LAWSON

ANNUAL REPORT 2002

Year ended February 28, 2002

LAWSON STATION

Making it Happen . . .

Lawson Challenge 2004: Step-by-Step Achiev

After 2 years

After 1 year

Place Greater Emphasis on Profitability When Opening Stores

Focus more on earnings—monitor daily sales at new stores by region and store, taking into consideration differences in regional economies in the 47 prefectures, and the profitability of franchise owners.

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Optimize Manufacturing, Distribution and Purchasing Networks

Undertake an across-the-board review of manufacturing, distribution and purchasing to lower costs and improve product development.

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Revitalize Front-Line Operations

The key to Lawson's rebirth. Streamline Head Office operations to provide more support to stores.

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Introduce a Target-Based Management System

Establish a remuneration system that rewards employees for delivering results and keeps Lawson on target to achieve its goals.

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Deal With Unproductive Assets

Reduce the number of low-profit company-operated stores during fiscal 2002 that have been hampering our growth for many years.

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ement of Goals

Since joining Lawson, I have held fruitful discussions with many employees. I have learned a great deal. These discussions have afforded me a deep insight into Lawson, helping me to decide on Lawson's future direction and giving me the necessary background to shape an action plan. These three months have also made one point abundantly clear: if Lawson is to grow moving forward, it must put in place the framework to promote its vision of becoming the "the 'hot' station in the neighborhood." This calls for both rapid and bold reform.

Note: Takeshi Niinami was appointed president and representative director at the Ordinary Annual General Meeting of Shareholders and a Board meeting held directly after it on May 29. He joined Lawson about three months ago, initially as an advisor.

Business and Capital Tie-Ups

Seriously consider alliances that yield greater customer satisfaction and lift earnings for both franchise owners and Head Office.

Give Our People the Skills They Need

Educate employees as an investment in Lawson's medium- and long-term growth.

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President and CEO
TAKESHI NIINAMI

TO SHAREHOLDERS, OTHER INVESTORS, FRANCHISE OWNERS AND EMPLOYEES

Rediscovering Our Vision: "The 'hot' station in the neighborhood"

Since its formation in 1975, Lawson has developed its convenience store chain operations with the view to becoming "the 'hot' station in the neighborhood," admired by local communities the length and breadth of Japan. The slogan captures our vision of the type of convenience store chain we want to be. The word "hot" means providing the "hottest" products, information and services to meet the needs of customers in each region, as well as "warm" in the sense that customers find our stores welcoming. "Station" means a place to relax and take a break.

Unfortunately, this vision, the basis of our approach to opening new stores, has lost some of its urgency. Similarly, our adherence to convention in the name of efficiency has hampered our efforts to respond adequately to specific regional preferences, leaving Lawson looking little different from other convenience stores. My task is to help franchise owners and store supervisors to rediscover the Lawson of old, so that each and every one of our stores can indeed be the 'hot' station in their neighborhood.

A Change of Mindset

When I arrived at Lawson three months ago I was struck by the clear lack of two-way communication between the Head Office and front-line operations. Without realizing it, Head Office staff had forgotten that their main function was to support front-line stores in any way they could. Head Office had become hierarchical, passing down orders to store supervisors. The golden rule of any franchise operation is for the head office to support franchise owners effectively and flexibly so that stores can quickly respond to customer needs. Head Office was losing sight of this fact. The end result was that we were having difficulty responding promptly to customers' rapidly changing needs. This kind of Head Office-dominated corporate culture tolerated passiveness. We had become scared of failure and lost the spirit to take on new challenges at the front line. Our stores, brimming with vitality just a few years ago, were lifeless. There was no way they could function as 'hot' stations raising customer satisfaction through a creative and innovative approach to retailing. Something needed to be done quickly to remedy this situation.

I am convinced that there is still potential for growth in the convenience store industry. Even so, convenience stores will find it difficult to achieve the double-digit growth they have in the past in their current form. Lawson has developed a chain with a presence in all of Japan's 47 prefectures, aggres-sively opening stores in regions and locations where our rivals hadn't appeared. For a long time, our

