

LAWSON

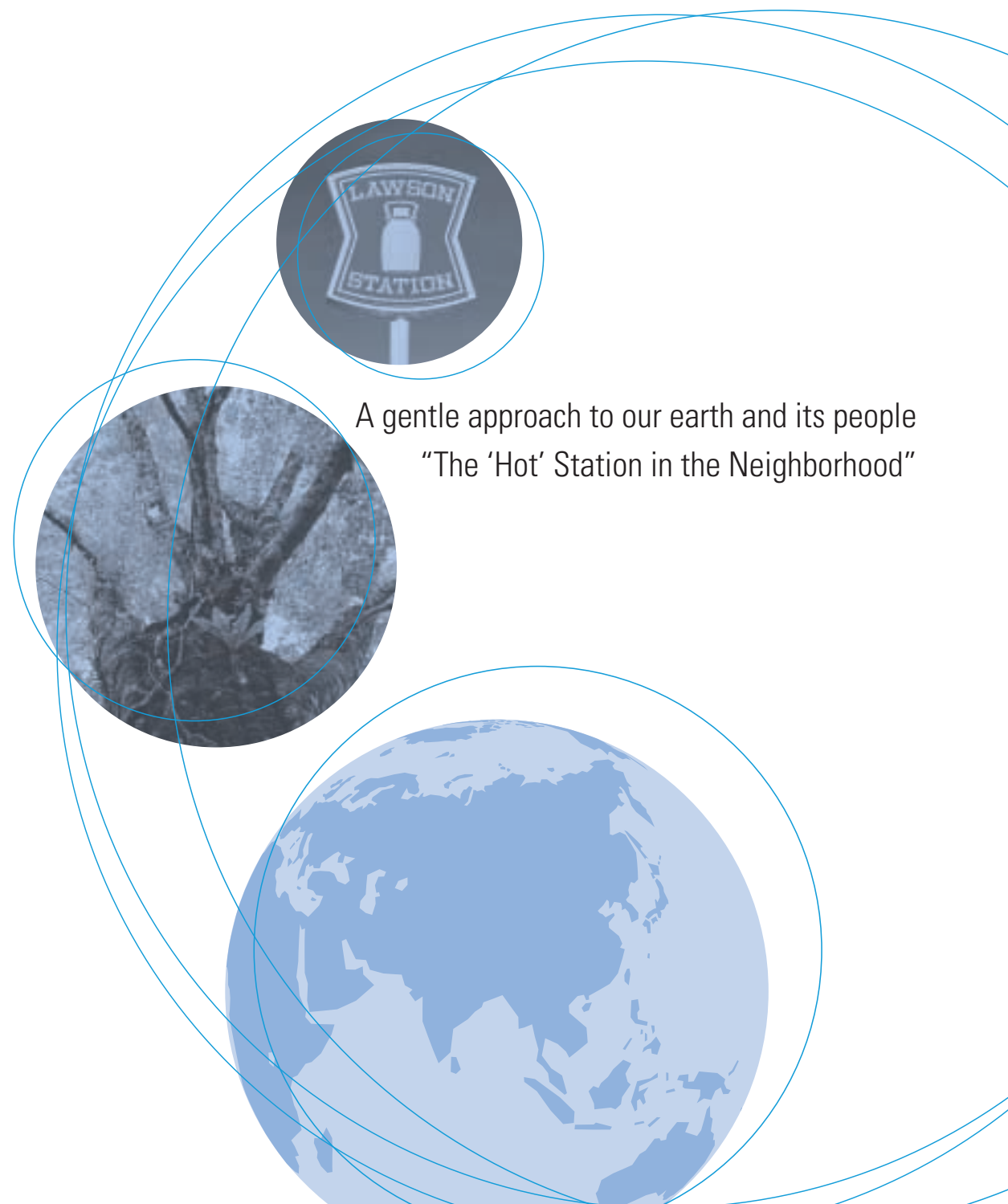
LAWSON, INC.

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A gentle approach to our earth and its people
“The ‘Hot’ Station in the Neighborhood”

LAWSON

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Introduction

As LAWSON celebrates its 30th anniversary of founding, the Company is strengthening its resolve to truly live up to its corporate philosophy by promoting "happiness and harmony in our community." This philosophy incorporates a sense of compassionate consideration for the environment—in the specific regions in which we operate, as well as globally—and LAWSON's headquarters and stores are cooperating to undertake environmental preservation and social contribution activities on a national scale.

This environmental report—our seventh—outlines our environmental activities in fiscal 2004, including the saving of energy and resources, and reduction of waste. The report also describes LAWSON's social contribution activities, including our Green Fund, as well as afforestation and regional environmental cleaning initiatives. Also, this report describes the full extent of our new corporate philosophy from the viewpoint of our contributions to both society and the economy.

Through the cooperation of our customers and residents of the regions in which we operate, LAWSON is striving to become "The 'Hot' Station in the Neighborhood." This report describes exactly how.

Scope This report concentrates specifically on LAWSON as a parent company, its member stores and some affiliated companies, and includes some of the cooperative efforts of business partners involved in distribution, rice product production and sales and waste management.

Period The primary period covered by this report is fiscal 2004 (the fiscal year from March 1, 2004, through February 28, 2005), but also includes some information from previous fiscal years as well as activities for fiscal 2005.

Next Publication Scheduled for June 2006

Reference Guidelines Ministry of the Environment
Environmental Reporting Guidelines, fiscal 2003 edition

Company Overview (As of February 28, 2005)

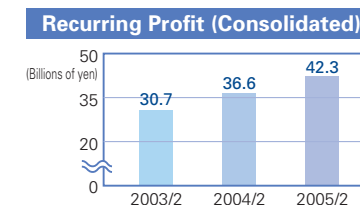
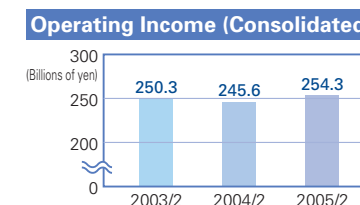
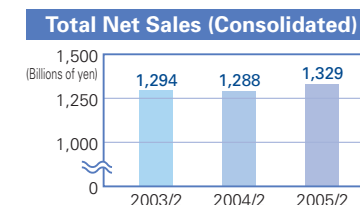
Corporate Data

English Company Name	LAWSON, INC.
Address	Tokyo Headquarters: East Tower, Gate City Osaki, 11-2, Osaki 1-chome, Shinagawa-ku Tokyo 141-8643, Japan Osaka Headquarters: 9-1, Toyotsu-cho, Suita-shi Osaka 564-0051, Japan
President and CEO	Takeshi Niinami
Established	April 15, 1975
Capital	¥58,506,644,000
Employees	3,095
Scope of Operation	Development of LAWSON convenience store franchise chain
Store Revenues	¥1,329 billion
Stores	8,077 (in Japan)
Store Coverage	All 47 Japanese prefectures, as well as Shanghai, People's Republic of China (joint venture)



Primary Affiliates

- LAWSON TICKET, Inc.**
Sales of tickets for concerts, movies, sporting and other events, mainly through Loppi multimedia terminals located inside Lawson stores
- i-Convenience, Inc.**
Operation of the official iLAWSON website for i-mode users; provision of online merchandise, services and information through this site
- LAWSON ATM Networks, Inc.**
Installation, operation and management of jointly operated ATMs in Lawson stores; deposits/withdrawals, transfers and related financial services via ATMs (outsourced from partner financial institutions)
- BestPractice Inc.**
All activities related to conducting convenience store surveys, proposals for improving LAWSON stores
- NATURAL LAWSON, INC.**
Establishment of the NATURAL LAWSON store format, product planning and development, oversight of shop management
- LAWSON CS Card, Inc.**
Issuance of LAWSON PASS credit cards to Lawson customers; provision of card-based services through Loppi multimedia terminals and other channels
- Shanghai Hualian Lawson Co., Ltd.**
Development of Lawson store chain in Shanghai, PRC



LAWSON Stores					
Hokkaido Regional Headquarters	494	Nagano	138	Hiroshima	115
Tohoku Regional Headquarters	721	Gifu	84	Yamaguchi	109
Aomori	123	Shizuoka	155	Tokushima	102
Iwate	159	Aichi	336	Kagawa	95
Miyagi	159	Mie	72	Ehime	138
Akita	127	Toyama	95	Kochi	52
Yamagata	54	Ishikawa	68	Kyushu Regional Headquarters	933
Fukushima	99	Fukui	73	Fukuoka	292
Kanto Regional Headquarters	2,222	Kinki Regional Headquarters	1,774	Saga	57
Ibaraki	107	Shiga	114	Nagasaki	83
Tochigi	99	Kyoto	178	Kumamoto	86
Gunma	65	Osaka	818	Oita	106
Saitama	303	Hyogo	458	Miyazaki	81
Chiba	276	Nara	95	Kagoshima	108
Tokyo	789	Wakayama	111	Okinawa	120
Kanagawa	475	Chugoku and Shikoku Regional Headquarters	850	Nationwide Total	8,077
Niigata	108	Tottori	65		
Chubu Regional Headquarters	1,083	Shimane	60		
Yamanashi	62	Okayama	114	Shanghai, PRC**	210

**As of December 31, 2004

Human Relations

To match people's lifestyles and contribute to their happiness, LAWSON constantly puts itself in the positions of its customers, owners, crews, business partners, associates and shareholders when considering social and global environmental issues. This method helps us conceive of new ways to share our enjoyment with others and take part in activities that put smiles on their faces.

In 2005, LAWSON celebrates its 30th anniversary of establishment. In commemoration, we have updated our corporate philosophy and code of conduct. Our aim in doing so is to more clearly outline our goals for contributing to society even more than we have in the past.

Crews: part-time workers

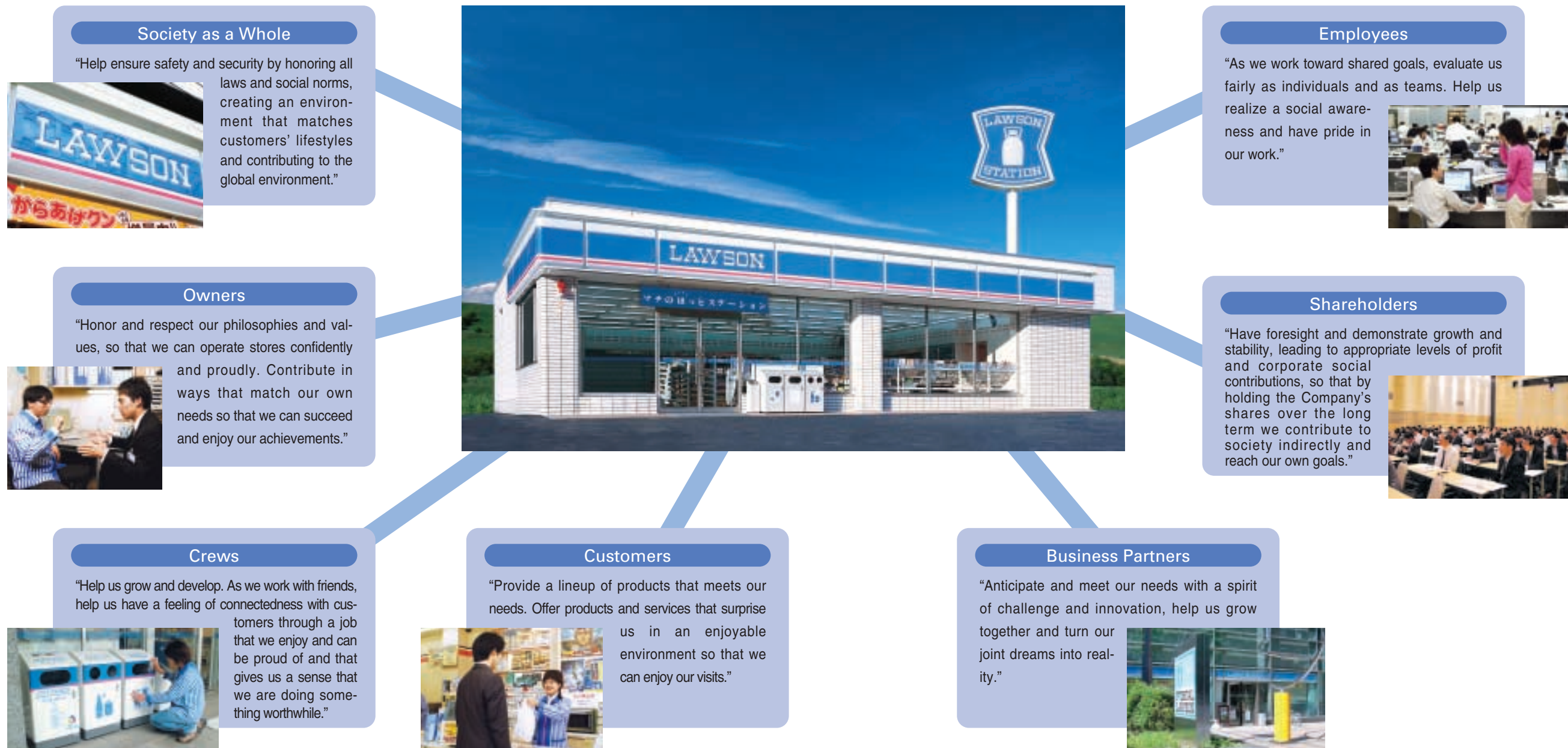
Corporate Philosophy

- Happiness and Harmony in Our Community

Code of Conduct

- Acting with utmost consideration for others
- Challenging with innovative ideas and actions
- Having a strong will to attain the objectives

LAWSON's Role in Others' Eyes



Discussion with the President

LAWSON exists thanks to the support of its customers, regional societies, its business partners and a host of others. President Niinami and several employees recently held a roundtable discussion to talk about the Company and the sort of activities that match its new corporate philosophy.

Happiness and Harmony in Our Community

The goals behind LAWSON's new corporate philosophy and code of conduct

A "Behind-the-Scenes" Look at LAWSON's New Corporate Philosophy

MC LAWSON revised its corporate philosophy in commemoration of its 30th anniversary of establishment in June 2005. President Niinami, could you explain for us the meaning behind this new corporate philosophy?

Niinami Certainly. Our new corporate philosophy is "Happiness and Harmony in Our Community." In this phrase, "community" refers to the customers who live in the areas where we operate, as well as

owners, crews, business partners, employees and their families—which we sometimes think of collectively as the "LAWSON family," as well as shareholders and society as a whole. "Harmony" is what we hope to achieve with all of these people, ensuring their "happiness." Of course these are fairly lofty ideals, but I think it is important to explain what we aspire to be. We want people to feel that their community has improved because there is a LAWSON store nearby.

Sakai For those of us who work directly on the scenes, keeping our owners happy is essential. As our business partners, we have to make sure that these people are happy if we hope to achieve harmony in the community.

Niinami Exactly. And it is vital that store owners understand our corporate philosophy and code of conduct. Successfully achieving harmony with the

community and meeting customers needs at stores is linked to the prosperity of their business.

Sakai In May, we opened a new store on Yokozuna Street in Edogawa, Sumida Ward, where the sumo wrestlers live. They commented that, "This whole area has livened up since the LAWSON store opened."

Niinami That's great to hear.

