securities	988	
Reversal of allowance for doubtful accounts	263	
Other	56	1,308
Special losses		
Loss on disposal of fixed assets	2,967	
Loss on impairment of long-lived assets	2,640	
Other	756	6,364
Income before income taxes		38,582
Income taxes - current	17,426	
Deferred income taxes	(1,551)	15,874
Net income		22,707
Unappropriated retained earnings—carried forward		26,160
Reversal of land revaluation difference		2,182
Loss on disposal of treasury stock		33
Interim cash dividends		4,597
Unappropriated retained earnings—at end of year		42,053

(Significant Accounting Policies)

1. Valuation of Securities

Held-to-maturity debt securities: Carried at amortized cost. (Straight-line method)

Available-for-sale securities:

Securities whose market value is readily determinable: Stated at the market value, based on market quotation. Unrealized gains and losses are reported, with net of applicable taxes, in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Other: Stated at cost determined by the moving-average method.

Investments in subsidiaries and affiliated companies: Stated at cost determined by the moving-average method.

2. Valuation of Inventories

Merchandise inventories: Retail method applied on an annual average cost basis.

3. Depreciation method of depreciable assets

Property and store equipment:

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 from 10 to 34 years for buildings and from 5 to 8 years for furniture, fixtures and equipment.

Intangible fixed assets:

Amortization of intangible assets is computed by the straight-line method.

Costs of software for internal use are amortized by the straight-line method over 5 years, which is the internal useful life.

Long-term prepaid expenses:

Amortization of long-term prepaid expenses is computed by the straight-line method

4. Accounting policies for important reserves

Allowance for Doubtful Accounts:

Allowance for doubtful accounts is provided at an amount of possible losses from uncollectable receivables based on the actual rate of losses from bad debt for ordinary receivables, and on estimated recoverability for specific doubtful receivables.

Accrued Employees' Bonuses:

Accrued employees' bonuses are provided for payments of employees' bonuses based on the estimated amounts.

Reserve for use of LAWSON PASS points:

The Company provides LAWSON PASS holders when purchasing goods, an entitlement to certain points that the holder can redeem for a discount on subsequent purchases from LAWSON stores.

This reserve is categorized as reserve stipulated in Article 43 of the Commercial Code Enforcement Regulation.

Allowance for Employees' Retirement Benefits:

Allowance for employees' retirement benefits are provided at the amount calculated based on the projected benefit obligations and plan assets at the balance sheet date. Actuarial differences are amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of their occurrence. Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period (10 years) within an average remaining service period of employees.

Allowance for Retirement Benefits to Executive officers and Corporate Auditors:

Allowance for retirement benefits to corporate auditors and executive officers of the Company is calculated to state the liability at 100% of the amount that would be required if all corporate auditors, executive officers resigned their services with the Company at the balance sheet date.

At the general shareholders' meeting held on may 27, 2005, the Company abolished the conventional retirement benefit for directors. The retirement payments previously recognized for directors are recorded in Account payable-other (Current liabilities).

This allowance is categorized as reserve stipulated in Article 43 of the Commercial Code Enforcement Regulation.

5. Lease

Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.

6. Accounting for consumption tax

Consumption tax is excluded from income and expense.

The above statement amounts are rounded down to the nearest ¥ million.

（Change in significant accounting policy）

In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for impairment of Fixed Assets,” and in October 2003 the Accounting Standards Board of Japan (“ASB”) issued ASB Guidance No. 6, “Guidance for Accounting Standard for impairment of Fixed Assets.” These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company early adopted the new accounting standard for impairment of fixed assets effective from the year ended February 28, 2006.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase operating income and ordinary profit by ¥119 million, and to decrease income before income taxes by ¥1,854 million for the ended February 28, 2006, respectively.

In addition, the Company represents accumulated impairment losses in the form deductible directly from assets.

（Additional information)

With the passage of the Law Partially Amending the Regional Taxation Law (Law No. 9 of 2003), in conjunction with the introduction of a system of estimated standard April 1, 2004, in accordance with the guideline entitled "Practical Procedures for Reporting Profit and Loss Under Estimated Standard Tax Based on Enterprise Size for Corporation Taxes" (Practical Solution Report No.12 issued by the Accounting Standards Board of Japan on February 13, 2004), from the current fiscal year, the percentages for value adding and capital for corporation tax purposes are reported under selling, general and administrative expenses.

As a result, selling, general and administrative expenses increased by ¥711 million, and operating income, ordinary profit and income before income taxes were decreased by the same amount.

(Notes to the Non-consolidated Balance Sheets)

5. Due from / to subsidiaries

Short-term receivables due from subsidiaries	¥ 1,699	million
Short-term payables due to subsidiaries	¥ 1,616	million
Long-term payables due to subsidiaries	¥ 39	million

6. Accumulated depreciation for property and store equipment: ¥ 96,276 million

7. Major leased fixed assets under lease arrangements

In addition to the fixed assets presented on the balance sheet, the Company uses leased store equipment in its business.

8. Guarantees of bank loans ¥ 9,925 million

9. Income taxes

Deferred tax assets and liabilities were described as follows:

		(Millions of yen)
Enterprise taxes payable	¥	808
Accrued employees' bonuses		1,053
Valuation loss on investments in subsidiary		351
Excess of depreciation		2,920
Excess of amortization of software		929
Allowance for employees' retirement benefits		3,238
Allowance for doubtful accounts		1,771
Impairment loss		2,197
Other		1,702
Total deferred tax assets	¥	14,974
Net unrealized gain on available-for-sale securities	¥	(478)
Total deferred tax liabilities		(478)
Deferred tax assets-net	¥	14,496

6. Accounting for retirement benefits

Summary of the retirement benefit plans:

The Company has 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.

In addition, the Company has a defined contribution plan for severance payments.

Projected benefit obligations

	(Millions of yen)
a. Projected benefit obligations	(10,668)
b. Plan assets	5,536
c. Projected benefit obligations in excess of plan assets (= a + b)	(5,131)
d. Unrecognized prior service cost	1,405
e. Unrecognized actuarial differences	950
f. Allowance for employees' retirement benefits (= c + d + e)	(2,775)

Net periodic benefit cost

		(Millions of yen)
a. Service cost	¥	801
b. Interest cost		196
c. Amortization of prior service cost		175
d. Amortization of actuarial differences		118
e. Net periodic benefit cost (= a + b + c + d)	¥	1,292
f. Contribution to defined contribution plan		248
g. Total (= e + f)		1,540

Basis of calculation of projected benefit obligations

a. Discount rate	2.0%
b. Expected rate of return on plan assets	0%
c. Allocation method of estimated total retirement benefits	Straight-line basis (a method to allocate estimated total retirement benefits equally to

	respective periods in employee's whole service period)

7. Preemptive rights granted to directors and employees stipulated by Article 280-19, paragraph 1 of the former Commercial Code

Date approved by the shareholders' meeting:	May 26, 2000
Class of shares subject to the rights:	Common shares
Total number of subjected shares:	1,017 thousands
Issuance (exercise) price of new shares:	¥7,500 per share
Exercise period:	May 27, 2002, to May 25, 2007

8. Revaluation of land used for business

The Company revalued the land used for its business on the basis prescribed by the Law Concerning Revaluation of Land (Law No.34, March 31, 1998).

Revaluation difference has been included in shareholders' equity as land revaluation difference, net of the related tax, which is included in assets as deferred tax assets for land revaluation.

Revaluation method:

The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance.