Financial Highlights

LAWSON, INC. and Consolidated Subsidiaries
Years ended February 2002 and 2001

	Millions of Yen		Percent change	Thousands of U.S. Dollars[1]
	2002	2001	2002/2001	**2002**
For The Year:				
Total net sales of Lawson stores including franchised stores	**¥1,285,557**	¥1,277,638	0.6%	**$9,568,716**
Operating income	**36,363**	41,279	(11.9)	**270,659**
Income before income taxes and minority interest	**29,028**	29,846	(2.7)	**216,062**
Net income	**16,123**	16,368	(1.5)	**120,007**
Per Share Data (Yen and dollars):				
Net income[2]	**¥ 146**	¥ 148	(1.4)%	**$ 1.09**
Cash dividends	**41**	35	17.1	**0.31**
At Year-End:				
Total assets	**¥ 342,934**	¥ 387,236	(11.4)%	**$2,552,542**
Total shareholders' equity	**149,827**	178,448	(16.0)	**1,115,200**

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2002, of ¥134.35=$1.
2. The data has been restated to reflect the 1 to 50 stock split on April 14, 2000.

growth had no limits. Or so we thought. We are now faced with a battle for survival on a nationwide level that requires a change of strategic tack. There is no room now for overly optimistic management as in the past. Nor can we afford to convince ourselves that more stores is the way to grow sales. I intend to move away from our preoccupation with boosting the top line through opening more stores, in favor of executing realistic management strategies that pursue higher earnings for franchise owners and the company. To realize our vision, I believe two issues are important. Firstly, we have to think carefully about how Head Office can better support the efforts of franchise owners. Secondly, we have to quickly reform Lawson's organizational structure to respond to customer needs.

The Need for Reform

Lawson Challenge 2004, our reform plan unveiled in April this year, will bring about a revolution at Lawson. Designed to change our corporate mindset, it will return Lawson to its heyday and drive growth. Under this plan, we have set a target of consolidated operating income of ¥50 billion in fiscal 2004, ending February 28, 2005. We are also aiming to raise ROE from around 10% at present to 15%. Given that we achieved consolidated operating income of ¥36.4 billion in fiscal 2001, as well as the difficult operating environment, ¥50 billion is by no means an easy challenge. By setting such an ambitious target, my aim is to encourage our people to abandon old ways of thinking and embrace new approaches. If we can deliver 15% ROE, we will join an exclusive club of retailing companies around the world capable of delivering this kind of performance. Convenience stores first appeared in the U.S., but have taken on an entirely different form in Japan, emerging as one of the world's preeminent business formats. Achieving 15% ROE will have profound meaning for this Japanese format, testifying to both its uniqueness and its profitability.

Lawson Challenge 2004 encapsulates issues that have to be resolved over both the short term and the medium to long term. By the year-end, we will have introduced a system for assessing progress in achieving earnings targets; carried out organizational reforms that place priority on front lines; and dealt with unproductive assets. In the first area, we will adopt an earnings-centric management system, discarding our former system centered on sales. Meanwhile, we will focus more on results delivered when evaluating our staff. All corporate officers have been handed missions, and their bonuses will depend on how well they perform. We plan to extend the framework of this results-based bonus system to encompass managerial-level employees in the middle of 2002. Furthermore, I have set the goal of energizing front-line operations and optimizing manufacturing, distribution and purchasing networks within two years. I am convinced that the organizational reforms we carried out in June will give impetus to energizing front lines. Moreover, we are opening stores in a manner so as to raise profitability and forging capital and business tie-ups to enhance efficiency. At the same time, we are actively grooming people with the relevant management skills to sustain Lawson's growth in the medium and long term.

Instilling a Sense of Urgency and Cooperation in Employees

To achieve the goals of Lawson Challenge 2004, all employees must share a common sense of urgency—we must realize that if we don't change our approach, we may not have a viable future in the industry. Fostering a stronger sense of cooperation among employees is also vital. This plan will play an important role in assuring Lawson's future and create a sense of solidarity among franchise owners and employees that their future will be a bright one. I have already communicated this need directly to our employees. Presently, I am visiting each of our roughly 120 district offices nationwide to drive home my message and hold open dialogue with front-line staff, particularly store supervisors.

Dealing With Unproductive Assets During This Term

We intend to close many of our low-profit company-operated stores within fiscal 2002, reducing the number from about 550 stores to around 300. We will enhance profitability at remaining company-operated stores, making them templates for franchise owners and employees. We will also implement a program to quickly deal with employees displaced by the closure of company-operated stores. These actions are expected to result in an extraordinary loss of roughly ¥3.0 billion in the current fiscal year, but will lower personnel expenses substantially from next fiscal year onward. We also plan to book expenses for disposing of existing hardware and software made obsolete when LETSS (Lawson's Epoch-making Total Strategic Systems), our new information system, comes fully online this fiscal year, and losses on the devaluation of marketable securities.