Yamada My business card has the words "The 'Hot' Station in the Neighborhood" on it. I really like this phrase, because I think it sums up LAWSON well. Now that we've changed the corporate philosophy, will this phrase disappear?

Niinami Even though our corporate philosophy has changed, we won't change this phrase. LAWSON will remain "The 'Hot' Station in the Neighborhood" that promotes "Happiness and Harmony in Our Community"

Code of Conduct and Sense of Consideration

Niinami We have had many codes of conduct in the past, but this time we have pared it down to three easy-to-understand phrases: "acting with utmost consideration for others," "challenging with innovative ideas and actions," and "having a strong will to attain the objectives." I would like you to think about these three phrases.

Shimizu The phrase "acting with utmost consideration for others" really had an impact on me. I'm in charge of planning and conducting the CS

sessions¹, and I plan to promote this phrase by helping transform employee awareness and raise their sense of consideration.

Niinami "Consideration" was a word that I really wanted to incorporate into our code of conduct. I don't want to create a company that forgives all, as long as we meet certain targets. That's why I put "consideration" in the first phrase. "Consideration" implies a sense of charity toward others. In the past, we have accomplished a lot through sales efforts that follow our manual, but operating with a sense of consideration is more important than going by the book. Customers appreciate a sense of charity, and it should encourage them to come to LAWSON more regularly.

The word "consideration" also contains important nuances for our employees to consider with regard to the global environment and compliance. Companies that aren't endorsed by their societies don't last long.

Nakao I've been in charge of ethics and compliance in the legal department for about three years. During this period, awareness levels have certainly risen. But I also am consulted by people who wonder if there isn't a better way to do things. In such cases, I stress the importance of understanding the spirit and aims that our rules are based on. In consultations, I'm often asked to consider our rules not just from LAWSON's perspective, but from the standpoint of our customers and business partners.

President and CEO
Takeshi Niinami



Katsuaki Sakai

Stationed at the Kanto Regional Headquarters, Katsuaki is responsible for overall operations at 80 stores located in four of Tokyo's wards—Edogawa, Adachi, Sumida and Katsushika. He places a high value on the solid respect that he has earned from store supervisors, owners and managers alike.



Nobuyuki Yamada

Nobuyuki operates out of the Chubu Regional Headquarters, where he oversees operations of 87 stores in Gifu Prefecture. His goal? To hear the words, "I'm really happy that LAWSON came to Gifu."



Shinichi Miyamoto

As Logistics Department Manager, Shinichi constantly strives to distribute products to stores while minimizing the burden this places on the environment. As father of a four-year-old, Shinichi wants to help make LAWSON a company that his children and grandchildren can be proud of.



Tomika Shimizu

Tomika is convinced that customer satisfaction starts with a smile on the face of each employee. Working in human resources, in charge of employee satisfaction, she says "valuable input comes not from a top-down, but rather from a bottom-up perspective."



Aya Nakao

In her role overseeing ethics and compliance in the Company's legal department, Aya has set up and operates an employee consultation room. She also conducts audits of external companies and business partners that are involved with LAWSON products and store construction.



Izumi Hasegawa (MC)

At the CSR² Promotion Office, Izumi is involved with the Company's environmental preservation and social contribution activities. Her current dilemma is how to come up with an easy way to answer her friends when they ask such questions as, "Okay, so what does CSR really mean?"

Note: This roundtable discussion was held in President Niinami's reception room in the Tokyo headquarters building, where dress is often "business casual."

Glossary

1. CS session: These sessions provide an opportunity for individual employees to deliberate ways in which LAWSON can live up to its corporate philosophy by improving customer satisfaction and employee satisfaction. Session leaders and participants discuss various case studies to help them understand the importance of seeing things from the customer's viewpoint and to consider all the factors that contribute to an energetic working environment.

2. Corporate social responsibility (CSR): A company's duty to the regions in which it operates.

Niinami My understanding is that “compliant” means “law-abiding,” and this duty is self-evident. In addition to laws, I have my own ethics that I follow, and I believe that none of us should stray from an ethical path. We must understand the true essence of problems before we act.

Miyamoto I am involved in product deliveries, and I have been involved in a number of innovations to our product delivery system. As we are discussing the topic of “consideration,” I would like to add that some of our competitors are ahead of us on developing vehicles and reducing CO₂ emissions. If we take into consideration the environmental impact of our deliveries, we should consider shifting to hybrid vehicles³ or vehicles fueled by natural gas.⁴ The infrastructure to support this is lagging in some areas, so implementation is taking time. This implementation will also raise costs.

Niinami There is no avoiding the fact that putting “consideration” into practice comes at a price. This is true in other fields as well. We must be innovative and take it as our challenge to educate our customers about the new value we provide. This will require investment, but if successful we will recover these costs down the road. As our environmental efforts progress, the entire LAWSON family will become prouder, and justifiably so.

LAWSON's Social Responsibilities

MC The CSR Promotion Office began operations in March, and we began holding CSR meetings to

discuss our social responsibility, drawing a cross-section of members from throughout the Company. Currently, there are four teams, which are considering the topics of social contribution, environmental management, hours of operation and waste reduction. Having taken part in these meetings, what are your reactions?

Sakai To be honest, when I first joined it seemed to me that the atmosphere at these meetings was a long ways away from my usual on-the-scene environment, where every yen in sales is vital.

Niinami I can understand that reaction. But remember that although convenience stores have become part of the social infrastructure, some people evaluate us quite harshly on such things as the waste from boxed lunches, the noise and emissions from delivery vehicles, and the extra energy used for late-night operations. We need to realize that these are topics that the convenience store industry has to address, as we play a contributing role in society and reconfigure ourselves.

Nakao Thinking over the meeting topics helped me realize the seriousness of our responsibilities.

Niinami My public comments about 24-hour operation⁵ and waste have provoked quite a response. I am also quite concerned about the weight of LAWSON's corporate responsibility.

Miyamoto I was very surprised when I heard the discussion about hours of operation. But as I listened to people deliberate the issue, I began to think that maybe 24-hour operation isn't an iron-clad requirement and that there may be room for

flexibility. First, we would have to come up with some other way to ensure business success, though.

Niinami It isn't feasible for all stores to suddenly stop operating around the clock. We need to give the matter serious consideration first, come up with viable alternatives and then make a decision.

Sakai I don't think CSR necessarily has to be a difficult topic. I think of it in terms of my child saying some day, “You know, that company my father works at is a really good place.” Issues that commonly come up when discussing product offerings with store owners are cigarette vending machines and adult magazines. If LAWSON stores did not offer these products, we might see more support from mothers.

Shimizu We have to make certain we don't just pay lip service to “consideration.” As with customer satisfaction, if we lose our focus on changing in response to the environment the Company could eventually cease to exist. In May, I joined the LAWSON Mount Fuji Forestation Project⁶. It struck me that while monetary contributions are important, getting personally involved is also essential. Even though I got absolutely filthy planting trees, it was an exhilarating experience.

Nakao At a meeting I attended, we talked about “contributing to society,” which got me started wondering how I could contribute to society through my work. At this stage, I don't believe that all our employees have this sort of attitude. We need to think of a way to raise individual awareness.

Niinami When many different types of people gather, a variety of ideas arise. We should choose the best of these ideas and prioritize their implementation.

MC Mr. Yamada, your group was deliberating waste reduction, right?

Yamada Recently, my role changed from overseeing stores in Toyama Prefecture to Gifu Prefecture. In Gifu, illegal dumping is a hotly debated issue. Waste processing is clearly a more problematic concept for the city of Nagoya, but maybe the greater outcry in Gifu comes from the fact that it is a mountainous region. At first, I thought it would be nearly impossible to reduce waste, but I have come to understand that this is a matter that we must handle with some urgency.

Niinami Waste is an extremely important topic from a management perspective, as well. Right now, in our efforts to guarantee that the products our customers buy are safe and tasty, we end up throwing away some food. We have to consider this topic not just from the standpoint of wasting food, but also with a view to reducing costs and recycling. We need more innovative ideas on how to minimize waste.

Yamada After attending the meetings, I believe that there is room to reduce waste, both at stores and at our headquarters. Some things that might be “nice to have” are simply wasteful from an environmental perspective. For example, headquarters prints out sales promotion materials that it thinks stores will find useful, but some of these are never used. I'm sure that if each section examines their activities carefully, other examples will crop up. Simply, we all need to look at our actions from an environmental perspective.

Niinami Listening to this discussion has encouraged me to believe that LAWSON can continue to become an even better company in the future. I hope that each of you will take leadership roles in developing happiness and harmony in our community. I am convinced that our new corporate philosophy and code of conduct will serve as a springboard, encouraging a level of commitment that will help us to act on the strength of our convictions.

Glossary

3. Hybrid vehicle: By incorporating both engines and electric motors, this new type of vehicle features improved fuel efficiency and reduced emissions of CO₂ and other gases.

4. NG vehicle: Powered by natural gas, these vehicles are easier on the environment than vehicles fueled by either propane gas or petroleum-based fuels, as they emit no ion oxides and feature reduced emissions of nitrous oxides and CO₂.

5. 24-hour operation: Round-the-clock operation, which is now standard in the convenience store industry, is a topic of important debate. Some people laud this development as an important improvement in the national infrastructure, while others voice concerns about the increased burden this places on the environment.

6. LAWSON Mount Fuji Forestation Project: Fiscal 2005 marks the sixth time that LAWSON has contributed to the reforestation of the region around Mount Fuji—a Japanese icon—that was destroyed by typhoons.



CSR meetings provide a forum for employees to consider convenience stores' impact on society



CS sessions are designed to encourage two-way communications



LAWSON Mount Fuji Forestation Project in operation for the sixth time in fiscal 2005

LAWSON's Organization

One way LAWSON seeks to contribute to business partners and citizens of the regions in which it operates is by maintaining a strong and transparent management structure. A robust corporate governance system is an essential part of this structure.

Corporate Governance and CSR

Board of Directors, Executive Officer System

At the Ordinary General Meeting of Shareholders in May 2005, a new Board of nine directors was appointed, comprising three internal directors and six external directors—again constituting a majority of directors from outside LAWSON. We believe external participation on the Board presents us with a wider range of insights and knowledge on issues of corporate management, and reinforces the Board's ability to arrive at fair decisions.

Since fiscal 2002, we have maintained an executive officer system that separates the functions of management supervision and business execution. As of May 31, 2005, LAWSON had 23 executive directors.

Audit Function

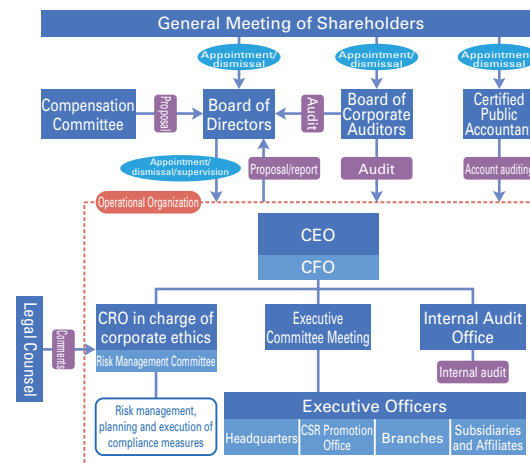
LAWSON maintains a corporate auditor system, and three of the four members of the Board of Corporate Auditors are from outside LAWSON. In principle, the Board of Corporate Auditors meets once a month. Corporate auditors verify management from the standpoint of legal status and the condition of internal controls and assess the execution of duties by directors.

LAWSON acknowledges the importance of CSR and respect for laws and regulations, and has established the Internal Audit Office as an internal auditing unit. Audits are performed continuously to ensure that operations are being executed properly, based on pre-

vailing laws and regulations, and that these business activities, including risk management measures, are appropriate.

CSR Promotion Office

In March 2005, LAWSON established the CSR Promotion Office, which reports directly to the president. Serving as a central repository of CSR information, this office comprises a cross-section of members from the Company's divisions, branches and headquarters and conducts meetings to deliberate important social matters. The CSR Promotion Office also sets CSR strategies for the company.



Corporate Ethics and Compliance

LAWSON believes in an ongoing respect for corporate ethics, laws and regulations, and therefore strives continually to enhance the soundness and transparency of its corporate management. We have designated a CRO in charge of corporate ethics, who oversees compliance activities. In addition, various individuals have been charged with the execution of compliance activities within their respective departments. To raise Companywide awareness of compliance and help people who are

in charge of departments to better understanding the legal issues pertaining to their work, we hold a Companywide training session once a year, augmented by small-group training sessions that encourage two-way discussions and focus on specific job areas.

In August 2004, we conducted an attitude survey of 4,300 LAWSON employees, as well as temporary and part-time workers. After revising the text based on awareness issues that became apparent through this survey, we updated the *LAWSON Code of Ethics* in December 2004. Furthermore, we revised our *Compliance Handbook* into a Q&A format, addressing legal questions by job function.

Newly revised *LAWSON Code of Ethics* and *Compliance Handbook* arranged by job function



Newly revised *LAWSON Code of Ethics* and *Compliance Handbook* arranged by job function

Protecting Personal Information

In line with the 2003 launch of LAWSON PASS credit cards for LAWSON customers, we established the Private Information Protection Committee to strengthen our system for managing private information on cardmembers and store customers.

On June 1, 2004, we commenced with the Information Security Office project. This project was designed to spend one year improving LAWSON's structure for managing and protecting private information. To one person in each department, we assigned the responsibility of protecting private information, and we designed study sessions to raise the awareness level of all employees. We also use self-checks and perform internal audits to confirm the effectiveness of our information management system. Throughout the Company, special cabinets have been designated as secure repositories for private information.

In line with the promulgation of the Private Information Protection Law in Japan, LAWSON created a Private Information Protection Policy, announced in March 2005. Based on this policy, we will endeavor to continue strengthening our private information protection measures.

LAWSON's Private Information Protection Policy

1. Acquire, use, provide and store private information in an appropriate manner
2. Employ private information safety measures
3. Conform with all laws and regulations
4. Create practical plans for ongoing improvements in the protection of private information
5. Establish a private information consultation room

Risk Management

To prepare ourselves to respond swiftly to emergencies while maintaining our corporate ethics, we have designated three major risk categories—products and hygiene management, information security, and disaster and theft—and established a risk management structure. The Risk Management Committee, which meets monthly, seeks to minimize risks. This committee oversees an organization that defines potential risks, sets clear priorities and preventive measures and strengthens ongoing risk management activities. We have also established an emergency risk response council, which responds to emergency situations by limiting the spread of risk and seeking to minimize damage. In the event that an incident does arise, we follow up this council's activities by tasking a risk audit and prevention committee with analyzing the factors behind the occurrence, preventing its recurrence and restoring any credibility that the Company has lost as a result of the incident. In this manner, LAWSON endeavors to raise its crisis management aptitude on an ongoing basis.

As is described in more detail on page 25 of this report, we have established a Disaster Response Office



Robbery simulation exercise

to provide community reconstruction support in the event of a major natural disaster. To prevent crime, all LAWSON stores are equipped with pigment-filled anticrime color balls, headquarters personnel are regularly dispatched to make late-night store rounds, and we participate with local police departments in robbery simulation exercises. We also maintain a document entitled *The Five Principles of Crime Prevention*, which is updated regularly.