Date of revaluation: February 28, 2002

9. Increase in net assets stipulated in Article 124, Item 3 of the Commercial Code Enforcement Regulation, which is valued at market price. ¥ 697 million

(Note to the Non-consolidated Statement of Income)

1. Transactions with subsidiaries

Operating transactions with subsidiaries:	¥ 3,018	million
Transactions other than operating transactions:	¥ 39	million

2. Net income per share 222.18 yen

3. Long-lived assets

The Company recognized an impairment loss mainly for each stores as the smallest cash generating unit.
The Company recognized impairment loss on following assets that decline in value due mainly to continuous operating losses. The carrying amount of those assets was written down to the recoverable amount and was recorded in special losses.

Category by use	Location	Assets	Million of yen
Stores	Tokyo	Buildings・furniture, fixtures and equipment and others	272
	Osaka	〃	182
	Others	〃	1,869
Others	Kyoto and others	Land	316
Total	—	—	2,640

Category by fixed assets

Buildings	1,467
Structures	208
Furniture, fixtures and equipment	445
Leased property	203
Land	316

Recoverable value of the impairment assets is calculated based on net selling price or value in use. Net selling price of land was calculated based on appraised value by real estate appraiser or expected contract price, and the value in use was calculated by discounting estimated future cash flows to which the 6.0% discount rate was applied.

Proposal of Appropriation of Retained Earnings

(Yen)

Appropriation of retained earnings		
Unappropriated retained earnings—At end of year	¥	42,053,803,570
To be appropriated as follows:		
Year-end dividends (¥45per share)	¥	4,602,873,060
Retained earnings to be carried forward	¥	37,450,930,510

Note: On November 10, 2005, the Company paid an interim cash dividends of ¥4,597,962,795 (¥45 per share).

(TRANSLATION)

INDEPENDENT AUDITORS' REPORT

April 6, 2006

To the Board of Directors of LAWSON,INC.

Deloitte Touche Tohmatsu

Designated Partner, Engagement Partner,
Certified Public Accountant: Toshihiko Matsumiya
Designated Partner, Engagement Partner,
Certified Public Accountant: Seiji Harada
Designated Partner, Engagement Partner,
Certified Public Accountant: Hiroyuki Morita

Pursuant to third clause of Article 19-2 of the "Law Concerning Special Measures under the Commercial Code with respect to Audit, etc. of Corporations (Kabushiki-Kaisha)" of Japan, we have audited the consolidated balance sheet and the consolidated statement of income of LAWSON, INC. and subsidiaries , for the 31th fiscal year from March 1, 2005 to February 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
We conducted our audit 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 audit provides a reasonable basis for our opinion. Our audit includes auditing procedures applied to subsidiaries as considered necessary.

As a result of our audit, in our opinion, the consolidated financial statements referred to above present fairly the financial position and the results of operations of LAWSON, INC. and subsidiaries in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation.
As discussed in Change in significant accounting policy to the consolidated financial statements, the Company and subsidiaries adopted new accounting standard for impairment of fixed assets effective March 1, 2005. We concur with this change in accounting as the adoption followed the new standards and guidance.

The subsequent event stated in the consolidated financial statement will have a material effect on the financial position and the results of operations of the Company and subsidiaries for the next fiscal year and subsequent years.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

INDEPENDENT AUDITORS' REPORT

April 6, 2006

To the Board of Directors of LAWSON, INC.

Deloitte Touche Tohmatsu

Designated Partner, Engagement Partner,
Certified Public Accountant: Toshihiko Matsumiya
Designated Partner, Engagement Partner,
Certified Public Accountant: Seiji Harada
Designated Partner, Engagement Partner,
Certified Public Accountant: Hiroyuki Morita

Pursuant to first clause of Article 2 of the "Law Concerning Special Measures under the Commercial Code with Respect to Audit, etc. of Corporations (Kabushiki-Kaisha)" of Japan, we have audited the balance sheet, the statement of income, the business report (with respect to accounting matters only), the proposed appropriations of retained earnings and the supplementary schedules (with respect to accounting matters only) of LAWSON, INC. (the "Company"), for the 31th fiscal year from March 1, 2005 to February 28, 2006. The accounting matters included in the business report and supplementary schedules referred to above are based on the Company's books of account. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
We conducted our audit 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. Our audit includes auditing procedures applied to subsidiaries as considered necessary.

As a result of our examination, in our opinion,

(1) The balance sheet and the statement of income present fairly the financial position and the results of operations of the Company in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation,
As discussed in Change in significant accounting policy to the financial statements, the Company adopted new accounting standard for impairment of fixed assets effective March 1, 2005. We concur with this change in accounting as the adoption followed the new standards and guidance.

(2) The business report (with respect to accounting matters only) presents fairly the Company's affairs in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation,

(3) The proposed appropriations of retained earnings are in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation, and

(4) The supplementary schedules (with respect to accounting matters only) present fairly the information required to be set forth therein under the Commercial Code of Japan.

The subsequent event stated in the business report will have a material effect on the financial position and the results of operations of the Company for the next fiscal year and subsequent years.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above report represents a translation, for convenience only, of the original report issued in the Japanese language, and the "Supplementary Schedules" referred to in this report are not included in the attached financial documents.

(TRANSLATION ONLY)

<Copy of the Audit Report of the Board of Corporate Auditors (consolidated)>

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have received reports from all of the corporate auditors concerning the methods and the results of their audit, regarding the consolidated financial statements (the consolidated balance sheet and the consolidated statement of income) for the 31st fiscal year from March 1, 2005 to February 28, 2006, and, through due deliberation, have prepared this Audit Report, and hereby present our audit opinion as follows:

1. Summary of the Methods of Audit by Corporate Auditors

Each corporate auditor, in accordance with the auditing programs and other guidelines established by the Board of Corporate Auditors, has received reports and explanations from directors, other relevant personnel and the independent auditors regarding the consolidated financial statements, and conducted audit.

2. Result of Audit

We have found that the methods and the result of the audit by the independent auditors, Deloite Touche Tohmatsu, are adequate.

April 11, 2006

The Board of Corporate Auditors of Lawson, Inc.

Standing Corporate Auditor	Masaaki Kojima
Standing Corporate Auditor	Kenji Yamakawa
Corporate Auditor	Tetsuo Ozawa
Corporate Auditor	Hiroshi Kuwata

Note: Standing Corporate Auditor Masaaki Kojima and Corporate Auditors Tetsuo Ozawa and Hiroshi Kuwata are outside corporate auditors as stipulated in Paragraph 1, Article 18 of the “Law Concerning Special Measures under the Commercial Code with Respect to Audit, etc., of Corporations (*Kabushiki-Kaisha*) in Japan.”

(TRANSLATION ONLY)

<Copy of the Audit Report of the Board of Corporate Auditors>

AUDIT REPORT

We have received reports from all of the corporate auditors concerning the methods and the results of their audit, regarding the performance of duties by the directors for the 31st fiscal year from March 1, 2005 to February 28, 2006, and, through due deliberation, have prepared this Audit Report, and hereby present our audit opinion as follows:

1. Summary of the Methods of Audit by Corporate Auditors

Each corporate auditor, in accordance with the auditing programs and other guidelines established by the Board of Corporate Auditors, has attended the meetings of the Board of Directors, the management meetings and other important meetings, made inquiries of directors, officers, internal audit department and other relevant personnel regarding the performance of their duties, reviewed important approval documents and associated information, studied the status of operations and financial positions at the head office, branches and other principal offices and stores, and, when necessary, requested the subsidiaries to report regarding their business and studied their status of operations and financial positions. Each has also received reports and explanations from the independent auditors, monitored their independence, observed their audit procedures, and examined the financial documents and the supplementary schedules.

Regarding transactions by any of the directors that compete with the business of the Company, transactions causing a conflict of interests of any of the directors and the Company, benefits provided by the Company free of charge, transactions contrary to general practices with any subsidiary or shareholder, and any acquisition or disposal of the treasury stock, each requested reports, in addition to the aforementioned methods of audit, when necessary, from the directors and other relevant personnel, and studied in detail. Each has also examined, with an emphasis on, the status of compliance, risk management and other internal control systems.