Organizational Reforms to Refocus Emphasis on the Front Line

Focusing on the sales front line is key to Lawson's rebirth. The reforms implemented on June 1, are designed to channel human and financial resources into stores and parts of the organization supporting them. Streamlining Head Office will better allow us to support front-line sales activities. More specifically, we have divided our 12 operational regions into 19, to offer more detailed support and guidance to stores. The number of store supervisors has also been increased by around 10%. Furthermore, experienced former store supervisors and managers presently working at Head Office and district offices will return to front-line operations where they will be asked to draw on their experience and knowledge to revitalize this vitally important part of our business. In a related move, we will bring back the chief supervisor system—we will concentrate on breeding a new class of chief supervisors. Moreover, a FC Support Station will be established in each region to carry out specialist administrative duties not directly related to efforts to boost store earnings. This will allow store supervisors, weighed down by administrative duties, to focus more on directing front-line operations. I will also hold face-to-face meetings once a week with District Office Managers (DOMs) at Head Office. Opening up direct communications between Head Office and DOMs, who each supervise around 10 store supervisors, should close the communication gap between front-line stores and Head Office, allowing us to better reflect front-line needs in corporate strategy. The Head Office will become a Support Station.

Optimizing Manufacturing, Distribution and Purchasing Networks

In June this year, a foreign object was found in a rice ball sold at a Lawson store. I regret any concerns this incident may have caused our customers, shareholders, other investors, franchise owners, and employees. We are taking the steps necessary to enhance quality-management systems to prevent a repeat of such an incident.

Reminded of the importance of quality, we are rebuilding our supplier network to enhance our original products such as boxed lunches, rice balls, processed noodles and processed bread, as well as strengthen our development capabilities and product quality. We will deepen relationships with partners who are actively investing in new production equipment and enhancing food safety, continuously improving the quality and safety of products, and raising their development capabilities. And we will continuously pursue a strategy that raises the quality of distribution and cuts costs. This includes exploring the possibility of alliances using the networks of our most important strategic partner, Mitsubishi Corporation, to make distribution more efficient. Moreover, procuring foodstuffs in the most effective and efficient way possible will pare procurement costs. At the same time, we will undertake a fundamental review of purchasing channels to eliminate overlap. The costs we save in procurement will be used to enhance product quality of main dishes.

A New Benchmark for Store Management

We plan to open 500 new stores in fiscal 2002, a downward revision of 100 compared to initial plans. This signifies our shift in focus from the number of stores we open to the profitability of stores. To more closely evaluate the profitability of each store, we are looking at new benchmarks to measure earnings by region and store, rather than merely focusing on average daily sales as we have in the past. This reflects the fact that daily sales of ¥460,000 at a Tokyo store, for example, cannot really be compared with a store in a regional area achieving the same level of daily sales. In Tokyo, anything less than ¥500,000 in daily sales is unacceptable because of high rents and other operating expenses, whereas daily sales of up to ¥460,000 in regional areas, particularly suburban areas, are sufficient to generate a return. To better understand performance, therefore, we will analyze earnings by region and store, taking into consideration regional economies in the 47 prefectures where we have a presence and the profitability of franchise owners. This highlights our intention to place more emphasis on profitability.

A More Convenient Lawson

Through strategic subsidiary Lawson Tickets Co., Ltd., Lawson has access to a powerful assortment of killer content that other convenience stores don’t possess. By providing killer content based on strong relationships with popular, modern artists and leading studios such as Studio Ghibli, producers of the world-acclaimed *Spirited Away* (English title of the Japanese movie *Sen to Chihiro no Kamikakushi*), we can draw customers to our stores.

During fiscal 2001, we enhanced this ability to attract customers. In May 2001, we jointly established LAWSON ATM Networks, Inc. with 4 major banking groups and several major regional banks. The company is responsible for installing ATMs in our stores. As of May 31, 2002, LAWSON ATM Networks had installed ATMs in approximately 2,150 Lawson stores. Most customers hold a cash card from one of the participating banks, enabling them to use these ATMs. The ATMs can also be linked with Loppi multimedia terminals, already installed at our stores, to provide a variety of financial services. This will further enhance Lawson's appeal as a convenient, immediate source of financial services.