Customer Input

We consider customer input an asset, because it allows us to understand the needs of customers in specific areas, then provide products and services to meet these needs. Accordingly, we energetically seek out customer opinions and foster a company culture that values customer satisfaction above all else.

LAWSON's Views on Customer Satisfaction

To ensure that customers can always enjoy visiting LAWSON stores, we follow three challenge practices: ensuring merchandise assortments are tailored to individual stores, promoting cleanliness and ensuring courteous service for our customers. As we always seek to provide great products that satisfy our customers, our product lineups focus on items that are safe, secure, healthy and tasty. Finally, our stores are located in areas that maximize their convenience to customers.

LAWSON's core views on customer satisfaction can thus be summed up by our three challenge practices, plus great product offerings and convenient locations. We continuously aim to make customers happy that there is a LAWSON store near them and to justify our reputation as "The 'Hot' Station in the Neighborhood."

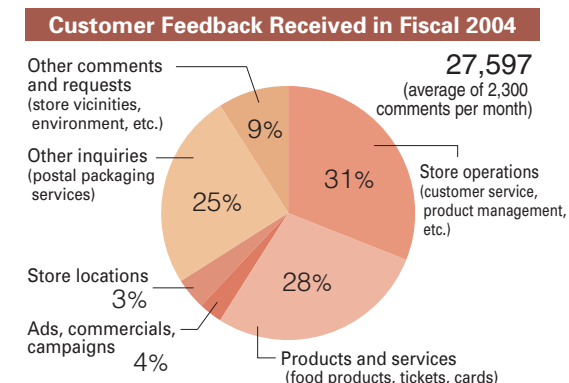
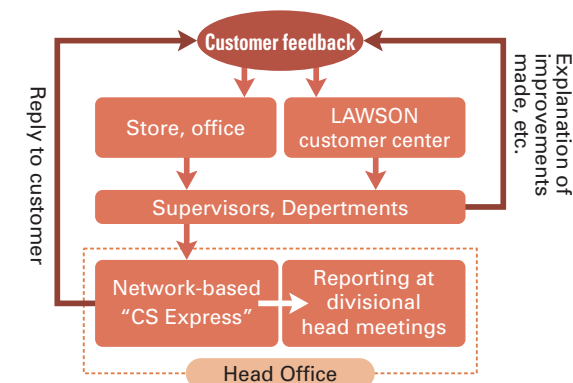
Individual store orientation: Rather than insisting on uniform store management and product offerings, tailor each store to the specific demands of local customers.

Customer Feedback Structure

To raise customer satisfaction, we established the LAWSON Customer Center to respond to customer comments 365 days a year. Personnel at this center listen to customer opinions and requests, which frequently result in changes to the way LAWSON creates stores, develops products and provides services.

Customer feedback is directed to the appropriate department, where the person receiving the call is responsible for responding to the customer promptly and sincerely. Customer feedback is uploaded onto the Company intranet, so that all employees can see how issues were handled and make any

necessary improvements. Positioning our customer center as a new mechanism for eliciting customer feedback has resulted in a steady increase in these communications, rising from 18,328 in fiscal 2002 to 20,948 in 2003 and 27,597 in 2005. In fiscal 2004, for example, we received 175 customer comments thanking us for our recent decision to create separate toilets for men and women in new stores. We collected these comments and published them as a booklet that we pass out inside the company to provide helpful hints on responding to customer feedback.



Column

From the Customer Center: Maintaining Empathy and Communicating Our Sense of Caring

The Customer Center naturally listens to feedback from customers, but at the same time it is sometimes in the position of an objective third-party observer of LAWSON's activities. We asked Customer Center Manager Mika Suzuki and Supervisor Tomoko Muraki to describe some of the customer comments and requests they encounter.

Some of our more frequent customer questions involve products, such as "When will you begin offering new product X?" or "I read about so-and-so campaign in a magazine. Can you give me the details?" Also, as the number of stores continues to increase the number of inquiries involving regional campaigns keeps growing. We also hear such complaints as "Employee A at store B has a very bad attitude toward customers!" or "The floor of store C is filthy!" We pass comments that relate to specific stores on to the supervisor in charge of that particular store. The supervisor makes sure that the situation improves, and specific departments play their own roles in responding candidly to customers. I look forward to helping the Company maintain its straightforward and honest approach.

It makes us happy to see how customers' opinions result in product improvements and how that raises LAWSON's popularity. Here at the center, we plan to keep focusing on maintaining empathy with customers, communicating our sense of caring and responding to their feedback quickly and appropriately.



Customer Center Manager Mika Suzuki (right) and Supervisor Tomoko Muraki (left)

Franchise Owner Support Systems

Cooperation with franchise owners—the people who actually operate LAWSON stores—is essential to customer satisfaction. LAWSON has created a variety of support systems to help franchise owners manage their stores, and ongoing interaction with owners helps us improve LAWSON products and services.

Communicating our Corporate Philosophy and Other Information

The owners of stores in the LAWSON franchise system* are independent businesspeople who are responsible for their stores' sales, purchasing, cost and crew management, and other aspects of store operation. At the same time, headquarters provides a variety of backup support to keep owners dedicated to store operations. For example, we educate owners about LAWSON's corporate philosophy, corporate ethics, management policies, product trends and share a host of other information to help them operate their stores in a way that will satisfy local customers.

LAWSON seminars, held twice a year at eight locations throughout Japan, provide franchise management expertise, describe semi-annual product strategies and

announce headquarters policies, helping owners understand LAWSON's corporate philosophy.

We also provide ongoing support through such regular events as branch seminars and franchise owner training sessions. This support ultimately helps raise customer satisfaction.

* Franchise system: A central headquarters provides sales expertise, trademarks and other benefits to participating stores, or franchises. Franchise stores pay a certain price for this information, which they use in their business. Headquarters and franchise stores are separate entities that operate under a contractual relationship.



Management policies explained at a LAWSON seminar

Owner and Crew Training Systems

LAWSON's owner training system begins before a store opens and continues even after the store is operational. This support helps owners operate their



stores smoothly and contributes to customer satisfaction.

Owners typically undergo a

three-week course that includes hands-on training between the times they sign a franchise contract and open a new store. In October 2004, we opened training centers at each of our regional headquarters in Hokkaido, Tohoku, Chubu, Kanto, Kinki, Chugoku/Shikoku and Kyushu. By making training more accessible, we expect to help franchise owners and crew leaders develop their skills even further.

Franchise Owner Welfare Association

LAWSON and its franchise owners are partners in the sense that they develop business together and share in business revenues. To promote this symbiotic relationship and ensure that owners work enthusiastically, we have created the Franchise Owner Welfare Association, which helps promote the health and security of franchise owners and their families as well as employees and store crews.

New franchise owners apply to join this association when they sign their franchise contracts. The menu of benefits includes recreational center and sports club memberships, educational courses, health management programs and various forms of financial assistance.

Communication Tools

Direct Communications with CEO



This system allows franchise owners, store managers and crews to address comments and ideas directly

to LAWSON's CEO. Receiving this feedback directly from the people who are working at the front lines helps LAWSON improve store management and upgrade products and services.

In fiscal 2004, this system produced 1,152 proposals, and LAWSON's CEO responded directly to each one. Once sample proposal suggested that LAWSON begin stocking cakes not only at Christmas, but also for children's birthday parties. As a result, LAWSON began offering birthday cakes, and the customer response was enthusiastic.

Direct Communications with the CEO in Fiscal 2004

Products, distribution	370
Services	175
Sales promotion	75
Systems	65
Facilities, furnishings	94
Franchise contracts	78
Store guidance	229
Others	66

LAWSON publishes *Pal*, a monthly magazine containing management information, and *Store Creation Ideas*, which covers management policies.



Publications for franchise owners include management information magazine *Pal* and *Store Creation Ideas*

Communicating with Supervisors

Supervisors are the bridge between franchise owners and headquarters, playing a vital store management support role. They provide owners with sales-related advice, based on information on new products, product trends and changes in the external environment, sales and customer data analyses, and results of market surveys conducted in the store vicinity. At the same time, advisors gather information from store owners about customers and local conditions. Supervisors relay this information to headquarters, which is useful in developing new product and service offerings. Supervisors generally visit stores twice a week to offer advice on the sales floor, including suggestions for product lineups given current weather forecasts.

Mystery Shoppers

In fiscal 2004, LAWSON launched a mystery shopper system. Through this program, a mystery shopper—someone who is unknown to the crew of the store being checked—visits a store to objectively evaluate quality, service and cleanliness from a customer perspective. Mystery shoppers report impressions from their visits to supervisors, who feed this information back to store owners. This system provides an opportunity for owners and supervisors to

determine potential problems, set priorities and raise stores' service levels. Since establishing this system, we have seen steady improvements in customer service and cleanliness.

Personnel Training, Workplace Environment

Personnel training and an enthusiastic working environment are essential, as our people are the ones who ensure that customers are satisfied over the long term. LAWSON maintains an atmosphere of openness, in which employees are free to voice their opinions, and seeks to help personnel realize their full potential. Our training, workplace environment and internal communications are designed to help achieve these aims.

LAWSON University

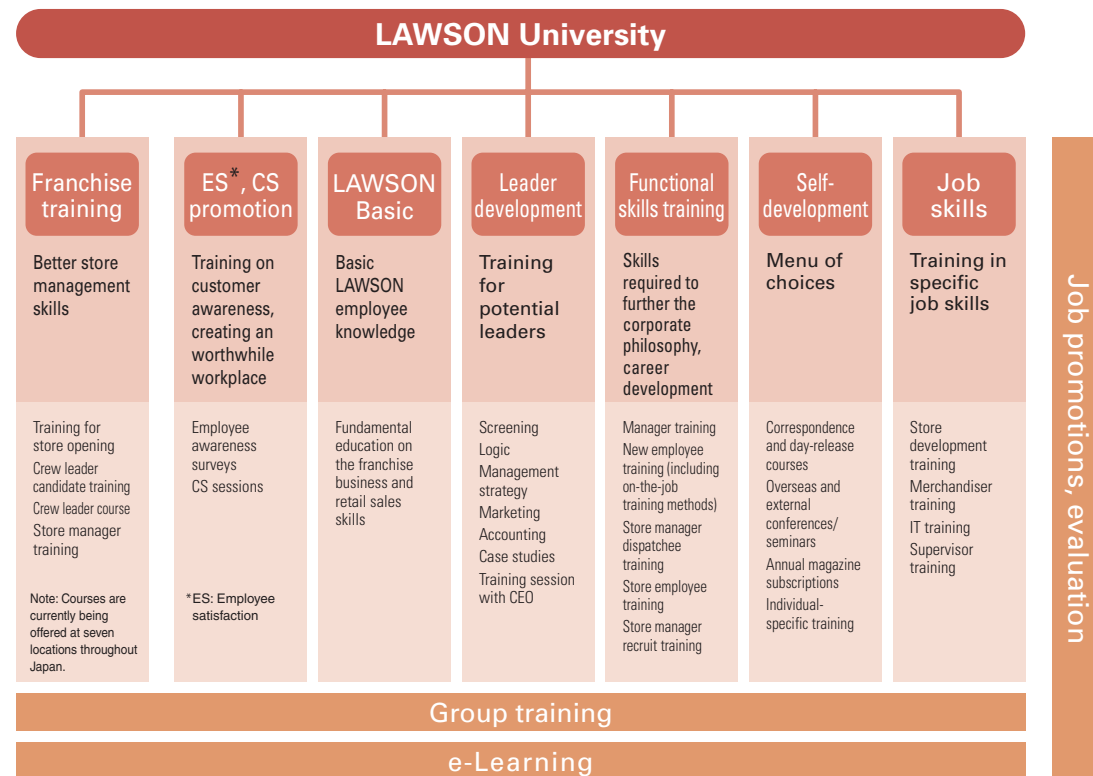
LAWSON is constantly on the lookout for new ways to improve customer satisfaction. As long-term personnel training is essential to this goal, we have established an extensive set of training programs, collectively “LAWSON University,” to foster personnel development in line with our corporate philosophy and strategies.

LAWSON University fosters a high level of customer awareness, as well as a spirit of freedom and openness. Courses include CS sessions, which are attended by all employees, and leader training, which aims to boost the leadership skills of administrative personnel. A typical course of study, from the time an employee joins LAWSON until they become supervisor, would include store employee

training, store manager recruit training and assistant supervisor recruit training. We have also tailored courses, such as administrative personnel recruit training, to meet specific job requirements.



Leader Training



Workplace Backup System

At LAWSON, promotions and salary increases are based solely on merit, and we allow no room for discrimination based on religion, personal faith, gender or place of birth. We encourage employees to rise to their full potential, which we encourage through our training and evaluation systems. We also provide several employee lifestyle support systems, such as a policy of allowing reduced working hours for employees requesting leave for childcare, health care or nursing leave.

Our childbirth leave enables parents to take a leave of absence until a child reaches three years of age, and we allow extended nursing and healthcare leave periods of up to one year. Shorter term childcare leave is available for parents to take care of older children who have not yet entered elementary school. Under this system, parents can request part-time nursing leave for up to a year, during which time they work only three hours per day. All of these systems are available for employees who have worked at LAWSON for at least one full year.

We regularly conduct employee satisfaction surveys. Our most recent survey, in fiscal 2004, indicated that most employees felt they were working in a stimulating and rapidly changing environment. Many responded that they felt that their jobs were meaningful, and that they were happy to be in a structured organization without becoming passive. However, we discovered the need for more communication between employees and managers. We will continue to conduct such surveys, which provide an essential level of feedback on our personnel systems and workplace environment.

Employee Awareness Survey Results

- Purpose:
- To determine employee satisfaction, allowing changes in the corporate culture and increased employee satisfaction
 - To enhance management skills of employees in administrative positions
 - To serve as reference materials when evaluating various policies
- Surveyed: All employees, excluding directors
 Response rate: 92.6% (fiscal 2004 result)

Internal Communications

Within our Companywide intranet, we have created the LAWSON Suggestion Forum as a place for employees to exchange opinions and offer advice on ways to improve products and services. These comments and suggestions always receive a response from the manager who is most appropriate, according to the topic. We have also set up the Supervisor Hotline on our intranet, allowing supervisors to ask questions and receive responses from headquarters staff. This hotline has helped smooth store operations.

The LAWSON Suggestion Forum receives approximately 20 messages per month, and traffic on the Supervisor Hotline usually ranges between 70 and 80 messages. Message topics range from products, sales promotion materials, distribution and sales consumables to systems and disaster response.

In answer to one supervisor’s suggestion, we responded to regional differences in waste processing methods and standards by revising our system of “clean boxes,” or trash containers. Formerly,

these were divided into three types—burnable trash (containers, magazines and paper waste), nonburnable trash (bottles and cans) and dedicated boxes for PET bottles. Our “clean boxes” now comprise receptacles for plastic waste, paper waste, glass bottles and cans, and PET bottles. (Our “clean box” system is explained in more detail in the Waste Reduction section on page 39.)

From July 2005, we consolidated the LAWSON Suggestion Forum and the Supervisor Hotline into a single Employee Feedback forum. This unification should make communications more convenient and encourage further improvements in our corporate activities.