2. Result of Audit

(1) We have found that the methods and the result of the audit by the independent auditors, Deloite Touche Tohmatsu, are adequate;
(2) We have found that the business report presents fairly the status of the Company in conformity with the applicable laws and regulations and the Articles of Incorporation;
(3) We have found no matters on which to give remarks with regard to the proposal of appropriation of retained earnings considering the Company’s financial position and other circumstances;
(4) We have found that the supplementary schedules present fairly the required information and have found no matters on which to give remarks;
(5) Regarding the performance of duties by the directors, we have found no misconduct nor material matters that violate applicable laws and regulations or the Articles of Incorporation;

Also, we have found no breach of duty by the directors regarding transactions by any of the directors that compete with the business of the Company, transactions causing a conflict of interests of any of the directors and the Company, benefits provided by the Company free of charge, transactions contrary to general practices with any subsidiary or any shareholder, and any acquisition or disposal of the treasury stock;
(6) We have found no matters on which to give remarks regarding the performance of duties by the directors concerning internal control systems; and
(7) As a result of the examination of the subsidiaries, we have found no matters on which to give remarks regarding the performance of duties by the directors.

April 11, 2006

The Board of Corporate Auditors of Lawson, Inc.

Standing Corporate Auditor	Masaaki Kojima
Standing Corporate Auditor	Kenji Yamakawa
Corporate Auditor	Tetsuo Ozawa
Corporate Auditor	Hiroshi Kuwata

Notes: 1. Standing Corporate Auditor Masaaki Kojima and Corporate Auditors Tetsuo Ozawa and Hiroshi Kuwata are outside corporate auditors as stipulated in Paragraph 1, Article 18 of the “Law Concerning Special Measures under the Commercial Code with Respect to Audit, etc., of Corporations (*Kabushiki-Kaisha*) in Japan.”

2. As Standing Corporate Auditor Hiroshi Kuwata assumed the post on May 27, 2005, his audit regarding the performance of duties by the directors for the period from March 1, 2005, to his assumption of office during the 31st fiscal year was conducted by hearing in detail from other corporate auditors and reviewing important documents.

REFERENCE DOCUMENTS FOR THE EXERCISE OF VOTING RIGHTS

1. Total number of voting rights held by all shareholders: 1,022,770

2. Proposals and references

Proposal No. 1: Approval of the Proposal of Appropriation of Retained Earnings for the 31st Fiscal Term

The Proposal of Appropriation of Retained Earnings for the 31st Fiscal Term is shown in the 31st Fiscal Year's Report for Shareholders attached hereto (page 31).

The Company maintains a basic policy of paying dividends from a comprehensive standpoint with due regard for the financial position, profit level, the payout ratio and other factors based on previous operating results while ensuring adequate earnings retention in view of the requirements for future business development. We therefore propose that the year-end dividend be ¥45 per share. As a result, the annual dividend, consisting of an interim dividend of ¥45 and a year-end dividend of ¥45 per share, would be ¥90 per share, an increase of ¥20 from the dividend for the previous fiscal term.

We will endeavor to raise corporate value of LAWSON by appropriating the internal reserve for active store openings, renovation of existing stores and the development of new businesses.

Proposal No. 2: Partial Amendment to the Articles of Incorporation

We propose to partially amend the existing Articles of Incorporation as described below.

1. Reasons for the amendments

1) To promote the expansion of services of the franchise business, we would like to add "banking agency and" to ARTICLE 2: Purposes of Incorporation in the current Articles of Incorporation.

2) To improve the convenience of giving public notices and to reduce the expense related thereto, we would like to modify ARTICLE 4: Method of Public Notice in the current Articles of Incorporation by adopting an electronic public notice system via the Internet. In conjunction with this amendment, we would like to prescribe a measure for such cases where electronic public notices might not be available due to unavoidable circumstances.

3) To raise the convenience of shareholders, we would like to adopt the method of purchasing less-than-unit *(tangen)* shares by newly establishing ARTICLE 8: Purchase by Shareholders to Make Up for Less-than-Unit *(tangen)* Shares.

4) Pursuant to the enforcement of the "Corporate Code" (Law No. 86, 2005) and the "Law for Arrangement of Relevant Legislation along with the Enforcement of the Corporate Code" (Law No. 87, 2005), we would like to modify several relevant provisions of the Articles of Incorporation in the following manner.

(1) As for matters considered to have been provided in the current Articles of Incorporation (issuance of share certificate with respect to the shares, and having a custodian of shareholders' register, the Board of Directors, the Board of Corporate Auditors and the Independent Auditors), we would like to separately stipulate relevant provisions for ARTICLE 6: Number of Unit Shares *(Tangen-Kabushiki)* and Issuance of Share Certificates, ARTICLE 9: Custodian of Shareholders' Register, ARTICLE 20: Notice of Meetings of Board of Directors, ARTICLE 25: Number of Corporate Auditors, ARTICLE 28: Notice of Meetings of the Board of Corporate Auditors and ARTICLE 34: Independent Auditors in the proposed amendments.

(2) As Japanese corporations are allowed to designate the place for the general meeting of shareholders in the Articles of Incorporation at the prefecture level, we would like to clarify such place to be "either in Osaka or any place within the Metropolis of Tokyo" in the proposed ARTICLE 11: Time and Place to Convene General Meetings of Shareholders.

(3) Japanese corporations are allowed to deem that they have provided shareholders with the necessary information that must be mentioned in the reference document of a general meeting of shareholders when the meeting is convened by disclosing such information using the Internet. Accordingly, we would like to newly establish ARTICLE 14: Internet Disclosure of Reference Documents, etc., and Deemed Provision Thereof.

(4) As Japanese corporations are allowed to authorize their resolutions at the Board of Directors in writing, we would like to newly establish ARTICLE 21: Method of Adopting Resolutions to raise management efficiency. This new provision allows us to deem a resolution to be completely adopted in writing or via an electromagnetic method on the condition that all the directors have given unanimous consent and no objection is raised by any of the corporate auditors.

(5) To allow the Company to widely recruit and promote talented human resources as outside corporate auditors, we would like to newly establish ARTICLE 32: Agreement on Limitation of Outside Corporate Auditors' Liability so that the Company can enter into advance agreements with outside corporate auditors.

5) We would like to rearrange the overall text structure; modify, add and delete several terms, clauses, wording and the

like; and appropriately adjust the numbers of relevant articles and paragraphs of the current Articles of Incorporation.

2. Summary draft of this proposal
Proposed amendments are as described below:

(Amendments shown by underlines)