In February 2002, we established LAWSON CS Card, INC. with Mitsubishi Corporation and Credit Saison Co., Ltd. to promote a new Lawson credit card, LAWSON PASS, from this year. This business has two main objectives. One is to provide financial services to customers, a new business model through which we will receive interest revenues from the provision of small cash withdrawal services to Lawson customers. Secondly, it is an integral part of our customer loyalty program. LAWSON PASS cardholders will receive points for their purchases and special giveaways, which should build customer loyalty, encouraging more visits to our stores. This business is also strategically important for enhancing customer satisfaction.

We are channeling resources into these three strategic subsidiaries, as we expect them to help contribute to our consolidated operating income.

An Exciting Lawson

I want Lawson to be a place full of vitality, and to create stores with close regional ties that help drive earnings growth for franchise owners. At Lawson, we will spare no effort in supporting store development. Lawson should be an exciting place for customers and franchise owners. Indeed, becoming an exciting company for customers, franchise owners and employees is the first step in recapturing the essence of Lawson as "the 'hot' station in the neighborhood," something we have been prone to neglect up to now. I strongly believe that it is the best strategy for putting us on the path to further growth.

July 2002

Takeshi Niinami
President and CEO

CORPORATE GOVERNANCE

Lawson has recently implemented two major reforms to enhance corporate governance. We downsized the Board of Directors to improve management supervision—shareholder interests and greater transparency for all stakeholders were foremost in our mind. Second, we established the post of corporate executive officer, separating responsibility for day-to-day operations from the Board, and thus clearly demarcating responsibility. We believe this will facilitate swifter execution of policy. Specific details of the reforms follow, as well as a discussion of how they have changed the inner workings of Lawson.

Board of Directors

On January 1, 2002, the Board was reduced from 20 to 6 members (5 from within Lawson and 1 outside director). Subsequently, the Ordinary Annual General Meeting of Shareholders held on May 29 approved an increase to 3 in the number of outside directors. Downsizing the Board facilitates deeper discussion and analysis from a broad, company-wide perspective on important proposals presented by corporate executive officers, as well as improving decision-making. And shareholder interests are better served by bringing in an outside perspective to help raise corporate value. The outside directors comprise a university professor with considerable business experience, a senior executive from an employment agency and a representative of Lawson's largest shareholder. We are fortunate to have these individuals on our Board and believe that they will have a significant part to play in shaping Lawson's future. Their experience and knowledge will be invaluable in helping Lawson to grow in difficult market conditions.

In a related development, Lawson established the Compensation Committee. This Committee, which also draws on the expert views of the three outside directors, makes

SUMIYA NAKAJIMA
Director, Executive Vice President, Chief Risk Management Officer (CRO), General Manager, General Affairs Office

TERUO AOKI
Director, Senior Executive Vice President, Chief Information Officer (CIO), General Manager, New Business Development Division

EIICHI TANABE
Director, Executive Vice President, Chief Financial Officer (CFO), General Manager, Corporate Planning Office

KENJI FUJIWARA
Representative Director, Chairman

recommendations on compensation for directors and executive officers. The compensation system we are building will motivate directors and executive officers in fulfilling their duties and achieving their goals, as well as clarify accountability.

Executive Officer System

January 1 also saw the appointment of 18 executive officers. As of June 1, there were 19 executive officers, following the resignation of 1 officer and the addition of the presidents of our strategically important subsidiaries, LAWSON ATM Networks and Lawson Tickets. Some of the executive officers have come up through the ranks of Lawson, demonstrating the talent we have nurtured in the company. Their appointment should serve as a source of inspiration for future management candidates.

Executive officers have been delegated sufficient authority to enable them to achieve their goals, and their responsibilities are clearly delineated. Executive officers will serve one-year terms and be made even more accountable for fulfilling their responsibilities. A comprehensive review of the standards by which executive officers should be evaluated led us to adopt an incentive system that ties more than 40% of executive officers' salaries to their performance. Under this system, differences in performance could potentially result in one executive officer's remuneration being almost twice that of another. The system, which also includes stock options, is thus designed to motivate executive officers to improve the performance of their respective areas of responsibility.

In these and other ways, Lawson remains strongly committed to continuously improving management systems and implementing reforms that place shareholder value front and center.