LAWSON “clean boxes”



Products

Safe, Secure and Healthy Products

As a company that handles food products, LAWSON recognizes that it has an important responsibility to provide products that are safe, secure and healthy. Our thorough quality control system assures that the products we deliver meet these criteria and our customers' needs.

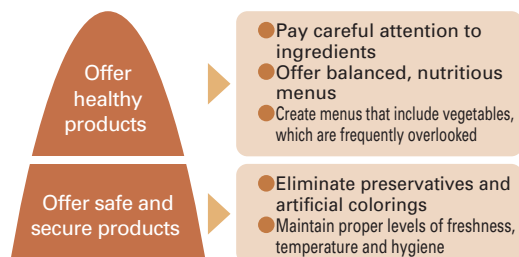
LAWSON's Concept of Safety, Security and Health

Ensuring Product Safety and Security

We want customers to be able to purchase our products without any concerns for product safety or health. For this reason, we maintain stringent quality control over all aspects of our business, ranging from research and development to production and sales. We also scrupulously observe all environmental and hygiene regulations.

Through the LAWSON Natural Project, launched in fiscal 2003 in the Kanto, Kinki and Tokai regions, we have eliminated the use of artificial colorings and preservatives from such products as boxed lunches, rice balls, sushi, prepared bread, side dishes, salads, prepared noodles and pasta. In fiscal 2004, we expanded the scale of this project to all of Japan. Furthermore,

Our Concept of Safety, Security and Health



LAWSON Natural Project Declaration

1. Original LAWSON items contain no preservatives.
2. Original LAWSON items contain no artificial colorings.
3. Original LAWSON items contain reduced levels of food additives.

we have imposed internal controls to minimize food additives.



Health Focus

LAWSON foods are prepared with careful attention to ingredients. Menus are balanced and nutritious, and we make every effort to include appropriate amounts of vegetables, which are commonly overlooked. We have also responded to increased customer awareness of health issues by developing the NATURAL LAWSON brand of stores, which concentrates specifically on products for people whose lifestyles focus on beauty and health. (Please refer to page 23 for more detail

on the three types of LAWSON stores, including NATURAL LAWSON.)

Product Labeling

Product labeling laws require such information as product name, sell-by date, and a list of ingredients and any allergens. LAWSON's product labels go well beyond these requirements to also include calorie values and nutritional information, so that increasingly health-conscious consumers can feel comfortable purchasing our products. For prepared fast food* products that do not bear labels, with only few exceptions we publish calorific values and allergen information on in-store point-of-purchase materials and on the LAWSON website.

In addition to stringent checks by our own quality control department, we double- and triple-check the accuracy of product label information at the production stage and by using specialized external agencies.

* Fast food:
Products such as our *Kara-age Kun* fried chicken, which is prepared in-store



Column

Business Partner Feedback System

Long-term, cooperative relationships with our business partners is one way we maintain the quality of the ingredients and products we deliver to clients. As our relationship with business partners is symbiotic, we endeavor to work with them as fairly and transparently as possible. We employ business partner managers to maintain these relationships, because we recognize that being unfair or offering unprofitable work to our business partners might cause them to accord our work a lower priority. Our business partner managers are fully versed in such areas as the types of transactions that might run afoul of Anti-Monopoly Law—an area covered in our Compliance Handbook—and we are working to raise this level of awareness with all employees.

We maintain our levels of trust by conducting regular surveys of our relationships with business

partners, asking them to complete questionnaires with such questions as whether they are receiving requests for excessive discounts or other unfair demands. To ensure impartiality, we ask a third-party company to conduct such surveys. In one recent example, in January 2005 we surveyed 660 business partners of our product distribution and store construction divisions.

The survey uncovered no major legal or ethical issues, but we were asked to improve our product induction ratios and our sponsorship activities. Such feedback helps our product and distribution divisions make needed improvements, and enables us to raise Companywide awareness of current issues and how they are being handled.

Developing Products (Original Products, including Rice and Side Dishes)

Ingredient Selection

A special team within our product development department selects ingredients using strict standards to ensure products are safe, secure and healthy. Spot checks are conducted to make sure that ingredients meet required standards.

Product Development

To guarantee the safety of all original LAWSON products, our R&D process requires items to pass through specific tests at each stage from ingredients to finished products. Testing documents are checked when deciding whether to begin marketing a product, then actual production lines are inspected for safety.

Quality Control at Production Facilities

Maintaining correct temperatures is a vital part of controlling product quality. Our production facilities keep close tabs on how long our products are heated and at what temperatures, and how long products are frozen. Quality and temperature checks are performed throughout the production process.

We maintain hygiene by ensuring that all parts of plants are clean, and we eliminate germs and other contaminants by disinfecting all production equipment, as well as workers' hands and shoes.

Quality Control at Distribution Centers

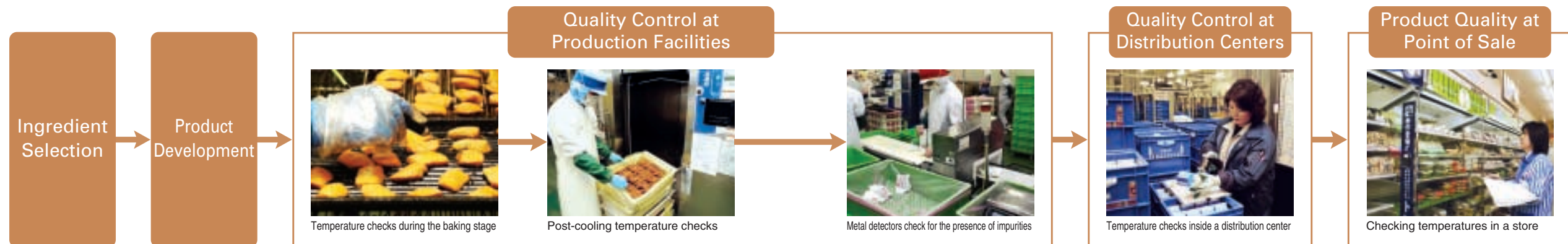
At distribution centers, we control product temperature from receipt through to dispatch, so we can be certain that fresh products are delivered quickly, efficiently and according to established procedures. As well as distribution centers, delivery trucks maintain quality by storing products at constant temperatures.

Product Quality at Point of Sale

Stores keep products fresh by checking showcase temperatures four times a day. Third-party inspectors also visit to make spot hygiene checks, typically visiting each store in Japan at least once a year.

Certain products, such as rice balls, boxed lunches and side dishes, have sell-by dates. These dates are checked three times a day to prevent outdated products

from being sold to customers. Products that have remained in a manufacturing facility or adverse environment for longer than usual receive additional quality checks and other tests—typically twice a month (but once a month in some cases) in the period between the time a product is offered for sale and when it is actually sold.



Quality Control Efforts

LAWSON employs the hazard analysis and critical control point (HACCP) method, which analyzes prospective hazards at each step of a product's manufacturing process and creates control procedures to take due account of risk. As all processes are recorded, HACCP clearly shows when each product was manufactured and by whom, allowing any problems to be traced back to their cause.

Our products are currently manufactured at 70 locations throughout Japan. When a product category comes on line at an existing plant or when a new plant is built, our quality control personnel are dispatched to confirm that quality levels are maintained and to check that the new line meets hygiene requirements.

Traceability

We maintain detailed records on all original LAWSON products, indicating the source of ingredients, as well as when and at what temperature they were prepared. Similar information is recorded throughout the production, processing and distribution stages to maintain full traceability.*

* Traceability: The process of maintaining careful records of a product and its ingredients throughout all stages, including production, processing and distribution

Maintaining Uniformity

Because we want each product of the same type to be the same size, be prepared the same way, be placed in its container in the same manner and be generally uniform wherever in Japan it is manufactured, we began trial implementation of uniformity standards in fiscal 2003. These standards include such guidelines as the amount of water used to cook a certain volume of rice, and the number of minutes for cooking. Based on our trial implementation results, we will roll out these standards into other product categories.



Society

Social Infrastructure

Through its nationwide chain of stores, LAWSON fulfills its role as “The ‘Hot’ Station in the Neighborhood” by activities that increase the peace of mind of people in local areas.

Home to a Host of Services

Expanded Postal Services

In an unprecedented move in Japan’s convenience store industry, in January 2003 LAWSON formed an alliance with Japan Post, offering post boxes and using Loppi terminals to handle the post office’s regional product delivery services. We expanded this tie-up in November 2004 by introducing *Yu-Pack* postal packaging services nationwide. Such services have proven extremely popular with shoppers who do not live near a post office or who find it difficult to visit the postal office during standard business hours. We are considering other services that we can offer to expand this relationship even further.



Extended Public Services

LAWSON stores accept payment for electricity, water, gas and other utilities, as well as for telephone services, catalog sales and other purchases. Since February 2004, stores have also been accepting National Pension System payments and, in some cases, National Health Insurance, residents’ tax, automobile tax and other payments on behalf of municipalities. In the city of Ichikawa, Chiba Prefecture, and in Tokyo’s Kita Ward, residents can receive a copy of their certificate of residency at LAWSON stores, after having phoned a municipal office to ask for a copy to be delivered to a particular store. In some areas of Gifu Prefecture, LAWSON stores accept book returns on behalf of the prefectural library system.



Loppi Multimedia Terminals

LAWSON stores are equipped with Loppi multimedia terminals. Among their many functions are sales of concert tickets, travel reservations, DVD reservations and applications for certification tests. In August 2004, we added the *Peekaboo* share transaction service.

Automated Teller Machines

LAWSON stores have ATMs that allow withdrawals using cash cards issued by all city banks, regional banks

and *shinkin* banks, as well as cashing functions offered by credit companies. As of February 2005, LAWSON maintained tie-ups with 18 financial institutions and had 3,570 ATMs in place. We plan to expand this number.

Launch of Quasi-Drug Sales

Following the July 2004 liberalization of drug sales laws, on September 14 LAWSON stores began expanding the number of quasi-drugs they offer. These include gargles, throat lozenges and other products to fight cold symptoms, as well as applications for stomach pains, intestinal remedies and contact lens care items.

Easy-to-Use Facilities

Barrier-Free Stores

LAWSON is making more of its stores barrier-free to better accommodate seniors, pregnant women and other people with special needs. This conversion involves such things as making toilet doors larger, expanding aisle widths, lowering counters, installing Braille blocks, using ramps at entries instead of steps and installing automatic entry doors.

Working Dogs Welcome

Guide dogs and other dogs assisting individuals with disabilities are free to enter LAWSON stores.



Making Regional Societies Safer

Participation in the Safety Station Movement

In recent years, the convenience store industry has been accused of contributing to crime and being a detriment to the health and education of youth. LAWSON has responded by becoming a voluntary member of the Japan Franchise Association’s Safety Station movement, formed under the aegis of various municipalities and law enforcement agencies. This movement helps increase regional safety and convenience by serving as a place of shelter for women and children, providing care for senior citizens and people with disabilities, and providing emergency communication in the event of disaster or robbery. As of October 2005, all LAWSON stores throughout Japan will be participants in this program.

Road Safety Station

At the request of the Ministry of Land, Infrastructure and Transport, LAWSON stores along major national

highways in Japan’s Chugoku and Kanto regions began serving as local information branches of national highway organizations, serving as “road safety stations” to transmit information in the event of road disasters. We also help clean away debris and plants from walkway areas near stores, making these areas safer and more pleasant.

Participating stores

- Tohoku region 139 stores
- Kanto region 22 stores
- Chubu region 56 stores
- Chugoku region 87 stores
- Shikoku region 130 stores



Safety Station advertising poster

LAWSON's Three Store Formats

Changes in the social structure, including a declining birth rate, higher average age of the population and more women entering the work force, continue to have an impact on customer lifestyles and needs. To match these emerging needs, we have introduced new store formats, adding NATURAL LAWSON and STORE 100 to our regular LAWSON store format. We are flexible location-wise, matching store formats to local needs. We will continue to extend the LAWSON brand, based on the experience we gain with these new formats.



NATURAL LAWSON

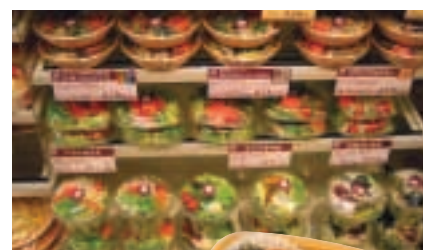
Highlighting fresh salads, freshly baked bread, food supplements and the like, NATURAL LAWSON offers a wide variety of products with a health and value-added orientation. Food products are carefully labeled with calorie, allergen and other health information, and concentrate specifically on supporting the beauty and health lifestyle orientations of its primarily female customers. Characteristic NATURAL LAWSON products include all-natural cleaning products, chopsticks made from Japanese cedar scraps and sandwich packaging that is printed with environmentally friendly water-based inks.



100% natural cleaning products



Fresh bread, through bakery tie-up



Wooden chopsticks made from Japanese cedar lumber scraps



Whole-grain rice balls, nutritionally balanced boxed lunches featuring 20 items, especially easy-to-forget vegetables

Price Focus: STORE 100

A naming play on the concept of “100% customer satisfaction,” STORE 100 uses simple pricing, with many items marked ¥100 or ¥200, a focus on fresh produce and a larger variety of products than standard convenience stores. These stores are open a full 16 hours per day, from 7:00 a.m. to 11:00 p.m., and they resemble a combined convenience store and supermarket. These characteristics help the stores appeal to a broader customer base, including

housewives and senior citizens who do not usually frequent convenience stores.



Multifunction Focus: Regular LAWSON

Located in everyday neighborhoods and offering most of the products and services that we use in our daily lives, the regular LAWSON store is open around the clock. To improve their fit with local communities, we are striving to increase the individuality of these stores with optimal product and service offerings. Regular LAWSON stores are

now located in such diverse places as hospitals, universities and subway stations. One store is located inside a post office and operated as a venture with Japan Post, while others offer dine-in facilities.

New Stores



Store featuring products from the JA agricultural cooperative



In a hospital: LAWSON Kanto Chuo Hospital Store



In a post office: Postal LAWSON Yoyogi Store



In a University: Tokyo University Yasuda Kodo Store

Disaster Response

LAWSON stores can become major support life-lines in the event of natural disaster, by continuing to operate as usual and supplying emergency provisions. LAWSON has concluded agreements with municipal and other organizations, offering to provide support during natural disasters.

On January 15, 2005, we became the first company in the convenience store industry to sign an agreement with the Tokyo Fire Department. In this agreement, we pledged to supply emergency provisions to people in areas affected by major fires, as well as to emergency dispatch crew at local Tokyo Fire Department stations. We also agreed to use the LAWSON distribution network to help transport emergency provisions along existing and special emergency routes.

On February 14, 2005, we signed an agreement with the government of Ehime Prefecture pledging LAWSON stores to supply provisions in the event of a disaster. Three days later, on February 17, we

concluded an agreement with the Kansai Council to provide assistance to people stranded and forced to return to their homes on foot in the event that a disaster rendered other modes of transport inoperable. Altogether, we have concluded agreements with Aichi Prefecture and eight other prefectural and municipal regions.