Existing Articles	Proposed Amendments
CHAPTER I: General Rules	CHAPTER I: General Rules
ARTICLE 1 (The related provision omitted)	ARTICLE 1 (The same as the existing one)
ARTICLE 2: Purposes of Incorporation The Company shall be organized for the purpose of operating the following businesses: 1. to (The related provisions omitted) 23. 24. To operate a securities brokerage; 25. to (The related provisions omitted) 32.	ARTICLE 2: Purposes of Incorporation The Company shall be organized for the purpose of operating the following businesses: 1. to (The same as the existing ones) 23. 24. To operate a <u>banking agency and</u> a securities brokerage; 25. to (The same as the existing ones) 32
ARTICLE 3 (The related provision omitted)	ARTICLE 3 (The same as the existing one)
ARTICLE 4: Method of Public Notices <u>Public notices</u> of the Company shall be <u>made in the daily newspaper *Nihon Keizai Shimbun.*</u>	ARTICLE 4:Method of Public Notices <u>The method of publishing public notices</u> of the Company shall be <u>electronic public notices. Provided, however, that if the Company is unable to provide electronic public notices due to an accident or any other unavoidable reason, public notices of the Company shall be given in the daily newspaper *Nihon Keizai Shimbun*.</u>
CHAPTER II: Shares	CHAPTER II: Shares
ARTICLE 5: Total Number of <u>Shares Authorized to be Issued by the Company</u> The total number of shares <u>authorized to be issued by</u> the Company shall be 409,300,000. <u>Provided, however, that the total number of shares authorized to be issued by the Company shall be reduced by the corresponding number of shares.</u>	ARTICLE 5: Total Number of <u>Issuable Shares</u> The total number of <u>issuable shares of</u> the Company shall be 409,300,000.
<u>ARTICLE 6: Acquisition of Treasury Stock</u> <u>The Company may, under Article 211-3, Paragraph 1, Item 2, of the Commercial Code, purchase its treasury stock with a resolution adopted by the Board of Directors.</u>	(To be shifted to ARTICLE 7)
(To be shifted from ARTICLE 7)	<u>ARTICLE 6: Number of Unit Shares *(Tangen-Kabushiki)* and Issuance of Share Certificates</u> <u>1) The number of unit shares *(Tangen-Kabushiki)* of the Company shall be one hundred (100).</u> <u>2) The Company shall issue share certificates with respect to the shares.</u>

Existing Articles	Proposed Amendments
	3) Notwithstanding the preceding paragraph, the Company may not issue share certificates with respect to less-than-unit *(tangen)* shares.
ARTICLE 7: The Number in a Unit *(tangen)* of Shares and Non-issuance of Share Certificates Stating the Numbers Less than a Unit *(tangen)* of Shares 1) The number of shares that will constitute one unit *(tangen)* of shares of the Company shall be one hundred (100). 2) The Company shall not issue share certificates stating the numbers less than one unit *(tangen)* of shares (hereinafter referred to as "Less-than-unit *(tangen)* shares"). Provided, however, this provision shall not apply to the cases provided for by the Share Handling Regulations.	(To be shifted to ARTICLE 6)
(To be shifted from ARTICLE 6)	ARTICLE 7: Acquisition of The Company's Shares The Company may, under Article 165, Paragraph 2, of the Corporate Code, purchase its shares through market transactions and other means, with a resolution adopted by the Board of Directors.
(New establishment)	ARTICLE 8: Purchase by Shareholders to Make Up for Less-than-Unit *(tangen)* Shares The shareholders of the Company (including beneficiary shareholders; hereinafter the same) having less-than-unit *(tangen)* shares may request the Company to sell additional shares to numerically make unit shares *(Tangen-Kabushiki)* together with their own shares.
ARTICLE 8: Transfer Agent 1) The Company may have a transfer agent with respect to the shares and stock options of the Company. 2) The transfer agent and its place of business shall be designated by a resolution of the Board of Directors of the Company. 3) In case the Company has a transfer agent, the register of shareholders (including the register of beneficiary shareholders, hereinafter the same), the register of forfeited share certificates and the ledger of stock options of the Company shall be kept at the transfer agent's place of business, and the Company shall cause the transfer agent to handle the transfer of shares and stock options, registration of pledges, indication of trust properties, issuance of share certificates, reception of notifications, requests for purchases of less-than-unit *(tangen)* shares and registration procedures of forfeited share certificates and other matters relating to the shares and stock options of the Company, and such shall not be handled by the Company.	ARTICLE 9: Custodian of Shareholders' Register 1) The Company shall have a custodian of shareholders' register. 2) The custodian of shareholders' register and its place of business shall be appointed by a resolution of the Board of Directors. 3) The register of shareholders (including the register of beneficiary shareholders, hereinafter the same), the ledger of stock options and the register of forfeited share certificates of the Company shall be made and kept by the custodian of the shareholders' register, and other administrative services concerning the register of shareholders, the ledger of stock options and the register of forfeited share certificates of the Company shall be delegated to the custodian of the shareholders' register, and such services shall not be handled by the Company.
ARTICLE 9: Record Date	(To be partly shifted to ARTICLE 12)

Existing Articles	Proposed Amendments
The Company shall regard the shareholders (including beneficiary shareholders, hereinafter the same) written or recorded in the latest register of shareholders as of the closing date of accounts as the shareholders entitled to exercise their rights as shareholders at the ordinary general meeting of shareholders for the relevant fiscal year. In addition to the preceding paragraph, whenever necessary, the Company may, by a resolution of the Board of Directors and with a prior public notice, regard the shareholders or registered pledgees written or recorded in the register of shareholders as of a certain date to be the shareholders or the registered pledgees who are entitled to exercise their rights.	
ARTICLE 10: Share Handling Regulations Any change of the classes and/or titles of shares and stock options, other procedures and fees therefor as to the shares and stock options of the Company shall be subject to the Share Handling Regulations stipulated by the Board of Directors.	ARTICLE 10: Share Handling Regulations Procedures and commissions relating to shares of the Company shall be governed by the Share Handling Regulations adopted by the Board of Directors, in addition to the applicable laws, regulations and the Articles of Incorporation.
CHAPTER III: General Meeting of Shareholders	CHAPTER III: General Meeting of Shareholders
ARTICLE 11: Time and Place to Convene General Meetings of Shareholders 1) The ordinary general meeting of shareholders of the Company shall be convened within three (3) months after the day following the last day of each business year. Extraordinary general meetings of shareholders may be convened at any time whenever necessary. 2) General meetings of shareholders may be convened not only in Suita or any city adjacent to Osaka but also in Chiyoda-ku, Minato-ku, Chuo-ku or Shinagawa-ku in Tokyo, Japan.	ARTICLE 11: Time and Place to Convene General Meetings of Shareholders 1) The ordinary general meeting of shareholders of the Company shall be convened in May every year. Extraordinary general meetings of shareholders may be convened at any time whenever necessary. 2) The general meetings of shareholders shall be convened either in Osaka or any place within the Metropolis of Tokyo.
(To be partly shifted from ARTICLE 9)	ARTICLE 12: Record Date for an Ordinary General Meeting of Shareholders The record date to ascertain the voting rights for an ordinary general meeting of shareholders of the Company shall be the end of February every year.
ARTICLE 12: Convocation and Chairperson of General Meetings of Shareholders General meetings of shareholders shall be convened by a resolution of the Board of Directors, and a director previously appointed by the Board of Directors shall preside over the general meetings of shareholders. In the event the director as such is unable to act as chairperson, another director shall act in his/her place in the order predetermined by the Board of Directors.	ARTICLE 13: Convocation and Chairperson of General Meetings of Shareholders The general meetings of shareholders of the Company shall be convened by a resolution of the Board of Directors, and a director previously appointed by the Board of Directors shall preside over the general meetings of shareholders unless otherwise provided in the applicable laws or regulations. In the event the director as such is unable to act as chairperson, another director shall act in his/her place in the order predetermined by the Board of Directors.
(New establishment)	ARTICLE 14: Internet Disclosure of Reference Documents, etc. and Deemed Provision Thereof