TAKESHI NIINAMI
Representative Director, President and CEO

HIROSHI TASAKA
Director (President & CEO, Sophia Bank Limited; Professor, TAMA University Graduate School)

REIKO OKUTANI
Director (Representative Director, President, The R Co., Ltd)

YORIHIKO KOJIMA
Director (Senior Executive Vice President, Group CEO, New Business Initiative Group, Mitsubishi Corporation)

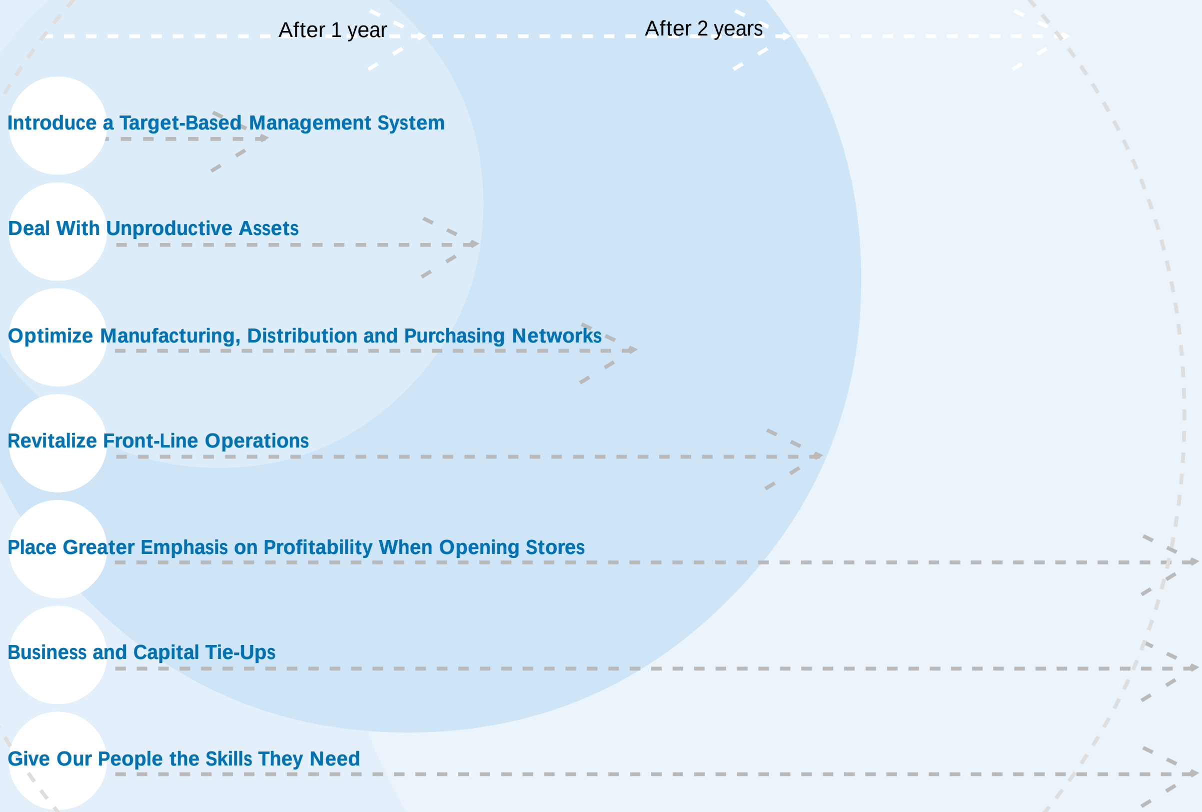
LAWSON CHALLENGE 2004

In mid-April, we unveiled Lawson Challenge 2004, a reform plan for reviving and growing the company—and ultimately realizing our vision of being "the 'hot' station in the neighborhood[*1]."

Lawson Challenge 2004 involves a number of concurrent steps, as depicted by the diagram below. Each step will move us closer to our vision. The plan also contains some lofty, but reachable goals—¥50 billion in operating income and 15% ROE in fiscal 2004.

This section of our annual report explains each step in detail, as well as other elements of our strategy.

Lawson Challenge 2004: Step-by-Step Achievement of Goals



*1 "The 'hot' station in the neighborhood" slogan captures our vision of the type of convenience store chain we want to be. The word "hot" means providing the "hottest" products, information and services to meet the needs of customers in each region, as well as "warm" in the sense that customers find our stores welcoming. "Station" means a place to relax and take a break.

Introduction of a Target-Based Management System in Fiscal 2002

We have decided to introduce new personnel and performance appraisal systems for executive officers and managers. A remuneration system is to be put in place that rewards these employees for delivering results, motivating them to achieve targets. Lawson has lacked such a system. We also plan to offer stock options to executive officers and managers to raise their awareness of corporate value and to act as an incentive for achieving their targets.