We have set clear codes of behavior for LAWSON employees to follow if a disaster occurs. We conduct periodic disaster drills and review our emergency response structures and manuals to confirm our level of preparedness. Through such activities, we intend to keep our stores operational in areas beset by disaster, and help stricken areas recover as quickly as possible.



Sticker announcing a disaster return station



Fire drill

Disaster Relief Funds



collection boxes alongside its Lawson Green Fund boxes for defined periods. These funds are used to aid the people affected by disasters. In fiscal 2004, LAW-

SON helps provide for areas stricken by large-scale national disasters by placing special disaster fund

SON collected disaster relief funds on seven occasions, then passed them on to such organizations as the Japan Red Cross Association.



Receiving a commendation award for the Niigata Prefecture Flooding Disaster Relief Fund from the Niigata Prefecture Disaster Response Office

Disaster relief funds collected in fiscal 2004

Fund	Collection Area	Period	Amount Collected
Sumatra Earthquake Relief Fund	Nationwide (8,006 stores)	December 28, 2004–January 25, 2005	¥87,618,216
Niigata Chuetsu Earthquake Relief Fund	Nationwide (7,911 stores)	October 25–November 25, 2004	¥94,108,242
Typhoon Number 23 Disaster Relief Fund	Nationwide, except Ehime Prefecture (7,778 stores)	October 25–November 10, 2004	¥32,783,559
Ehime Prefecture Typhoon Number 21 Disaster Relief Fund	Ehime Prefecture (1133 stores)	October 21–November 10, 2004	¥674,907
Tokushima Prefecture Typhoon No. 10 Disaster Relief Fund	Chugoku/Shikoku region (815 stores)	August 9–31, 2004	¥2,810,412
Niigata Prefecture Flooding Disaster Relief Fund	Nationwide (7,814 stores)	July 20–August 20, 2004	¥29,571,019
Fukui Prefecture Flooding Disaster Relief Fund	Nationwide (5,685 stores outside the Kanto region)	July 20–August 20, 2004	¥14,280,654

Social Contribution Activities

As a participating member of regional communities, LAWSON endeavors to contribute alongside other community members. We participate actively in various regional social contribution activities, hand in hand with our customers.

Clean Aid

The Clean Aid movement is founded on the concept of residents working with municipal, corporate and other entities to keep their communities, river banks and seashores clean. As a community member, LAWSON helps in these cleanup efforts by picking up trash and evaluating results. LAWSON

employees, franchise owners, store managers, crews and their families all assist in these efforts.



Among the employees of our Kyushu branch and their families, 72 people participated in Fukuoka Love Earth Cleanup 2004 (left).

Employees of our Setagaya district office and their families clean up trash along the Tama River, through Tamagawa Clean Aid 2004 (below).



Participation in Clean Aid Events in Fiscal 2004

Clean Aid Project	Date	Location	Participants	LAWSON participants	Type of trash
Eleventh Fukuoka Love Earth Cleanup 2004	June 13, 2004	Ohori Park, Chuo-ku, Fukuoka	1,410	72	Total of 206 bags of trash, comprising 157 bags of burnable trash, 16 bags of plastic, 19 bags of cans and bottles, 14 bags of nonburnable trash; as well as larger objects
Tama River Clean Aid 2004	June 20, 2004	Futagobashi region, Setagaya-ku, Tokyo	—	25	Total of 16 bags of trash, comprising 13 bags of nonburnable trash and three bags of cans and bottles
Seventh Yodo River Clean Aid 2004	June 27, 2004	Yodo River bed, Osaka	—	112	Total of 59 bags of trash, including 25 bags of nonburnable trash, and one pallet
88 Clean Walk Shikoku, a group road cleanup effort	August 8, 2004	Four areas in Shikoku	Approximately 1,000	224 people from 98 stores	No figures available
Seventh Kyoto World City Beautification Campaign	November 7, 2004	Kamo River Trail, Kyoto	Approximately 3,500	48	No figures available

Participating in Volunteer Community Activities

LAWSON also takes part in volunteer activities run by local community groups. For example, 177 stores* participate in the Adopt a Road Program that was established by the Osaka prefectural government at the end of February 2003. This initiative helps keep the roads and walkways in front of our stores

litter-free and attractive. In addition, 125 stores* take part in the Bi-ing Kobe Citizen Movement that the Kobe municipal government set up in August 2003 to keep roads and walkways in Kobe clean.

* Number of participating stores as of April 2005

Fund to Support the Japan Team at the Athens Paralympic Games



Notification poster

The Paralympic Games, designed to help people with special challenges make the most of their abilities, are highly regarded for the sense of accomplishment and emotional strength they impart to all audiences. LAWSON sponsors these activities, as we believe in contributing to people

through sports. Between July 1 and 25, 2004, LAWSON stores collected a total of ¥12,548,397 in funds to support the Japan team at the 2004 Athens Paralympic Games. We provided these funds to the relevant funding support office, which used them to defray the team's costs as they prepared and took part in the games.

Organ Donor Cards

Since January 1999, LAWSON stores have been distributing organ donor cards and pamphlets based on an agreement with the Japan Organ Transplant Network. By the end of February 2005, LAWSON stores had

passed out a total of 6,511,270 cards to customers.



Supporting Cultural and Educational Activities

First High School Yamato River Rafting and Cleanup Convention

This conference participates in the rafting and river cleanup activities of high school students in Osaka Prefecture, helping to raise high school students' awareness of river areas. As a conference sponsor, LAWSON supplies awards for winning and participating teams.



2004 Children's Art Exhibition on Local Rice Paddies and Water

We sponsored this 2004 exhibition to help support nationwide education on environmental preservation. Through this contest, we sought to help the nation's children understand the beauty and value of agricultural communities and fields by depicting rice paddies, terraced fields, pond irrigation and agricultural work.



Winner of the LAWSON Award

Environmental and Social Contributions through LAWSON PASS

LAWSON makes it easy for customers to participate in social contribution activities through its LAWSON PASS card. LAWSON PASS card members can use their cards to make purchases at any LAWSON store, and each purchase generates points. These points can be used in many ways, one of which is to participate in social contribution activities. Points are accumulated in 50-unit increments, and corresponding monetary amounts can be donated to any of four organizations.

The Environmental Contribution Course option was established when LAWSON PASS cards were first issued in fiscal 2002. In fiscal 2004, its third year of operation, this option generated ¥2,136,450.

In August, we arranged a tour of training facilities operated by the Japan Guide Dog Association, one of the charities this program supports.



Charities Supported

In fiscal 2004, we donated a total of ¥2,136,450 to these charities.

Education Sponsorship in Asia



School opened in Bangladesh in 2004

This NPO supports education for poor children in India, Bangladesh and Nepal, encourages autonomy for women and provides an educational environment.

Japan Guide Dog Association



August 2004 training center tour

This association trains guide dogs, helping people with visual challenges participate more actively in society.

Caring for Young Refugees



© Masanori Kobayashi

This NPO supports the operation of care centers for children displaced from Cambodian villages and cities. Creating stable environments for children aids the entire community.

Bridge Asia Japan



Classroom equipped with sewing machines purchased through donations

This NPO provides support for refugees from Vietnam, Myanmar and Sri Lanka, as well as disabled children and youth, and has established a vocational training facility

for women whose job prospects are limited. Individuals are given the opportunity to gain skills that can be used to earn a living.



Picture book (right) created with donated funds, and a note of thanks (left) from the children

“Every Store Can Help” Campaign, “Hot” Station Maps

LAWSON is constantly thinking of new ways to contribute to the communities it serves. Through our “Every Store Can Help” Campaign, individual stores define their own ways of contributing to the communities they serve and know best. Many stores have created “Hot Station Maps” that feature local information.

“Every Store Can Help” Campaign

■ Communicating with Kindergartners

Atsushi Suzuki, Manager of Hiroo Minami Store (Tokyo)

At Christmas time, this store has students from a local kindergarten draw pictures, which it displays in the store. When pupils come to see their pictures



on display, they can have their photo taken alongside their picture and receive the photo as a present. On *Setsubun no Hi*, crew members act as “evil” beings that kindergartners drive away by throwing beans.



■ Hands-on Training for Elementary School Students

Tadayoshi Nakayama, Manager of Kodaira Gakuen Nishimachi Store (Tokyo)



Each year, this store hosts a day in which students of Kodaira Elementary School Number 4, a public school in the town of Kodaira, can get hands-on working experience. This year, two fourth-grade students were introduced to such store processes as stocking shelves, ordering and staffing the registers. When the students' families, teacher and school principal visited to check on their progress, the students served them at the register. This sort of experience helps children understand some of the workings of the societies around them.



■ Vocational System Speeds Integration into Society

Takefumi Tanaka, Owner of Himeji Otsu Store (Hyogo)

In May 2004, this store became a member of the vocational system that provides an opportunity for people with disabilities to gain working experience, thereby speeding their



return to society. For three hours a day, five days a week, trainees help with such activities as processing trash and cleaning the store, activities which help smooth their participation in society. There is a major



need for such vocational facilities, and this store may encourage others to participate.

■ Seminars on Working in a Convenience Store

Koichi Tsuchihashi, Owner of Toeicho Store (Aichi)



This store participates in workplace seminars for first-year students of the Sakurai Middle School, where students learn about a day's work as a convenience store operator. To keep students from nodding off, Mr. Tsuchihashi mixes his discussion with examples of store uniforms being made from recycled PET bottles. This store also hosts second-year students on “career day” from nearby Higashiyama Middle School. Sometimes participating students are offered jobs as crew members once they graduate from school.



■ Security Drills Lead to Crime Prevention

Reiji Ikehara, Owner of Goido Ekimae Store (Nara)

Mr. Ikehara explains, “In addition to owning the Goido Ekimae Store, I head the Supermarket and Convenience Store Cooperative Council on Crime Prevention, within the Takada Police Department.



Another LAWSON store in our area, the Yamato Takada Imazato Store, which is owned by Masao Bessho, hosted security drills and first-aid training courses. These efforts helped hold down crime, which was on the increase in our



area. I also hope we can increase our level of first-aid training in the future.”

■ Community Enjoys Group Christmas Party Nara District Office

The Nara district office participates in greening and other regional volunteer activities. LAWSON members recently participated in a 2004 Christmas party at the Donguri House brought together disabled and healthy children in an enjoyable atmosphere. Separately, the office hosts crew study sessions with lecturers from the Nara Prefecture Hand-in-Hand Education Council, a group of guardians of mentally challenged students.



“Hot” Station Maps

■ Fun, Impactful Maps

Yoichi Yokoyama, owner of Yawatahama Gotanda Store (Ehime)

“We are located at the junction of three streets, and people often come by to ask directions. To help, our crew drew a fun and impactful map that includes such local attractions as Oji no Mori Park and the nearby Tsutaya store.”



■ Easy-to-Follow Map with Tourist Areas and LAWSON Stores

Masako Kawamura, Manager of Towada Inayoshi Store (Aomori)

“We are trying to make our store a little different, to make people want to come by again. Our shop is on the road to the city of Hachinohe and Lake Towada, so our map includes Lake Towada and Mount Hakkoda tourist destinations, plus nearby LAWSON stores. Next time we draw the map, we'll include the time to each tourist destination.”





Environment

A Preference for Green

The LAWSON Green Fund and the activities it supports are entering their 14th year. We are pleased to participate in projects that will ensure that future generations can enjoy Japan's forests, and thank all our supporters for their contributions.

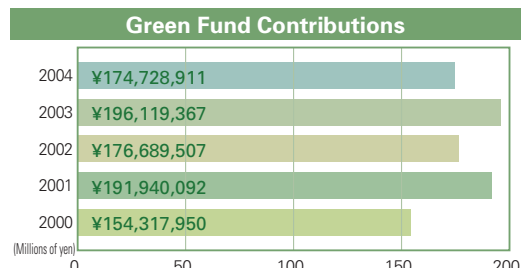
LAWSON Green Fund

Forests are crucial to the natural environment because of their role in absorbing and storing carbon dioxide, thereby slowing global warming. Trees are also an environmental asset for a number of other reasons, such as their role in preventing landslides. Rather than relying solely on the forestry industry, we believe that private-sector forestation activities are essential to preserving our forests. For this reason, LAWSON established the Green Fund in 1992. Donations through this fund, as well as efforts from LAWSON owners, crews and employees, support forestation

activities. In fiscal 2004, Green Fund donations totaled ¥174,728,911, bringing total donations since the start of this program to ¥1.8 billion. This amount is enough to protect forests over approximately 2,511 hectares of land.



Forestation Activities Supported by the Green Fund



Activities Supported by the Green Fund in Fiscal 2004

Fiscal 2004 Green Fund Activities



Yamada, Toyama Prefecture
Spring planting of trees, June 13, 2004



Higashi Shirakawa, Gifu Prefecture
Extensive forestation activities to create an attractive mountain, river and seaside environment, October 16, 2004



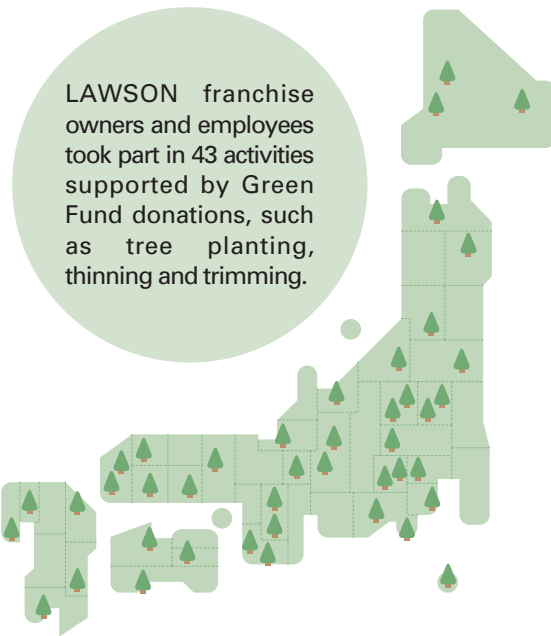
Bihoro, Hokkaido Prefecture
Creating a forest along Uonashi River, May 16, 2004



Ishikari, Hokkaido Prefecture
City dwellers participate in natural reforestation project, September 12, 2004



Kamogawa, Okayama Prefecture
Eco Camp 2004 planting party, August 7 and 8, 2004



LAWSON franchise owners and employees took part in 43 activities supported by Green Fund donations, such as tree planting, thinning and trimming.



Kamikatsu, Tokushima Prefecture
Enjoy the Forests and Mountains Weekend, prefectural Mount Takamaru Sennen no Mori activity program, September 4, 2004



Aomori, Aomori Prefecture
Project to preserve the natural greenery of this region, September 19, 2004



Oura, Kagoshima Prefecture
Pine forest shelter belt restoration and Oura land reclamation project, January 29, 2005



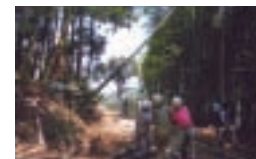
Yanagawa, Fukushima Prefecture
First Sekimoto Mount Odate Acorn Tree Planting Festival, April 18, 2004



Nakatsue, Oita Prefecture
Forest volunteer activity, March 28, 2004



Otaki, Saitama Prefecture
Yamabukisawa forest planting activity, May 22, 2004



Takashima, Shiga Prefecture
Forest and bamboo grove volunteer planting, April 17, 2004



Sangou, Nara Prefecture
Small Lily Road Project, November 13, 2004



Hachioji, Tokyo Prefecture
Fourth Mount Takao Forest Planting Festival, April 11, 2004

Mount Fuji Natural Forest Creation

This NPO is working to restore the national forest region around Mount Fuji by cultivating and planting seedlings that are native to the region. With a membership of 120, this organization is one of the groups that forms the Mount Fuji Green Fund Forestation Project, which oversees some of LAWSON's activities.