Existing Articles	Proposed Amendments
	1) In convening a general meeting of the shareholders, the Company shall be deemed to have provided the shareholders with the information which must be mentioned or displayed in the reference document of a general meeting of shareholders, business report, financial statements and consolidated financial documents by disclosing such information using the Internet pursuant to the regulations issued by the Ministry of Justice. 2) If the Company has disclosed information in accordance with the paragraph above, the Company shall be deemed to have provided the information relating to the relevant matters pursuant to the regulations issued by the Ministry of Justice.
ARTICLE 13: Method of Adopting Resolutions 1) A general meeting of shareholders shall adopt resolutions by a majority of votes of the shareholders present, unless otherwise provided in the law, regulations or provisions of these Articles of Incorporation. 2) Adoption of a special resolution set forth in Article 343 of the Commercial Code and of any other resolutions to which such method of adopting resolutions applies mutates mutandis at a general meeting of shareholders under the provisions of the Commercial Code or any other laws shall be made by an affirmative vote of not less than two-thirds (2/3) of the voting rights held by shareholders present who represent not less than one-third (1/3) of voting rights of all shareholders.	ARTICLE 15: Method of Adopting Resolutions 1) A general meeting of shareholders of the Company shall adopt resolutions by a majority of the voting rights of those shareholders with exercisable voting rights(s) present at the meeting, unless otherwise provided in the law, regulations or the Articles of Incorporation. 2) The adoption of resolutions as prescribed by Article 309, Paragraph 2, of the Corporate Code shall be made by an affirmative vote of not less than two-thirds (2/3) of the voting rights held by shareholders present, where such shareholders present shall hold shares representing not less than one-third (1/3) of the exercisable voting rights of the shareholders.
ARTICLE 14: Voting by Proxy A shareholder may exercise his/her/its voting rights in the general meetings of shareholders by appointing any other shareholder of the Company having voting rights as his/her proxy. The shareholder or his/her proxy shall submit a document evidencing the power of attorney to the Company at each general meeting of shareholders.	ARTICLE 16: Voting by Proxy A shareholder of the Company may exercise his/her/its voting rights in the general meetings of shareholders by appointing one (1) proxy who is a shareholder of the Company having voting rights. The shareholder or his/her proxy shall submit a document evidencing a power of attorney to the Company at each general meeting of shareholders.
CHAPTER IV: Directors and Board of Directors	CHAPTER IV: Directors and Board of Directors
ARTICLE 15: Number of Directors The number of directors of the Company shall be not less than three (3) and not exceed eleven (11).	ARTICLE 17: Number of Directors The Company shall have not more than eleven (11) directors.
ARTICLE 16: Election of Directors 1) Directors shall be elected at a general meeting of shareholders. For adoption of a resolution to elect directors, not less than one-third (1/3) of the voting rights held by all shareholders should be represented by the shareholders present.	ARTICLE 18: Election of Directors 1) Directors of the Company shall be elected by a resolution at a general meeting of shareholders. The adoption of a resolution to elect directors shall be made by an affirmative vote of a majority of the voting rights held by shareholders present at the meeting, where such shareholders shall hold shares representing not less than one-third (1/3) of the exercisable voting rights of the shareholders.

Existing Articles	Proposed Amendments
2) No cumulative voting shall be used for adoption of a resolution to elect directors.	2) No cumulative voting shall be used for adoption of a resolution to elect directors of the Company.
ARTICLE 17: Term of Office of Directors 1) The term of office of directors shall expire at the conclusion of the ordinary general meeting of shareholders pertaining to the last fiscal year within two (2) years following their assumption of office. 2) The term of office of directors who are elected to fill vacancies shall expire at the end of the remaining term of office of their predecessors.	ARTICLE 19: Term of Office of Directors 1) The term of office of directors of the Company shall expire at the conclusion of the ordinary general meeting of shareholders pertaining to the latest business year ending within two (2) years following their election. 2) The term of office of directors of the Company who are elected to increase the number of directors or fill vacancies of directors who retired before the expiry of their term of office shall expire at the end of the remaining term of office of other directors already in office.
3) The term of office of those who are elected to increase the number of directors shall expire at the end of the remaining term of office of other directors already in office.	(To be deleted)
ARTICLE 18: Representative Director Representative Director shall be elected by a resolution of the Board of Directors.	(To be shifted to ARTICLE 22)
ARTICLE 19: Notice of Meetings of Board of Directors Notices of meetings of the Board of Directors shall be given to each director and corporate auditor at least three (3) days prior to the set date of each meeting. In case of emergency, however, the above period may be shortened.	ARTICLE 20: Notice of Meetings of Board of Directors The Company shall have the Board of Directors, and notices of meetings thereof shall be given to each director and corporate auditor at least three (3) days prior to the set date of each meeting. In case of emergency, however, the above period may be shortened.
(New establishment)	ARTICLE 21: Method of Adopting Resolutions 1) The adoption of resolutions by the Board of Directors of the Company shall be made by a majority vote of a majority attendance of directors who are entitled to participate in the voting. 2) Regardless of the preceding paragraph, in cases where the requirement of Article 370 of the Corporate Code is satisfied, it shall be deemed that a resolution of the Board of Directors has passed.
(To be shifted from ARTICLE 18)	ARTICLE 22: Representative Director Representative Director shall be elected by a resolution of the Board of Directors.
ARTICLE 20: Regulations of the Board of Directors Matters with respect to the Board of Directors shall be subject to laws, the regulations in these Articles of Incorporation and the Regulations of the Board of Directors stipulated by the Board of Directors.	ARTICLE 23: Regulations of the Board of Directors Matters with respect to the Board of Directors of the Company shall be governed by the applicable laws, regulations, the Articles of Incorporation or the Regulations of the Board of Directors stipulated by the Board of Directors.
ARTICLE 21: Agreement on Limitation of Outside Directors' Liability Pursuant to the provision of Article 266, Paragraph 19, of	ARTICLE 24: Agreement on Limitation of Outside Directors' Liability Pursuant to the provision of Article 427, Paragraph 1, of

Existing Articles	Proposed Amendments
the Commercial Code, the Company may enter into an agreement with outside directors to limit their liability with regard to the indemnification resulting from any of the acts set forth in Article 266, Paragraph 1, Item 5, of the said Code, to within the total sum of the amounts set forth in the respective Items of Article 266, Paragraph 19, of said Code.	the Corporate Code, the Company may enter into an agreement with outside directors to limit their liability with regard to the liability for damage set forth in Article 423, Paragraph 1, of the said Code, to within the total sum of the amounts set forth in the relevant laws and regulations.
CHAPTER V: Corporate Auditors and Board of Corporate Auditors	CHAPTER V: Corporate Auditors and Board of Corporate Auditors
ARTICLE 22: Number of Corporate Auditors The number of corporate auditors of the Company shall not exceed four (4).	ARTICLE 25: Number of Corporate Auditors The Company shall have not more than four (4) corporate auditors.
ARTICLE 23: Election of Corporate Auditors The corporate auditors shall be elected at a general meeting of shareholders. For adoption of a resolution to elect corporate auditors, not less than one-third (1/3) of the voting rights held by all shareholders should be represented by the shareholders present.	ARTICLE 26: Election of Corporate Auditors The corporate auditors of the Company shall be elected by a resolution at a general meeting of shareholders. The adoption of a resolution to elect corporate auditors shall be made by an affirmative vote by a majority of the voting rights held by the shareholders present at the meeting, where such shareholders shall hold shares representing not less than one-third (1/3) of the exercisable voting rights of the shareholders.
ARTICLE 24: Term of Office of Corporate Auditors The term of office of corporate auditors shall expire at the conclusion of the ordinary general meeting of shareholders pertaining to the last fiscal year within four (4) years following their assumption of office. 2) The term of office of corporate auditors who are elected to fill vacancies shall expire at the end of the remaining term of office of their predecessors.	ARTICLE 27: Term of Office of Corporate Auditors 1) The term of office of corporate auditors of the Company shall expire at the conclusion of the ordinary general meeting of shareholders pertaining to the latest business year ending within four (4) years following their election. 2) The term of office of corporate auditors of the Company who are elected to fill vacancies of corporate auditors who retired before the expiry of term of office shall expire at the end of the remaining term of their predecessors.
ARTICLE 25: Standing Corporate Auditors The corporate auditors shall elect one (1) or more standing corporate auditor(s) to serve full-time by mutual votes of a resolution of the Board of Corporate Auditors.	(To be shifted to ARTICLE 30)
ARTICLE 26: Notice of Meetings of the Board of Corporate Auditors Notices of Meetings of the Board of Corporate Auditors shall be given to each corporate auditor at least three (3) days prior to the set date of each meeting. In case of emergency, however, the above period may be shortened.	ARTICLE 28: Notice of Meetings of the Board of Corporate Auditors The Company shall have the Board of Corporate Auditors, and notices of meetings thereof shall be given to each corporate auditor at least three (3) days prior to the set date of each meeting. In case of emergency, however, the above period may be shortened
(New establishment)	ARTICLE 29: Method of Adopting Resolutions The adoption of resolutions by the Board of Corporate Auditors of the Company shall be made by a majority vote of the corporate auditors.