Executive officers, who serve as heads of divisions and Support Stations, have been given missions for achieving our publicly released targets for fiscal 2002. Our non-consolidated operating income target of ¥37.5 billion is one standard for evaluation. Other measures will also be used. The Store Development Division head, for example, will be evaluated on success in raising earnings at new stores and cutting construction costs. The head of the Merchandizing & Logistics Division, meanwhile, will be judged on product markup and other key division performance indicators. Head Office earnings aren't the only measure. The earnings of franchise owners, our valued business partners, will also be factored into the evaluation mix.

Effective from this fiscal year, about 60% of executive officers' remuneration is guaranteed—the remaining 40% is linked to results. This performance-based portion will differ significantly between executive officers, depending on the degree to which they achieve their targets.

An almost identical system will be introduced for managers, in September this year, to link a much higher portion of their remuneration to performance. Managers' targets will be based on the targets of their superiors, the executive officers. For example, regional managers of store development divisions will commit to targets, such as the number of store openings and profitability per store in their regions, based on discussions with executive officers and the head of the Store Development Division. Evaluations will naturally be conducted fairly and strictly based on achievement of targets. In addition, other measures such as 360° evaluations will be used to give a more precise evaluation of an individual's management skills and other qualities.

Coinciding with these initiatives, management job descriptions will be changed, reducing the number of classes from five to only three. This will make it possible to advance up the corporate ladder quickly and give younger employees opportunities to excel. The above measures are vital for grooming the people that will lead Lawson in the future.

Our plans call for this remuneration and evaluation system to be widened in fiscal 2003, to encompass all employees, with targets derived from those of executive officers and salaries partially linked to results. Discussions are currently being held with the union to this effect. The aim is the same: to reward performance and ability, and motivate employees to achieve goals. As a key yardstick for store supervisors*2 and their managers, district operations managers*3 (DOM), we are considering using franchise owners'*4 profits, instead of sales. This is a logical progression given that these employees directly support the operations of franchise owners. Rising earnings at franchise owners are the first signs that profits are on the rise at Lawson.

We intend to report in more detail in our fiscal 2003 annual report on reforms to the personnel and performance evaluation system of regular employees.

Targets:

ROE
15%

Operating Income
¥50 billion

*2 Store supervisors work with franchise owners, store managers and part-time store employees to raise customer satisfaction and boost store sales to realize Lawson's vision. Currently, around 1,200 store supervisors are active throughout Japan.
*3 Each District Operations Manager is responsible for a district office. There are around 120 such managers nationwide.
*4 Franchise owners sign a franchise agreement with Lawson, the franchiser. As an equal partner with Lawson Head Office, franchise owners work to realize the shared vision of transforming Lawson into "the 'hot' station in the neighborhood."

Dealing With Unproductive Assets

We have decided to close all low-profit company-owned stores by the end of the current fiscal year to remove an obstacle that has been impeding growth for many years. This is much sooner than had been originally planned. In total, we will reduce the number of company-operated stores by 250, bringing the number of these stores remaining, at the end of February 2003 to 300. The remaining company-operated stores will be run as model stores, with high profitability and a high level of operating efficiency. Employees displaced by the closures will be reassigned to Head Office or other stores, given the opportunity to become franchise owners or offered early voluntary retirement packages. In fiscal 2002, we plan to book an extraordinary loss of about ¥3.0 billion for early retirement charges. However, in fiscal 2003 we should see lower personnel expenses and our workforce reduced to about the right level.

People at the heart of creating 'hot' stations—1

Supermarkets in the Yamagata area have won strong support from customers by serving the needs of communities. Conscious of this, we aim to cater to regional preferences consistent with our vision of becoming "the 'hot' station in the neighborhood." Store supervisors, franchise owners and regional Product Depts. are cooperating to improve the development and sale of locally grown or produced products (e.g., cherries) and mainstay products tailored to local tastes (e.g. *bento*-boxes and rice balls).

YASUHISA KADOYA
District Operation Manager,
Yamagata District
Tohoku No.1 Division

We cover Tokyo's Shinagawa and Minato wards, home to numerous office buildings. As many of our customers are women, we offer a rich assortment of salads, desserts and other products targeted at this customer segment. We make a point of serving the large number of customers who come through our doors daily as quickly as possible, aware they have busy jobs to go back to. We also make a concerted effort to offer friendly service and keep our stores organized and clean.

YASUHIKO HIROKANE
District Operation Manager,
Shinagawa District
Kanto No.3 Division

Other losses will arise from dealing with unproductive assets in fiscal 2002. We will book disposal losses from scrapping old POS registers and store computers due to the introduction of a new information system. There will also be losses on the sale and revaluation of marketable securities, and losses on the disposal of unused software with no value in use. Fiscal 2002 will thus see us clear away most growth impediments. While these actions will result in a substantial increase in special losses in fiscal 2002, leading to a sharp drop in net income, they pave the way to growth thereafter.