LAWSON Should Show Just What Role in Nature the Green Fund Plays

Nami Nito, Chairman of Mount Fuji Natural Forest Creation



It is wonderful that LAWSON not only contributes funds to forestation projects around Mount Fuji and other places, but also provides opportunities for store owners and employees to participate—even including these activities as part of new employee training. Spending a little time sweating in the outdoors is an important way to really begin understanding the importance of nature. I certainly hope that LAWSON will continue these activities.

These funds, which LAWSON pools together as the Green Fund, are donated by many people, and I believe it is important to communicate to these people exactly how their donations are contributing to the bounty of nature in a verifiable form. People at both ends of the communication process play important roles, and expanding these activities will require us all to exchange information even more than we do at present.

LAWSON Flower and Greenery Day

In 2001, symbolizing its participation in greening activities, LAWSON began holding a Flower and Greenery Day on the third Sunday of May. On this day, LAWSON holds a Flower Event and a Greening Program.



For the LAWSON Flower Event, LAWSON stores across Japan hand out free gifts of flower seeds to encourage customers to add color to their towns and communities. In fiscal 2004, LAWSON stores handed out sunflower seeds to 500,000 people, or approximately 60 people at each store.

The Greening Program involves tree planting activities in areas around Mount Fuji damaged by typhoons. As this planting project was completed in fiscal 2004, from fiscal 2005 we will conduct educational programs involving the trees that were planted.

Fiscal 2004 Recipient of Environment Minister's Award and Green Culture Prize

In November 2004, LAWSON received the Environment Minister's Award from Japan's Ministry of the Environment for its Green Fund and tree planting activities. In addition, in April 2005 we were awarded the Green Culture Prize—the first time a private-sector entity has ever received this honor.

These awards were presented thanks to the ongoing contributions that volunteers throughout Japan have made to greening activities, which reduce atmospheric levels of carbon dioxide and help stop global warming. In particular, LAWSON franchise owners, crews and employees have been vital to the success of these programs.



Environment Minister's Award ceremony

Stores Built from Lumber



Society is increasingly aware of the important role that forests play in absorbing and storing carbon dioxide, thereby helping to stop global warming. LAWSON is working to help ill-tended artificial forests recover to their natural splendor, increasing the amount of carbon dioxide they absorb. Cutting down and recycling some trees is a natural part of this progression. We have used such lumber to construct two stores in Wakayama Prefecture. As a joint project with a local company, the stores make abundant use of local lumber on walls and floors, as well as store exteriors.

Packaging

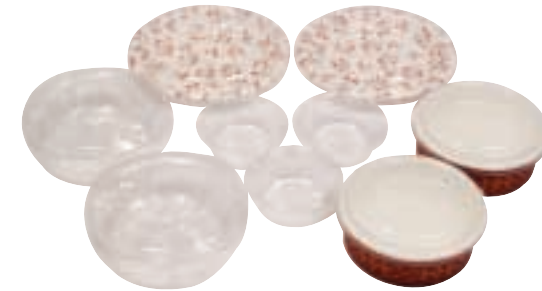
LAWSON has extended its consideration for safety, security and health to its packaging of boxed lunches and side dishes, and is working to reduce the burden it places on the environment. We plan to continue increasing the amount of environmentally conscious packaging that we use in the future.

Giving Careful Consideration to Packaging

LAWSON seeks to reduce levels of toxic emissions by paying close attention to its packaging and production processes. Accordingly, we are improving packaging materials and equipment.

Currently, we use such environmentally conscious materials as polypropylene and polyethylene to package boxed lunches and side dishes, and we are promoting the use of environmentally friendly film printing and water-based inks. We are also considering the use of plastics that are made from sources other than fossil fuels—such as corn. To decrease the volume of natural resources we use, we are also reducing the weight of containers and

Total packaging used	11,464,000 kg
Packaging made of environmentally conscious materials	6,149,000 kg
Ratio of packaging made of environmentally conscious materials	53.6%



Reduced-Weight Shopping Bags



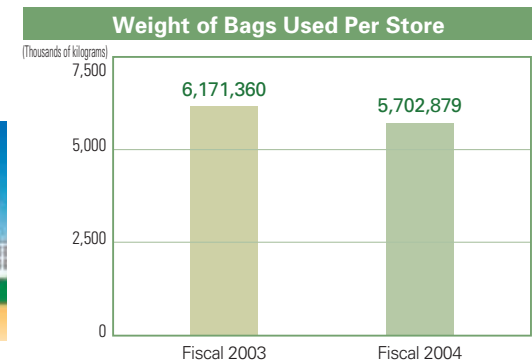
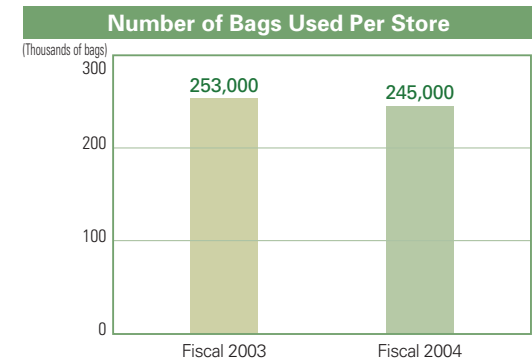
To reduce the volume of resources we use for shopping bags, we have begun making them of more lightweight materials. For customers who purchase only one or two items, we offer

to simply stick on a purchase seal rather than use a plastic bag. Each October, we join local municipalities in the Environmentally Conscious Shopping Campaign, wherein our sales promotion materials and other campaigns encourage customers to reduce their use of shopping bags.

In fiscal 2004, we used 1,982,377,600 shopping bags, up 3.6% from the previous year. However,



because we made them of thinner materials these bags required 7.6% fewer resources, by weight.



Store Efforts

Our efforts to use fewer resources include environmentally conscious store design. Decreasing energy and natural resources used at each of our 8,077 stores in Japan should substantially reduce overall usage.

Energy Consumption Efforts

Reducing Electricity Consumption

By using an automated system to adjust in-store lighting, we reduce the lighting to 1,000 lux from the start. By comparison, when fluorescent bulbs are first installed they generally emit 1,700 lux, then gradually dim to around 1,000 lux after one year of use. We determined that this level provided sufficient product lighting, so we have reduced initial output to this level to minimize electrical consumption.

We have also begun employing automatic light sensor systems on windows to determine the amount of natural sunlight that is coming through, then adjusting artificial lighting levels in areas around windows. The efficient use of natural sunlight has enabled us to reduce artificial requirements by 30%. Furthermore, we have begun using reflectors in our lighted store signage, which raises the efficiency of lighting and means that the same level of lighting can be achieved with fewer fluorescent bulbs. This improvement has decreased the energy used in store lighting by half.



Reduced fluorescent lighting of store signs



Automatic lighting level adjustment system

Testing of Integrated Cooling and Ventilation System



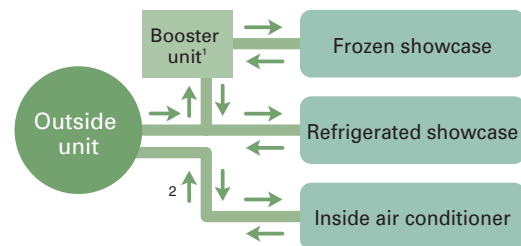
Exterior unit for integrated cooling and ventilation system

LAWSON has conducted experiments on a number of controls and systems involving the outside units for chilling and refrigeration systems. In August 2004, we began testing a system that integrates the outside unit for both the cooling and ventilation systems.

On average, this system reduces the total amount of energy that a store uses for cooling products and providing ventilation by 37.5%. This amounts to an annual energy savings of between 5% and 7%, meaning that a store would generate 11 tonnes less carbon dioxide each year. We have begun installing these units when we open new stores. We plan to use them in 40%, or 280, of the 700 stores opening in fiscal 2005, and 60%, or 420, of the 700 new stores we are planning for fiscal 2006.

At existing stores, we are installing systems that will allow control mechanisms for refrigerator/freezers, ventilation systems and anti-condensation heaters to be incorporated efficiently into a single unit. This move should also reduce energy consumption.

Integrated Cooling and Ventilation System Overview



Notes: 1. Chiller for refrigerated showcases 2. Flow of refrigerant gas

Sensible Heat Exchange Ventilation Units

LAWSON stores use sensible heat exchange ventilation units*, which efficiently recycle the heat energy contained in exhaust air and return this heat to the air supply that is taken into the store. Cycling twice per hour, these units expel only the stale air, while heat energy is returned to the store. This process allows heat energy to be used more efficiently, eliminating some of the loss that occurs in air conditioning. Sensible heat exchange ventilation units raise heat efficiency to more than 70%, reducing air conditioning costs by 20% compared with standard units. As a result, air conditioning effectiveness increases and energy is conserved. Heat is not expelled to the store exterior, which reduces the environmental load on the store vicinity.

*Sensible heat exchange: With this system, the only component of heat exchanged is the temperature part (sensible heat) and not the humid part (latent heat). In winter, room temperature air is recirculated. Any outside air is brought in without moisture, so that inside temperatures can be maintained and at the same time windows are prevented from misting.

Other Systems

We use energy conserving remote control to prevent equipment from being left on indefinitely, and sensors are used to extinguish lights if toilets are unoccupied. Toilet sinks are automatic to prevent water wastage, and water-jet toilets minimize paper waste. Such systems are part of our overall effort to conserve energy by reducing our resource usage.

Other Activities

Stocking Environmentally Conscious Products

LAWSON stocks such environmentally conscious products as office supplies made of recycled plastics and items bearing the Eco Mark, which meet the Japan Environment Association's definitions for environmental consciousness. We also sell environmentally conscious products at our NATURAL LAWSON stores, which cater specifically to people pursuing beauty- and health-conscious



lifestyles. (Page 23 describes NATURAL LAWSON stores and the three LAWSON store formats.)

PET Bottles Reused as Uniforms

Nationwide, LAWSON uniforms now bear the Eco Mark, as more than 50% of their materials are from recycled PET bottles. To improve the uniform recycle ratio, whenever possible we also reuse buttons, fasteners and hangers from worn uniforms.



Distribution Efforts

LAWSON's distribution network plays a vital role in the process of receiving items from its business partners and transporting products to stores throughout Japan. Stringent quality control throughout this process enables us to deliver products that are safe, secure and healthy to end customers. Furthermore, we are raising the efficiency of our distribution system to reduce the burden it places on the environment.

Product Delivery System

All items are delivered by business partners to our distribution centers before being divided for dispatch to individual stores. Throughout Japan, we operate 118 distribution centers, which store products at three temperatures. Confectioneries and seasonings, for example, are stored at room temperature, whereas rice, dairy products, desserts and other items with short shelf lives are chilled. Frozen products are stored at -22°C .

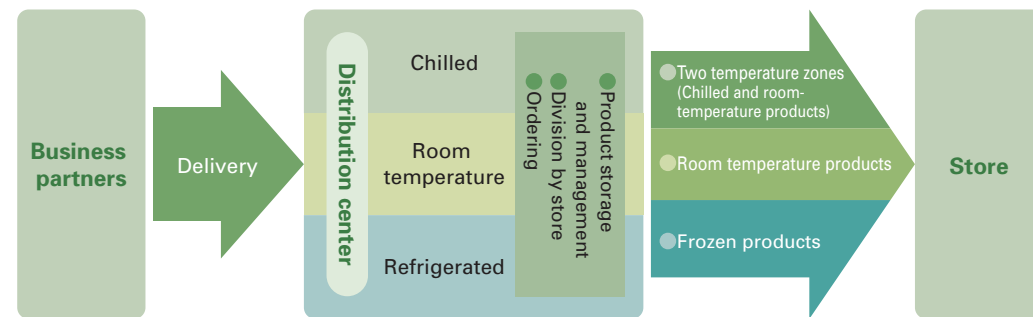
At distribution centers, we monitor such information as the date products are received and the time remaining in their shelf life. Distribution centers also verify that items are correct before loading them onto delivery trucks, which maintain products within their

specified temperature zones. Trucks equipped to deliver chilled products have a thermometer mounted



Thermometer near the driver's seat

near the driver's seat for easy monitoring of cargo temperatures. If product temperatures rise above a predetermined level, the driver alerts the distribution center.



Travel Management System



system through a mobile communication network. This allows LAWSON headquarters and distribution centers to monitor cargo temperatures, rate of

All LAWSON products that deliver chilled products are linked to a travel management system through a mobile communication network. This allows LAWSON headquarters and distribution centers to monitor cargo temperatures, rate of travel, time to destination and stopover intervals, resulting in real-time quality control. This system also allows monitoring of driver safety, including such factors as over-acceleration, over-braking or excessive travel speed. In addition, the system checks travel efficiency and whether trucks are being shut off while idling, as this helps reduce global warming and atmospheric pollution, as well as conserving fuel. To enforce this practice, our trucks are designed so that a driver cannot exit the vehicle unless the ignition key has been removed.



Average deliveries per day: 7.6 trucks

Promoting Joint Deliveries

By encouraging the practice of delivering to more than one store at a time, LAWSON is reducing the number of trucks that visit each store each day, which will minimize the environmental burden. Chilled products include rice items, which are stored at 20°C , and dairy products, desserts and other items that are stored below 10°C . We have divided the

cargo areas of delivery trucks into different zones to allow both types of product to be transported in the same vehicle. Using this practice, as well as by reworking our sundry item delivery schedules, has enabled us to reduce average daily deliveries to 7.6 trucks per day. We plan to review our delivery system to decrease this level even further.

Using Low-Pollution Vehicles

In 1997, LAWSON began employing delivery trucks powered by natural gas—an industry first—as these vehicles have lower emissions and are therefore easier on the environment than standard vehicles. We began phasing in our next generation of low-polluting trucks with the March 2004 introduction of a natural gas hybrid vehicle. As of the end of fiscal 2004, we had 48 of these trucks in operation.

Emissions standards are becoming increasingly strict in the Tokyo metropolitan area, as well as in

other regions. LAWSON's delivery trucks meet all municipal standards for vehicle emissions.



Noise-Reduction Efforts

LAWSON is mounting several efforts to reduce noises, such as vehicle and trolley sounds, that can annoy customers and local residents. On trolleys, we are replacing metal casters with resin units, and are now using these trolleys to deliver all our chilled and frozen products.



Lashing belts are used to secure room-temperature products in delivery truck cargo holds. We have devel-

oped and are shifting to an improved system using buckles, which produce less noise upon release. Power gates mounted to the back of trucks are used when lowering products out of the truck and raising trolleys back into position. We have successfully eliminated some motor noise, as well as reducing the noise power gates make when they strike the ground by installing rubber stops and operating them more slowly.