Existing Articles	Proposed Amendments
(To be shifted from ARTICLE 25)	ARTICLE 30: Standing Corporate Auditors The corporate auditors shall elect one (1) or more standing corporate auditor(s) to serve full-time by mutual votes of a resolution of the Board of Corporate Auditors.
ARTICLE 27: Regulations of the Board of Corporate Auditors Matters with respect to the Board of Corporate Auditors shall be subject to laws, regulations in these Articles of Incorporation and the Regulations of the Board of Corporate Auditors stipulated by the Board of Corporate Auditors.	ARTICLE 31: Regulations of the Board of Corporate Auditors Matters with respect to the Board of Corporate Auditors of the Company shall be governed by laws, regulations in the Articles of Incorporation or the Regulations of the Board of Corporate Auditors stipulated by the Board of Corporate Auditors.
(New establishment)	ARTICLE 32: Agreement on Limitation of Outside Corporate Auditors' Liability Pursuant to the provision of Article 427, Paragraph 1, of the Corporate Code, the Company may enter into an agreement with outside corporate auditors to limit their liability with regard to the damages set forth in Article 423, Paragraph 1, of the said Code, by setting the maximum amounts payable under such liabilities to be the total sum of the amounts set forth in the relevant laws and regulations.
CHAPTER VI: Executive Officers	CHAPTER VI: Executive Officers
ARTICLE 28 (The related provisions omitted)	ARTICLE 33 (The same as the existing one)
(New establishment)	CHAPTER VII: Independent Auditors
(New establishment)	ARTICLE 34: Independent Auditors The Company shall have independent auditors.
(New establishment)	ARTICLE 35: Election of Independent Auditors Independent auditors of the Company shall be elected by a resolution at a general meeting of shareholders. The adoption of a resolution to elect independent auditors shall be made by an affirmative vote of a majority of the voting rights held by shareholders present at the meeting, where such shareholders shall hold shares representing not less than one-third (1/3) of the exercisable voting rights of the shareholders.
(New establishment)	ARTICLE 36: Term of Office of Independent Auditors 1) The term of office of an independent auditor of the Company shall expire at the conclusion of the ordinary general meeting of shareholders pertaining to the latest business year ending within one (1) year following their election. 2) If no specific resolution is adopted by the ordinary general meeting of shareholders in the preceding paragraph, the independent auditors shall be deemed to have been re-elected by the said meeting.

Existing Articles	Proposed Amendments
CHAPTER VIII: Accounts	CHAPTER VIII: Accounts
ARTICLE 29: Business Year The business year of the Company shall be one (1) year from March 1 to the last day of February of the following year, and the annual accounts shall be closed at the end of each business year.	ARTICLE 37: Business Year The business year of the Company shall be one (1) year from March 1 to the last day of February of the following year.
ARTICLE 30: Profit Distribution Dividends of the Company shall be paid to the shareholders or the registered pledgees who are written or recorded in the latest register of shareholders of the Company as of the end of each business year.	ARTICLE 38: Record Date of Distribution of Surplus The record date of the Company's year-end dividend shall be the last day of February every year.
ARTICLE 31: Interim Dividends The Company may, by a resolution of the Board of Directors, distribute cash as interim dividends to the shareholders or the registered pledgees who are written or recorded in the latest register of shareholders as of August 31 of each business year.	ARTICLE 39: Interim Dividends The Company may, by a resolution of the Board of Directors, distribute interim dividends as of August 31 as record date every year.
ARTICLE 32: Period of Exclusion of Dividends 1) In the event that dividends or interim dividends have not been received after an elapse of three (3) years from the day on which such dividends become due, the Company shall be exempted from its liability for such payments. 2) (The related provision omitted)	ARTICLE 40: Period of Exclusion of Dividends 1) In the event that the dividends in money have not been received after an elapse of three (3) years from the day on which such dividends becomes due, the Company shall be exempted from its liability for such payments. 2) (The same as the existing one)

Proposal No. 3: Election of Nine (9) Directors

The term of office of the nine current directors expires at the conclusion of this 31st Ordinary General Meeting of Shareholders. Accordingly, we propose that you elect nine (9) directors.

The nominees for the new directors are as follows:

No.	Name (Date of birth)	Brief Personal History and Representative Positions in Other Companies		Number of the Company's Shares Held
1	Takeshi Niinami (January 30, 1959)	April 1981	Joined Mitsubishi Corporation.	2,000
		June 1995	Representative Director, Sodex Corporation	
		July 1999	General Manager, Restaurant Business Team, Living Essentials Logistics Planning Department, Mitsubishi Corporation	
		April 2000	General Manager, LAWSON Project Integration Office; General Manager, Restaurant Business Office, Mitsubishi Corporation	
		April 2001	Manager, LAWSON Business Unit; Manager, Restaurant Business Unit, Consumer Business Division, Mitsubishi Corporation	
		March 2002	Corporate Advisor, LAWSON, INC.	
		May 2002	President, Representative Director and Executive Officer, LAWSON, INC.	
		April 2003	President, Representative Director and Executive Officer; General Manager, Marketing Division, LAWSON, INC.	
		June 2003	President, Representative Director and Executive Officer, LAWSON, INC.	
		September 2003	President, Representative Director and Executive Officer; General Manager, Merchandising & Logistics Division, LAWSON, INC.	

No.	Name (Date of birth)	Brief Personal History and Representative Positions in Other Companies		Number of the Company's Shares Held
		March 2004	President, Representative Director and Executive Officer; General Manager, Merchandising & Logistics Division; General Manager, Quality Control Division, LAWSON, INC.	
		April 2004	President, Representative Director and Executive Officer; General Manager, Quality Control Division, LAWSON, INC.	
		May 2004	President, Representative Director and Executive Officer, LAWSON, INC.	
		March 2005	President, Representative Director and CEO, LAWSON, INC. (Current position)	
2	Eiichi Tanabe (September 16, 1953)	April 1978	Joined Mitsubishi Corporation.	1,600
		April 1997	Deputy General Manger, Finance Department, Mitsubishi Corporation	
		April 2001	Deputy General Manager, Corporate Planning Office, LAWSON, INC.	
		May 2001	Director and Deputy General Manager, Corporate Planning Office, LAWSON, INC.	
		January 2002	Director; Executive Vice President and CFO; Deputy General Maneger, Corporate Planning, Finance and Accounting Departments; General Manager, Finance Planning Department, LAWSON, INC.	
		March 2002	Director; Executive Vice President and CFO ;in charge of Corporate Planning, Finance and Accounting Office; General Manager, Corporate Planning Office, LAWSON, INC.	
		June 2002	Director; Executive Vice President and CFO; General Manager, Corporate Planning Office, LAWSON, INC.	
		May 2003	Director; Executive Vice President and CFO; General Manager, Corporate Planning Office and Finance and Accounting Office, Management Service Office	
		July 2003	Director; Executive Vice President and CFO; General Mannager,Corporate Planning Office,LAWSON, INC.	
		March 2004	Director; Executive Vice President and CFO;in charge of Corporate Planning Office, LAWSON, INC.	
		May 2004	Representative Director; Senior Executive Vice President and CFO; in charge of Corporate Planning Office, LAWSON, INC. (Current position)	
3	Toru Moriyama* (August 9, 1954)	April 1977	Joined Mitsubishi Corporation.	0
		April 2001	General Manager, Marine Products Unit, Mitsubishi Corporation	
		April 2004	General Manager, Food Textiles & General Merchandise Dept., Nagoya Branch, Mitsubishi Corporation	
		September 2005	Executive Assistant to CEO, LAWSON, INC.	
		November 2005	Executive Vice President; General Manager, Merchandising & Logistics Division, LAWSON, INC.	
		March 2006	Senior Executive Vice President; General Manager, Merchandising & Logistics Division, LAWSON, INC. (Current position)	
4	Manabu Asano * (October 1, 1949)	September 1977	Joined LAWSON, INC.	2,200
		September 1980	General Manager, Human Resources Development Department, LAWSON, INC.	
		March 1989	General Manager, Development Planning Department, Sales Planning Division, LAWSON, INC.	
		March 1992	Recruit Manager, Daiichi Region, Development Division, LAWSON, INC.	
		March 1998	General Manager, Higashi-Nippon-Daiichi Region, Development Division, LAWSON, INC.	
		January 2002	Senior Vice President; General Manager, Store Development Division, LAWSON, INC.	