Optimizing Manufacturing, Distribution and Purchasing Networks

We are stepping up the pace of our ongoing across-the-board review of manufacturing, distribution and purchasing networks with the aim of completing it around the middle of fiscal 2003. This review targets an improved operating cost structure and stronger product development capabilities.

Around 60 vendors in the 47 prefectures nationwide produce main dishes, such as *bento*-boxes and rice balls, prepared breads, prepared noodles, delicatessen items and other important original products for sale in our stores. We are considering the rapid restructuring of this network. Our objective is to rebuild our network around the best vendors, those who are continuously improving product development and production capabilities through investment in the latest equipment. To make this network more robust and ensure it works more effectively, we need to forge mutually beneficial relationships. These win-win relationships must raise the earnings of vendors, as well as Lawson and its franchise owners, spurring growth and providing the funds for further investment.

One of our key conditions for selecting vendors will be their ability to guarantee product quality and safety. We were reminded of the importance of ensuring the safety and quality of food products when, in June this year, a foreign object was found in a rice ball sold at a Lawson store. Attention to safety and quality by our management is a prerequisite for offering original products imbuing safety and peace of mind.

The review of our distribution network covers all temperature ranges. For products transported at room temperature, we will switch to a DDC (Dry Distribution Center) system, whereby distribution centers serve as storehouses. The DDC system enables goods to be sorted by store and efficiently delivered together. Under the existing DDP (Dry Distribution Point) system, distribution centers are used as temporary transit points through which goods from vendors pass—vendors take products sorted by store to a distribution center, which then sorts the products by distribution route. We plan to adopt the DDC system in regions throughout the country within the year.

Distribution of frozen products can be improved, too. "Mother" centers established with manufacturers in each region, backed by distribution centers, will make possible the stable supply of fresh products that are never out of stock.

Saving distribution costs of these two types of products, as described above, will involve realignment of distribution channels and integration of distribution centers, roughly halving their number.

Regarding chilled foods, distribution for the bulk of these products was consigned to Daiei Logistics Systems, Inc. But from the start of fiscal 2002, we have been working with Mitsubishi Corp., which acquired the convenience store division of Daiei Logistics Systems, to optimize distribution costs of chilled foods. We are also working with this leading trading company to make distribution of packaging materials more efficient—types of packaging and manufacturers will be reduced and distribution routes streamlined to save costs. The cost savings from the above actions will be used to improve the quality of Lawson original products and gross margins.

KOICHI AKASAKA (OWNER),
Kamitsutsui 6 Chome Store
Hyogo Prefecture

Realizing a Vision

Children in Kobe City are given the opportunity to try out different jobs under the city's annual "Trial Work" program. We have participated in this program for around four years. At the request of local elementary and junior high schools, we also visit schools to give talks about our business—the students we meet often visit our store. In these and other ways, we are deepening our role in local communities.

People at the heart of creating 'hot' stations—2

At Lawson, making rice balls begins with the whole team involved in a brainstorming session about what customers want. Project members painstakingly debate key questions such as what to make, how to make products tastier and how to take our rice ball products to a new level. After this kind of effort, nothing gives us greater pride than satisfied customers.

KAZUHITO ITO (RIGHT)
Team Leader,
Rice Ball Project Team

Making Better Original Products—An Ongoing Theme

Food and groceries account for roughly 70% of sales at Lawson stores. Particularly important is our assortment of original products that distinguish us from rival chains—main dishes, prepared noodles, prepared breads, bakery items, delicatessen items and other products. Adding value, catering to regional preferences and changing display and shelf arrangements at each store in this mainstay merchandise category are vital to making our stores more appealing to customers.

Fiscal 2001 marked a major change in consumers' perception of value in Japan—hamburgers were sold at half price and beef bowl meals offered at ¥200, for example. While this was an extension of the deflationary trend in the country, we advanced our own pricing strategy more for competitive reasons. For customers wanting to spend no more than ¥500 on lunch, we began selling traditional Japanese *maku-no-uchi bento*-boxes at ¥390 and encouraged customers to spend the change on drinks and desserts. The promotion raised sales and the number of customers. This strategy was not driven by discount pricing, but by the desire to offer customers products that they perceive as having added value. Unfortunately, we were not able to sufficiently rationalize ingredient and other costs for these *bento*-boxes. Also, customers flocked only to the ¥390 *bento*-boxes, neglecting other products, as we failed to communicate their value to customers. As a result, this low-priced *bento*-box project did not meet its sales and profit targets.