Cargo trucks sometimes use metal exhaust pipes that are tuned to produce resonance. Instead, we have adjusted the pipes on our cargo vehicles to be sound-reducing.

Waste Reduction Efforts

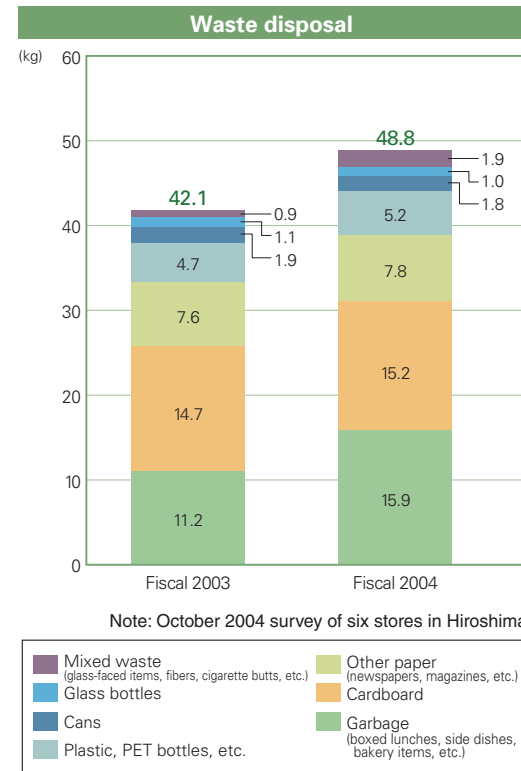
Stores emit a variety of waste, such as the cardboard used in product packaging, as well as boxed lunches and other products that have passed their sell-by date. LAWSON seeks to minimize this waste and recycle whenever possible.

Fact-Finding Survey to Determine Data on Waste

Each year, we conduct a fact-finding survey to determine the volume of waste stores generate, which we use to compile data on waste volumes and the success of recycling efforts. In fiscal 2004, six LAWSON stores in the Hiroshima area collected all of the waste each store generated during the four-day period from October 20 through October 23, then sorted and weighed that waste. The graph to the right shows the results.

According to this survey, on average each store generated 48.8 kg of waste per day. Products that had passed their sell-by date and the cardboard used in product packaging constituted the majority. Waste generated by stores amounted to 36.8 kg, or 75.4% of the total, while trash deposited in the clean boxes at the front of stores was 12.0 kg, or 24.6%.

We attribute the increase in the volumes generated at these same stores from fiscal 2003 to fiscal 2004 to a variety of factors. One factor was increased seasonal sales, while another was the fact that weather patterns during the survey period caused an increase in the amount of product that was disposed of because it had passed its sell-by date.



Switchover to Clean Boxes

LAWSON places trash cans ("clean boxes") outside its shops, which helps keep surrounding neighborhoods



clean. In response to increasingly strict trash collection policies in some municipalities, in February 2005 we began using new clean box categories at new stores, and we are gradually replacing those at existing stores. The new boxes come in a set of four types—for paper, plastics, glass bottles and cans, and PET bottles—and each type is clearly marked near its opening. The new clean boxes are made of resin recycled from PET bottles, and are designed for even better rigidity than our previous trash cans.



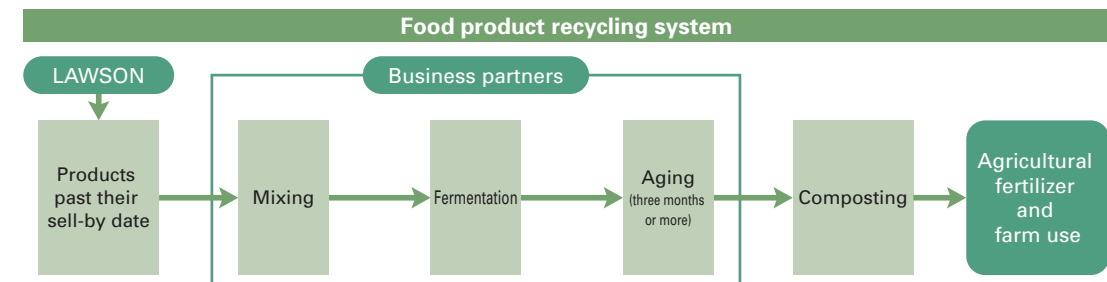
Computers used to check stock and place orders

Efforts to Reduce Food Waste

LAWSON has designed its product cycle to provide customers with products that are safe and fresh. But at the same time, we are rapidly reducing food product waste to conform with the Food Product Recycling Law, which went into effect in 1991. We addressed this issue first at the production stage, by improving process management to reduce waste at this phase. At stores, computers are used to track the history of each product, indicating how much of each product was sold on a certain day, given weather and other local conditions. This information is taken into consideration when stores check their product stocks and place orders, helping to reduce food product waste.

In Mie Prefecture, the Osaka prefectural cities of Suita and Settsu, as well in as the cities of Kumamoto and Nagano, we cooperate with business partners who operate effective waste recycling facilities. In these areas, our food product waste is converted into agricultural fertilizer. In December 2003, we established the Nationwide Waste Recycling Promotion Study Group, with the aim of expanding our network of partners in this field into all 47 prefectures. The group also deliberates collection and processing methods, and is studying new ways to recycle edible oils.

Food Product Recycling Law: This law, whose full name is the Law Concerning the Reuse, etc., of Food Product Recycling Resources, requires that food product recycling levels must reach at least 20% by fiscal 2006.



Note: This chart describes the processes that business partner Sanko Co., Ltd., uses to process waste.



Bacteria is mixed into garbage to cause fermentation and decomposition into fertilizer.



To reduce the amount of food product waste that stores generate, in fiscal 2005 we began using garbage disposals at two stores on a test basis. Based on initial results, we have decided to expand their use in other stores.

Headquarters Activities

LAWSON also looks for ways to make its headquarters operations easier on the environment. Through paperless processes, green purchases and trash separation, headquarters is doing its part to contribute to environmental preservation and improve efficiency.

Paperless Operations

We aim to reduce the volume of photocopier paper used at headquarters and branch offices. In February 2001, we converted our accounting system and accounting ledgers at all branches to an electronic system. Besides reducing our use of paper, this move resulted in better operating efficiency.

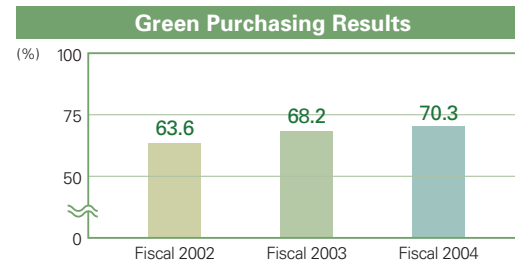
In the past, regular communications between headquarters and stores generated reams of paper in the form of product ledgers. In one very effective move in September 2002, we uploaded this information onto our network—reducing paper use by approximately 1,000 pages per store each month—

and now this information can be checked by computer. We are now reviewing the forms we use, and planning to shift these to from paper to an electronic format as well.



Green Purchasing

Our headquarters, branches and business offices employ green purchasing, meaning that when purchasing consumable office items and OA equipment they give preference to environmentally conscious products. In fiscal 2004, green purchasing at our Tokyo headquarters and offices amounted to 70.3% of the total.



Separating Trash, Recycling Forms



Mamoru, the recycler

As well as separating waste into burnable and nonburnable trash, our Tokyo headquarters even subdivides paper into five categories: white-backed, color, newsprint,

cardboard and mixed. All told, we divide trash into 17 categories. Each of these receptacles is clearly labeled, indicating waste separation standards, separation methods and various areas for caution. Other branches and offices separate their waste in accordance with the collection standards of their municipalities. At headquarters, we have begun dividing out confidential office forms into a special collection box named “Mamoru, the recycler.” These forms are recycled in a special manner, as they must conform with certain privacy and other regulations.

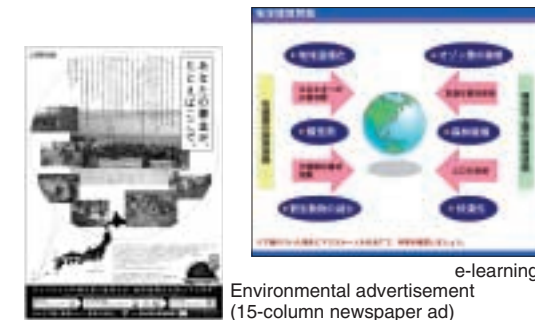
Environmental Education and Training

LAWSON provides various types of environmental education and internal programs to make sure that all people at stores and headquarters understand environmental issues and the Company’s environmental activities and act in an environmentally appropriate manner.

All employees are required to undergo general environmental training once a year. Last year, we began loaning personal computers to employees so they could take this training as an e-learning* course, which raised the effectiveness of our environmental education. Additional training is provided to staff in positions that have a particular impact on the environment, such as those involved in product development or store construction.

We schedule training so that owners can participate in these courses during the hours of store oper-

ation. For supervisors and other staff, LAWSON headquarters produces training magazines to share environmental information and intelligence. We share our environmental activities with as many other people as possible by preparing environmental reports and listing information and advertisements on our corporate website.



e-learning
Environmental advertisement
(15-column newspaper ad)

Environmental Accounting

Environmental accounting is the process of assessing a company’s costs associated with environmental protection activities, as well as the results of these actions and providing quantitative measures

of their effectiveness, either on a monetary or volume basis. We use this information when implementing future environmental management activities.

Environmental Accounting

Period: March 1, 2004, to February 28, 2005/Scope: LAWSON, INC. (parent), franchised stores and logistics service providers

[Environmental Protection Costs]		(Thousands of yen)	
Classification	Principal measures	Investment	Expense
(1) Business area costs			
● Global environmental protection costs	Installation of energy-saving equipment, collection and disposal of chlorofluorocarbons	622,559	63,561
● Resource recycling costs	General waste disposal and processing, food product waste recycling, etc.	4,621	3,458,893
(2) Upstream and downstream costs	Consignment fees for recyclable products in accordance with the Containers and Packaging Law		206,230
(3) Management costs	Environmental management system operation, environmental education, notification of environmental information		26,549
(4) Research and development costs	Waste Recycling Promotion Study Group, purchase of environmental reporting books, seminar participation costs		2,610
(5) Community activity costs	Donations to the National Land Afforestation Promotion Organization and NPOs, etc.		23,857
(6) Costs incurred to prevent environmental degradation		0	0
Total		627,180	3,781,700

[Environmental Protection Results]		(Tonnes of carbon dioxide)	
Details	Economic Effects of Environmental Protection Measures	Indicator	
		Indicator	Improvement in CO ₂ volume
(1) Business area cost performance			
● Business resource investment performance	Reduction in electric power consumption		3,372
● Reducing environmental load and waste generated by business activities	Confidential document recycling		17
	Shopping bag weight reduction		694
(2) Upstream and downstream cost performance	Reduction in emissions of substances with environmental impact (collection and destruction of chlorofluorocarbons)		35,700
● Business asset and service performance			

[Economic Effects of Environmental Protection Measures]		(Thousands of yen)
Effects	Amount	
Reduction in energy use owing to energy conservation	148,385	

Notes: 1. As each franchised store operates as an independent business, a representative sample has been used for calculation purposes.
2. As investment amount during the accounting period exceeds the total of investment costs, no depreciation and amortization costs have been assessed.
3. The loss recorded is because economic benefits of environmental protection activities are computed in terms of reductions measured relative to the previous fiscal year.
4. A simplified method of accounting for transportation by purpose of trip has been adopted.

Structure for Promoting Environmental Initiatives

LAWSON has created an environmental policy that outlines the ways in which it will reduce the burden it places on the environment. In line with this policy, we have also established activity targets and created systems to move us steadily toward these objectives.

Continuing to Improve our Environmental Management System

LAWSON's environmental policy calls for the operation of stores that are friendly to people and the environment. In line with these policy goals, we sought to implement an environmental management system effectively and efficiently. Accordingly, in December 1998 LAWSON was awarded ISO 14001* certification, the recognized international standard for environmental management system quality, following an assessment by the Japan Quality Assurance Organization.

Our environmental management system follows a plan → do → check → action cycle of ongoing improvement. To confirm that this cycle is func-

tioning as designed, we conduct internal environmental audits twice a year at stores, and once a year at headquarters and other offices. These audits are performed according to a specialized checklist that confirms existing practices and links to future environmental activities.

* ISO 14001: A certification conferred by the International Organization for Standardization (ISO), ISO 14001 confirms that an organization has created an environmental management system to promote ongoing improvements in environmental performance. Prior to receiving such certification, an organization must undergo assessment and registration.

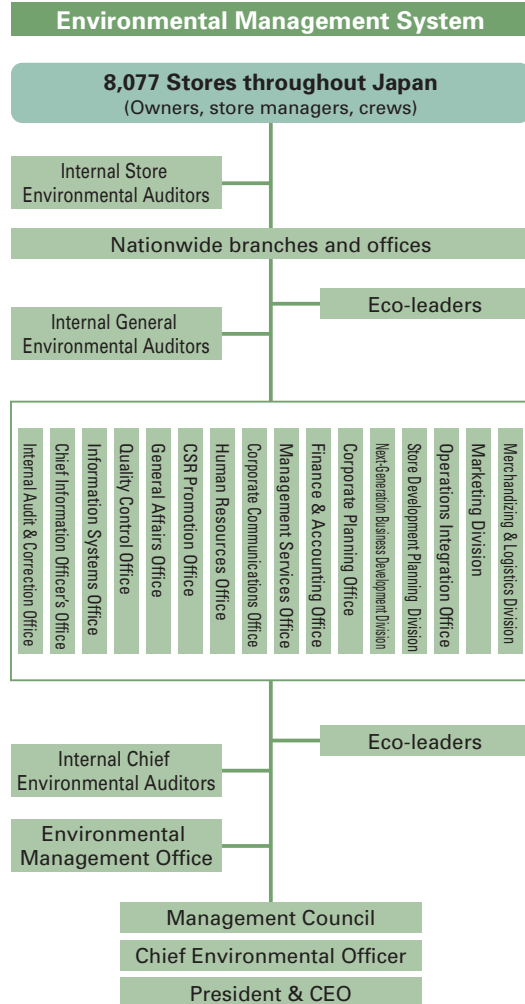
Environmental Policy

Fundamental Philosophy

LAWSON believes in operating stores that are friendly to people and the environment. To ensure the health of the environment that we will pass on to future generations, we incorporate environmental consideration into all our actions and seek to operate in a sustainable manner that is in harmony with our environment, and participate actively in social contribution activities.

Policies

- Provide information on safe and secure products and services, and continuously pursue activities that reduce our load on the environment.
- Based on environmental evaluations of our operations, products and services, set environmental goals and targets, strive to continuously improve them, and prevent pollution.
- Respect all laws and regulations concerning environmental preservation activities and improve our environmental management system.
- Strive to reduce environmental emissions and pollutants by conserving energy in our daily operations, conserving resources, minimizing waste and recycling.
- Promote regional greening and beautification by participating in and supporting the environmental preservation and social contribution initiatives of municipal bodies.
- Raise awareness of environment protection through environmental education and communications.