No.	Name (Date of birth)	Brief Personal History and Representative Positions in Other Companies		Number of the Company's Shares Held
		October 2002 March 2003 September 2005 March 2006	Senior Vice President; General Manager, Store Development Division; General Manager, Chubu Division, LAWSON, INC. Senior Vice President; General Manager, Chubu LAWSON Branch, LAWSON, INC. Senior Vice President; Deputy CRO, LAWSON, INC. Senior Vice President; CCO in Charge of Operation Planning and Audits, LAWSON, INC. (Current position)	
5	Hiroshi Tasaka (April 17, 1951)	March 1990 June 1996 March 2000 April 2000 April 2000 May 2000 April 2001 June 2001 June 2005 December 2005	Joined The Japan Research Institute, Limited. Director, The Japan Research Institute, Limited. Director, SOFTBANK INVESTMENT CORPORATION Fellow, The Japan Research Institute, Limited. (Current position) Professor, Tama University Director, LAWSON, INC. (Current position) Professor, Graduate School of Tama University (Current position) Corporate Auditor, EnBio Tec Laboratories Co., Ltd. (Current position) Director, SBI Holdings, Inc. (Current position) Director, OKWave (Current position) (Representative positions in other companies) President, SophiaBank Limited.	0
6	Reiko Yonezawa (April, 3, 1950)	April 1974 March 1982 July 1986 May 2002 August 2003 January 2006	Joined Japan Airlines International Co., Ltd. President, The R Co., Ltd. (Current position) President, Will Co., Ltd. Director, LAWSON, INC. (Current position) Director, Nihon Enterprise Co., Ltd. (Current position) Director, Japan Post Corporation (Current position) (Representative positions in other companies) President, R&R Co., Ltd.	0
7	Muneaki Masuda (January 20, 1951)	September 1985 October 1996 April 1999 December 2000 March 2003 May 2003 June 2005 March 2006	Founder and President, Culture Convenience Club Co., Ltd. Chairman and Representative Director, Culture Convenience Club Co., Ltd. President and Representative Director, Culture Convenience Club Co., Ltd. (Current position) Director, BOOKOFF CORPORATION, (Current position) Director, Rakuten, Inc. (Current position) Director, LAWSON, INC. (Current position) Director, KITAMURA CO., LTD. (Current position) President, TSUTAYA CO., LTD. (Current position) (Representative positions in other companies) President, MASUDA & PARTNERS INC. President, M&P Finance INC. President, Culture Convenience Club Investment Co., Ltd. President, CCC Casting Co., Ltd. Chairman and Representative Director, T CARD & MARKETING Co., Ltd.	2,800
8	Koji Furukawa (April 26, 1938)	April 1962 June 1992 March 1993	Joined Mitsubishi Corporation. Director; Deputy General Manager; General Manager, Corporate Communications Office, Mitsubishi Corporation Director; General Manager, Personnel Division, Mitsubishi	300

No.	Name (Date of birth)	Brief Personal History and Representative Positions in Other Companies		Number of the Company's Shares Held
			Corporation	
		June 1995	Representative Director; Executive Director; Director, Nagoya Headquarters, Mitsubishi Corporation	
		April 1999	Representative Director; Executive Vice President; EVP, Management, Finance & Accounting Services, Mitsubishi Corporation	
		April 2000	Representative Director; Executive Vice President; CEO, Functional Group,, Mitsubishi Corporation	
		June 2001	Representative Director; Executive Vice President; CEO, Functional Group, Mitsubishi Corporation	
		October 2001	Representative Director; Executive Vice President; EVP, Corporate Affairs (CFO, Chief Compliance Officer), Mitsubishi Corporation	
		April 2003	Representative Director; Executive Vice President; EVP, Deputy General Manager to President, Chief Compliance Officer, Mitsubishi Corporation	
		April 2004	Representative Director; Executive Vice President; EVP, Mitsubishi Corporation	
		May 2004	Director, LAWSON, INC. (Current position)	
		June 2004	Vice Chairman, Mitsubishi Motors Corporation	
		January 2005	Corporate Advisor, Mitsubishi Corporation	
		July 2005	Senior Advisor to the President, Mitsubishi Corporation (Current position)	
9	Takehiko Kakiuchi (July 31, 1955)	April 1979	Joined Mitsubishi Corporation	0
		April 2001	White Meat Unit Manager, Concurrently Red Meat Unit Manager, Foods (Commodity) Division, Mitsubishi Corporation	
		April 2004	General Manager, Planning & Coordination, Investment Administration & Credit, Living Essentials Group CEO Office, Mitsubishi Corporation	
		May 2005	Director, LAWSON, INC. (Current position)	
		April 2006	General Manager, Living Essentials Group CEO Office, Mitsubishi Corporation (Current position)	

Notes:

1. These five nominees, Hiroshi Tasaka, Reiko Yonezawa, Muneaki Masuda, Koji Furukawa and Takehiko Kakiuchi are candidates for outside directors.
2. The candidate Reiko Yonezawa and The R Co., Ltd., in which she assumes the post of President, have an outsourcing-outsourced business relationship with the Company with regard to education and training.
3. The Company and Culture Convenience Club Co., Ltd., in which the candidate Muneaki Masuda assumes the post of President, have an outsourcing-outsourced business relationship with regard to operations related to TSUTAYA rental products. The Company and T CARD & MARKETING Co., Ltd., in which the nominee assumes the post of President, have a tie-up business relationship with regard to the point program for TSUTAYA card members. TSUTAYA CO., LTD., in which the nominee assumes the post of President, handles several product items that belong to the same categories as those handled by the Company.
4. Other than the above, the nominees do not have any special interest in the Company.
5. The nominees marked with an asterisk (*) are candidates for newly appointed directors.
6. Each candidate's Brief Personal History and Representative Positions in Other Companies are as of April 12, 2006.

Proposal No. 4: Election of One (1) Corporate Auditor

The current corporate auditor, Masaaki Kojima, will resign at the conclusion of this 31st Ordinary General Meeting of Shareholders. Accordingly, we propose that you elect one (1) corporate auditor.