As of March 1, 2005



Audit renewal

Environmental Targets and Results

LAWSON carries out environmental protection activities based on targets in five areas: saving resources, saving energy, reducing harmful emissions, preventing noise pollution and environmental protection activities. The table below

summarizes our environmental activities and targets for fiscal 2004. We have set additional environmental targets for fiscal 2005, and we will endeavor to reach these targets through our environmental activities during the year.

Fiscal 2004 Environmental Targets					
Area	Actions	Targets	Progress	Status	
Saving Resources	1. Implement green purchasing of office materials used by headquarters and business offices	Achieve green purchasing ratio of 70% for items used at Tokyo headquarters Achieve green purchasing ratio of 60% for items used at all other offices	Items ordered: 44,275 Eco items: 31,120 Ratio: 70.3%	Achieved	
	2. Reduce usage of photocopier paper at headquarters and business offices	Reduce average per-person usage by 3%, compared with 1999-2001 average	Sheets used in 2004: 25,197,698 Per-person average: 815 Increase: 8.1%	Not achieved	
	3. Employ green purchasing for system-related consumables	Achieve 100% green purchasing ratio for printer toner	Target achievement: 100%	Achieved	
Saving Energy	1. Reduce electricity consumption at head office and all business offices	Reduce average per-person usage by 3%, compared with 1999-2001 average	Usage in 2004: 7,980,022 kWh Per-person average: 233 kWh Decrease: 9.3%	Achieved	
	2. Increase use of voltage regulators in stores	Implement in 50% of stores	Total store usage: 4,028 stores Target achievement: 99.7%	Not achieved	
	3. Introduce automatic light sensor system at new stores	Install at all stores	Target achievement: 99.0%	Not achieved	
Reducing Harmful Emissions	1. Use environmentally friendly materials in containers and packaging for products developed in-house (boxed lunches, side dishes, etc.)	Shift to use of transparent polypropylene and single-layer expanded polypropylene sheets in containers and packaging for products developed in-house	Target: 60.0% (replacement ratio) Result: 53.6% Target achievement: 89.4%	Not achieved	
	2. Expand adoption of low-emission delivery vehicles	Reach a total of 67 low-emission delivery vehicles (including hybrid vehicles)	Implementation target: 67 vehicles Result: 48 vehicles Achievement: 71.6%	Not achieved	
	3. When refurbishing store chillers and air conditioners, recover and destroy all CFC refrigerant gases	Recover and destroy 100% of CFC refrigerant gases	Target achievement: 100%	Achieved	
	4. Encourage vendors to use unwashed rice for rice dishes	Examine and test the feasibility of using unwashed rice in rice dishes made by vendors	Continuing to examine and test the feasibility of introducing unwashed rice	—	
Preventing Noise Pollution	1. Promote adoption of delivery vehicles with low-noise power gates	Have power gates installed on 529 vehicles	Total installation: 523 vehicles Target achievement: 98.9%	Not achieved	
	2. Promote adoption of low-noise cargo trolleys	Have 76,000 low-noise cargo trolleys in operation	Total operation: 68,950 trolleys Target achievement: 90.7%	Not achieved	
Environmental Protection Activities	1. Continue collecting donations through Green Fund boxes	Continue collection at all stores	Total raised to date: ¥1,807,091,606 Money raised in fiscal 2004: ¥174,728,911	—	
	2. Work with the National Land Afforestation Promotion Organization to contribute to greening activities throughout Japan	Carry out at 40 locations nationwide	Locations planted: 43 Target achievement: 107.5%	Achieved	

Environmental Targets for Fiscal 2005

Companywide themes: prevent global warming (reduce CO₂ emissions) and raise productivity

Area	Actions
Saving Resources	● Reduce weight of materials used in packaging products developed in-house
	● Reduce total weight of materials used for sales promotion purposes
	● Reduce total weight of materials used for in-store sales
	● Promote use of domestically produced materials in publications
Saving Energy	● Reduce in-store use of electricity (use energy-efficient equipment)
	● Improve fuel efficiency of store delivery vehicles
Reducing Harmful Emissions	● Reduce food waste and promote recycling (conform to Food Product Recycling Law)
	● Promote separation by category of in-store trash

Third-Party Opinions

LAWSON periodically elicits objective third-party opinions about its activities. We value this input, which we use as we plan further developments and improvements.

Comments from Waseda University's Environmental NPO—Environment Rodrigues

“LAWSON is taking a proactive approach to addressing some of the issues the industry faces. For example, President Niinami has raised the issue of 24-hour convenience store operation. Operating around the clock is convenient for consumers, but these extra hours mean that extra energy is consumed to light shops, which raises their impact on the environment. Stores along major thoroughfares may have the demand to justify these extra hours of operation, but friends of mine who work part-time in convenience stores say that most stores are completely empty at night and there seems little reason to keep them open. Whether they open or not, the stores require energy to maintain refrigerator and freezer temperatures, so closing them may not result in as great an energy savings as some people think. Even so, there is value in small differences such as these.

“LAWSON focuses a lot on boxed lunches, which usually are packaged with plastic films. Maybe they could consider using recyclable con-

tainers, such as the Hokkaru containers that my university uses when they sell boxed lunches. The use of shopping bags is another major issue. It may be difficult for convenience stores to go the way of supermarkets in asking shoppers to bring their own bags, but I hope the convenience store industry will make some progress on this issue.

“In speaking with a number of companies, I have found that often companies take part in a host of environmental initiatives that have little to do with their own core businesses. Rather than focusing on such things, I think it would be better for LAWSON and other companies to address environmental and social contribution initiatives that relate directly to their main lines of business. One positive example is the introduction of NATURAL Lawson stores, whose main business focuses on promoting a healthier lifestyle. I look forward to seeing more changes such as this.”

Waseda University's Environmental NPO—Environment Rodrigues

Established in 1997, this non-profit organization conducts environmental assessments of student environmental awareness. In addition, the NPO is working to expand the use of Hokkaru recyclable boxed lunch containers, by working with a manufacturer of paper containers and the Waseda University cooperative. At present, Hokkaru containers are used by the university cooperative at a rate of 300–400 per day, and they were recently employed at the Portugal pavilion of Expo 2005 Aichi, Japan. The NPO, which has a membership of 90 students, initiated a university-wide environmental business contest in 2004.



Standing in front of recycling bins that explain how to properly dispose of Hokkaru boxed lunch containers are, from left: Takehiro Oda (second-year business major), Yoshihiro Michiura (second-year engineering major) and Keisuke Shimane (third-year student at the School of Human Sciences).

In Conclusion



Yoshio Shinozaki, Senior Vice President and Director of CSR Promotion Office

The phrase “corporate social responsibility” has become increasingly common in recent years, and LAWSON has supported this trend by working with franchise owners, customers, business partners and people in regional communities. Even so, I can not honestly say that now we have completely fulfilled all our social responsibilities. As we expand, we have to continue giving back even more to our customers. Looking back, LAWSON has done many

things that make me proud. But looking forward and thinking about our children's and grandchildren's generations, I realize that we still have much to achieve.

There is a traditional saying among Japanese businesspeople that describes the ideal business relationship as “good for the merchant, good for the seller, good for all.” As we seek to operate in a way that creates this win-win-win result, I look forward to hearing people say, “I am certainly glad that LAWSON is around.”

LAWSON's History

● Environmental activities
● Social contribution activities

1975	April	Daiei Lawson Co., Ltd., established	
	June	First store opens in Sakurazuka, Toyonaka-shi, Osaka	
1976	April	● Increased joint deliveries of chilled products	
	October	T.V.B Sun Chain Co., Ltd., established.	
1977	April	Began 24-hour operation	
		● Inaugurated system for joint distribution of milk and other daily-use products	
	November	Created specialized plant to produce boxed lunches, and began supplying freshly made boxed lunches	
1978	January	● Established industry's first distribution center	
		Installed first-generation computer system	
1980		● Installed <i>Ayumi no Hako</i> in all stores (formerly Sun Chain convenience store)	
	September	Business tie-up established between Lawson and Sun Chain	
1981	July	Began advance sales of movie tickets	
1982	March	Began accepting home delivery service orders	
	September	Began sales of <i>oden</i> (Japanese hotpotch boiled in kelp-based broth and seasoned with soy sauce)	
1986	April	Began sales of <i>kara-age-kun</i> fried chicken nuggets	
1988	May	Began employing new three-variety postal delivery system	
	September	Use of point-of-sale tracking system commenced	
1989	March	Merger with Sun Chain Corporation, creating Daiei Convenience systems Co., Ltd.	
	October	Began agency service to accept electrical and gas bill payments	
1990	April	● Started joint deliveries of processed foods, confectionary and sundry goods	
	November	● Launched ECOLOGY LIFE products, designed to protect the natural environment	
1991	February	Began employing the phrase “The ‘Hot’ Station in the Neighborhood” in external communications	
	September	● Started using recycled paper for photocopying paper, internal publications and business cards	
		● Began using 80% recycled paper for store receipts	
1992	January	● Opened Station Park Waseda and five other experimental environment and welfare stores	
	September	● Started collecting donations for charities working to protect the global environment	
1993	April	● Held 1 st Tamagawa Clean Aid Campaign	
	August	● Joined volunteer rescue activities after earthquake occurred off the Hokkaido coast	
1994	February	● Added “Guide Dogs Welcome” stickers to all stores	
	March	● Began employing delivery trucks having two temperature settings for chilled foods	
	May	● Planted greenery using money from 1 st Lawson Green Fund at Fukuoka Green Center, Fukuoka Prefecture	
	June	● Held 1 st Fukuoka Love Earth Clean Up	
	October	● Held 1 st Arakawa Clean Aid Campaign	
1995	January	● Collected donations for rescue work after Hanshin Awaji Earthquake	
		● Started joint deliveries of frozen products	
	March	● Developed Hot Station Map as contribution to local communities	
1996	March	Began handling sales of stamps, postcards and revenue stamps	
	April	Initiated Lawson Ticket sales	
	July	Opened first LAWSON store in Shanghai, People's Republic of China	
	June	Company name changed to LAWSON, INC.	
	September	● Started using 50% recycled paper for thermal paper receipts	
		● Started recycling system for store garbage, thus beginning the complete recycling of bottles, cans, PET bottles and cardboard boxes in the Tokyo metropolitan area	
1997	January	● Made donations for rescue work for a fuel-oil spillage in the Japan Sea	
	March	● Started “Every Store Can Help” Campaign to contribute to local communities	
	July	Commenced operations in Okinawa, marking the Company's extension of operations to all 47 Japanese prefectures	
	September	● Started an experiment to recycle food garbage as compost in Kanagawa Prefecture	
		● Started using low-emission CNG delivery vehicles	
		● Started recycling handling materials, using plastic containers in deliveries	
		● Joined Tokyo Rule III—scheme to collect PET bottles in stores	
	October	● Started campaign to encourage delivery vehicle drivers to turn off their engines when stationary	
1998	February	Implemented Loppi system at all stores	
	March	● Changed packaging materials for lunch boxes and side dishes to polyolefin, which does not emit toxic dioxins when incinerated	
		● Started using new novelty ice cream refrigeration cases with substitute non-fluorocarbon refrigerants, meaning zero level of ozone damage	



The first LAWSON store



An example of our rescue work following the Hanshin Awaji Earthquake

	May	● Opened experimental environmental action store, Katsushima 1-chome, Tokyo	
	June	● Held 1 st Yodogawa Clean Aid Campaign	
	November	● Started recovering and destroying fluorocarbons from cooling and air conditioning equipment when discarded	
	December	● Received ISO 14001 certification, the environmental management system standard	
1999	January	● Started providing organ donor cards at all stores	
	April	● Published Environmental and Social Activities Report (1998 edition)	
		● Created fund to support victims of an earthquake in northwestern Turkey	
	September	● Collected aid donations for victims of a large earthquake in Taiwan	
	October	● Started support activities to raise money for Japan Overseas Cooperation Volunteers dispatched by the Japan International Cooperation Agency (fall period)	
	November	● All stores stop providing chopsticks, spoons and forks with products	
2000	February	● Opened 2 nd environmental action store in Gunma Prefecture, Numata Interchange Store	
	June	● Enacted Lawson Green Fund projects and “The Lawson Mount Fuji Forestation Project” in Fujinomiya City, Shizuoka Prefecture	
		● Guide dogs for the hearing impaired welcomed at all stores	
		● Started using vehicles fitted with low-noise power gates	
	July	● Company's shares listed on the first sections of the Tokyo and Osaka securities exchanges	
		● Began using low-noise running belts on delivery vehicles	
		● Converted all accounting receipts to electronic format	
		● Started using electronic approval circulars on an experimental basis	
2001	March	● Adopted new uniforms made from recycled PET bottles and materials	
		● Started using experimental micro gas turbine cogeneration system in Minami Kase 4-chome Store, Kanagawa Prefecture	
	May	● Established the LAWSON Flower and Greenery Day, May 18 (3 rd Sunday in May)	
		Started the LAWSON Flower Event—free flower seeds given to store customers	
		Started the LAWSON Greening Program—planting trees near Mount Fuji	
	July	● Held 1 st Kamogawa Clean Aid Campaign	
		Opened 1 st NATURAL Lawson at Jiyugaoka 2-chome, Meguro-ku, Tokyo	
	September	● Supported the temporary homecoming of Miyakejima residents after a volcanic eruption on their island—LAWSON provided free food and drink	
		● Collected aid donations for victims of the September 11 terrorist attacks in the United States	
2002	January	● Collected aid donations for the children of Afghanistan during the Osaka International Ladies Marathon	
	June	Introduced the Lawson PASS card	
	August	● Participated in the Volunteer Support Program run by the Ministry of Land, Infrastructure and Transport	
	November	Launched the <i>Onigiriya</i> rice ball series	
2003	January	Established post office counters at all stores	
		● Supported the Special Olympics, providing free food and drink	
	May	Began staged removal of artificial colorings and preservatives from products sold in Tokyo and Osaka metropolitan regions	
		● Participated in Bi-ning Kobe Citizen Movement for the beautification of the city of Kobe	
	August	Signed an agreement with Wakayama Prefecture on local cooperation activities (contributing to local communities and using locally produced products more extensively)	
		● Participated in Roadside Cleanup Stamp Rally run by Wakayama Prefecture and Wakayama National Highway Office	
	December	● Launched National Waste Recycling Promotion Study Group	
2004	July	● Created fund to support the Japanese team at the Athens 2004 Paralympic Games	
		● Established fund to aid victims of flooding in Niigata and Fukui prefectures	
	August	Started the Peekaboo stock brokerage service	
	November	● Created funds to help victims of the Chuetsu Earthquake in Niigata Prefecture and Typhoon Number 23	
		● Received Environment Minister's Award for Lawson's Green Fund	
		Launched <i>Gahantai</i> series of boxed lunches	
	December	Opened our 8000 th store	
		● Created fund to support victims of the Sumatra earthquake	
2005	March	Publicized Privacy Policy	
	April	● Received Green Culture Prize for the Lawson Green Fund	
	May	Opened our first store using the STORE 100 format, in Nerima Nukui 2-chome	
		Commemorated 30 th anniversary of first Lawson store opening	
	June	● Began 262 nd Lawson Green Fund contribution to greening, in Tsuyama, Okayama Prefecture	
	August		



Receiving the Green Culture Prize