The nominee for the new corporate auditor is as follows:

No.	Name (Date of birth)	Brief Personal History and Representative Positions in Other Companies		Number of the Company's Shares Held
1	Munehiko Nakano (September 6, 1951)	April 1974 January 2001 May 2002	Joined Mitsubishi Corporation General Manager, Coordination & Accounting Department, Chubu-Branch, Mitsubishi Corporation Group Controller, Machinery Group, Mitsubishi Corporation (Current position)	0

Notes:

1. The nominee Munehiko Nakano is a candidate for an outside corporate auditor.
2. The above candidate does not have any special interest in the Company.
3. As the candidate Munehiko Nakano is nominated to fill the vacancy of Masaaki Kojima, his term of office shall be the remaining tenure of his predecessor.
4. The Board of Corporate Auditors has given its prior accord to proposal No. 4.
5. The nominee's Brief Personal History and Representative Positions in Other Companies are as of April 12, 2006.

Proposal No. 5: Decision on the Amount and Substance of Stock Options for Directors

(Reasons for the proposal)

The Company last year abolished the conventional retirement benefit system for directors where directors could share with shareholders not only the merits of a higher stock price of the Company's stock but also the risks that might arise from a declining stock price, thereby enhancing the directors' motivation and morale toward a higher stock price and further improvement in operating performance. Instead, the Company introduced stock options (stock options of which the amount to be subscribed per share (hereinafter referred to as the "Exercise Price") for shares to be issued upon exercising such rights is ¥1; hereinafter referred to as "Stock Acquisition Rights") that allow qualified persons to which the rights are granted to receive economic value similar to that of the former retirement benefits. Furthermore, effective from the 26th term, the Company has issued another kind of stock option (hereinafter referred to as "Ordinary Stock Options") of which the Exercise Price is the fair market value of the Company's stock at the time of the options being granted, in principle, to enhance the motivation and morale of directors to further improve operating performance while emphasizing shareholders' interests.

Prior to the implementation of the Corporate Code (Law No. 86, 2005), we requested that our shareholders approve a special resolution on the stock options at the ordinary meeting of shareholders as part of the procedure for issuing stock options at specifically advantageous conditions. Following the implementation of the Corporate Code, we hereby request that you approve our proposal on the revised amount and other matters because the stock options to directors can be deemed as part of their remuneration and the amount thereof can be recorded as an accounting cost in accordance with the "Accounting Standard for Stock Options, etc.," Business Accounting Standard No. 8 released by the Accounting Standards Board of Japan on December 27, 2005.

(Substance of the proposal)

1. It was approved that the upper limit of the total remuneration to directors of the Company be within ¥400 million annually by a resolution adopted at the Ordinary General Meeting of Shareholders on May 24, 2001 (excluding the employee's salary portion to directors who concurrently serve as employees). We request that you approve an upper limit of within ¥200 million annually under another framework with respect to stock options to be issued to directors.
   The qualified directors would be nine (9) if Proposal No. 3 is approved and passes in its original form.
2. The details of the stock options shall be as follows:

(1) Stock Acquisition Rights

1) Class and number of the shares subject to stock options

27,000 shares of LAWSON, INC.'s common stock shall be the upper limit of shares for which issuance will be available to qualified directors by exercising their stock options to be issued within one (1) year following the date of the ordinary general meeting of shareholders pertaining to each business year.

In case it is considered appropriate to change the number of shares when the Company conducts a stock split (including gratis allocation of shares; hereinafter the same regarding a "stock split"), a reverse stock split or a reduction of capital stock, the Company shall make adjustments as deemed necessary.

2) Total number of stock options
270 units shall be the upper limit of stock options to be issued within one (1) year following the date of the ordinary general meeting of shareholders pertaining to each business year shall be 270.
The number of shares subject to each stock option shall be 100 shares.
In case it is considered appropriate to change the number of shares when the Company conducts a stock split, a reverse stock split or a reduction of capital stock, the Company shall make adjustments as deemed necessary.

3) Value to be invested upon the exercise of stock options
The value to be invested in exercising each stock option shall be determined as a product of the Exercise Price (¥1) multiplied by the number of shares subject to each stock option.

4) Exercisable period of the stock options
The exercisable period of the stock options shall be 20 years computed from the day following the date when the stock options are granted (hereinafter referred to as the “Date for Granting”).

5) Restriction on the acquisition of the stock options via transfer
The acquisition of stock options via transfer shall require the approval of the Board of Directors.

6) Exercise conditions of the stock options
Regardless of the preceding item 4), a qualified person entitled to stock options may exercise his/her stock options on and after the day following the date when he or she steps down from a director’s position. Other applicable conditions shall be as prescribed by the Board of Directors, which determines the guidelines for applicants of the stock options.

(2) Ordinary Stock Options
1) Class and number of the shares subject to stock options
50,000 shares of LAWSON, INC.’s common stock shall be the upper limit of shares of which issuance will be available to the qualified directors by their exercising the stock options to be issued within one (1) year following the date of the ordinary general meeting of shareholders pertaining to each business year.
In case it is considered appropriate to change the number of shares when the Company conducts a stock split, a reverse stock split or a reduction of capital stock, the Company shall make adjustments as deemed necessary.

2) Total number of stock options
500 units shall be the upper limit of stock options to be issued within one (1) year following the date of the ordinary general meeting of shareholders pertaining to each business year.
The number of shares subject to each stock option shall be 100 shares.
In case it is considered appropriate to change the number of shares when the Company conducts a stock split, a reverse stock split or a reduction of capital stock, the Company shall make adjustments as deemed necessary.

3) Value to be invested upon exercise of stock options
The value to be invested in exercising each stock option shall be determined as a product of the Exercise Price multiplied by the number of shares subject to each stock option.

The Exercise Price shall be the average of the closing stock prices (hereinafter referred to as “Closing Price”) for ordinary transactions of the Company’s common stock at the Tokyo Stock Exchange for all the trading days (excluding those on which no transactions were established) in the month preceding the month to which the Date for Granting belongs, with fractions below one (1) yen to be rounded up. However, in case such Exercise Price is below the closing price of the Company’s common stock at the Tokyo Stock Exchange on the day preceding the Date for Granting of the stock options (or the closing price of the nearest day with transactions if such closing price was not established on the preceding day), the said Exercise Price shall be the closing price on the day preceding the Date for Granting.
Moreover, in case unavoidable circumstances require an adjustment of the Exercise Price, for example, if the Company conducts a stock split or a reverse stock split for the Company’s shares of common stock after the Date for

Granting, or if the Company issues new shares or disposes of its treasury stock (excluding, however, cases of the transfer of treasury stock under Article 5, Paragraph 2, of the Supplementary Provision in the Law Regarding Partial Revision of the Commercial Code, etc. (Law No. 79, 2001), the exercise of preemptive rights under Article 280-19, Paragraph 1, of the former Commercial Code, the conversion or exercise of the stock options (including those attached to the bonds with stock acquisition warrant) that allows qualified persons to request securities to be converted/convertible to the Company's common stock or for issuance of the Company's shares of common stock) at a price lower than the market price, or if the Company reduced its capital stock, then the Company shall make adjustments as deemed necessary.

4) Exercisable period of the stock options
The exercisable period of the stock options shall be three years computed from the day after two years following the Date for Granting.

5) Restriction on acquisition of the stock options via transfer
The acquisition of stock options via transfer shall require the approval of the Board of Directors.

Proposal No. 6: Presentation of Retirement Benefit to a Retiring Corporate Auditor

With regard to Masaaki Kojima who is retiring from his position as corporate auditor at the conclusion of this 31st Ordinary General Meeting of Shareholders, we propose to present retirement benefit to him within the range of ¥23 million to provide compensation for services rendered during his tenure.

We propose that the actual amount, timing and method of presentation be left to the consultation of Corporate Auditors.

A brief history of the retiring corporate auditor in the Company is as follows:

Name	Brief Personal History	
Masaaki Kojima	May 2001	Standing Corporate Auditor, LAWSON, INC. (Current position)

Note: The Brief Personal History is as of April 12, 2006.