Since the start of fiscal 2002, there are signs that customers' price perceptions have changed slightly. If customers feel that a product has an inherently high quality, they are likely to buy it, even though the price is a little higher. That's why we stopped selling ¥390 *maku-no-uchi bento*-boxes and ¥80 rice balls. We replaced them with an expanded lineup of products centered on *bento*-boxes in the ¥420-¥490 price bracket and augmented our ¥100-¥120 rice balls with ¥160 products and more expensive items. All won strong support from customers.

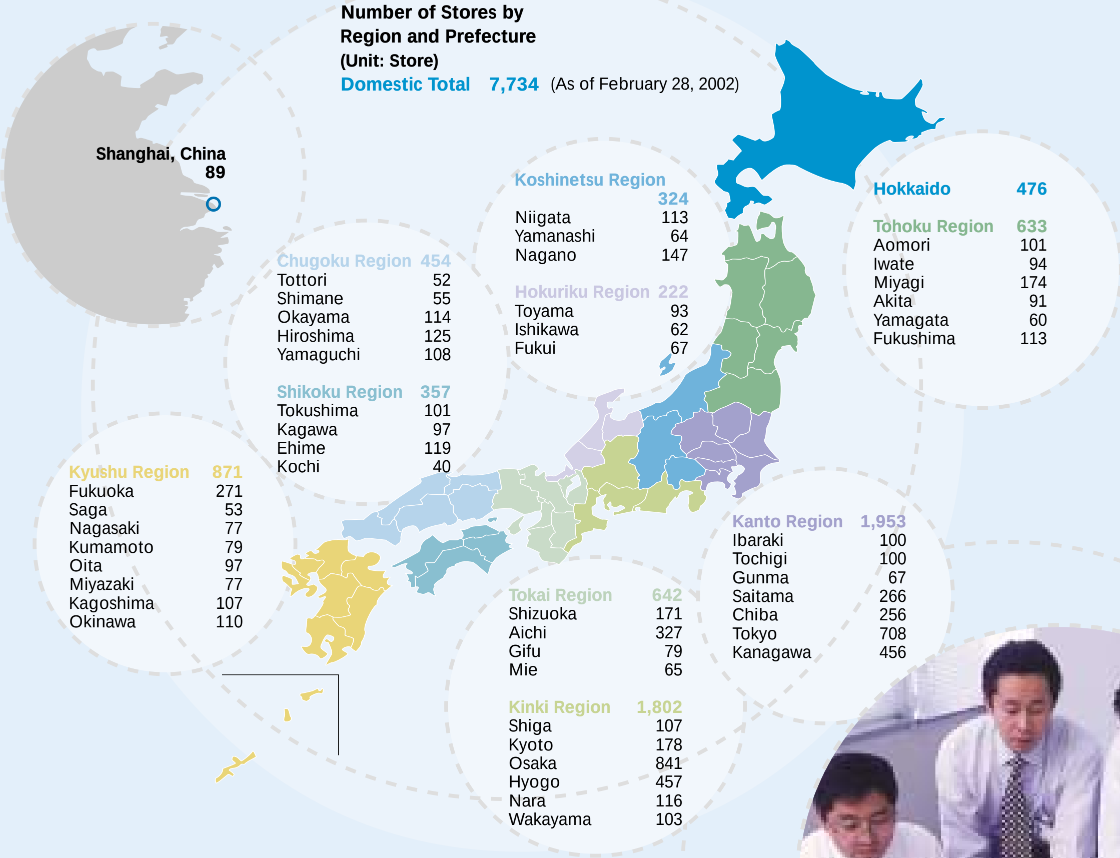
Opening up and strengthening new routes for procuring foodstuffs, rebuilding our vendor network, as previously mentioned, and reforming distribution are crucial to developing products that offer this perceived value and high quality. We weren’t able to do this well enough in fiscal 2001.

Lawson is already opening up new procurement routes for raw materials, participating from the very outset in production on a local basis, both in Japan and overseas. From China, for example, we are procuring eels, involving ourselves right from the initial quality control stage. These actions have helped us to develop value-added products this year. More potential exists to source raw materials in this way.

Reducing costs is also one of our main goals. This will be achieved by switching to long-term contracts for purchasing rice, fish, meat and other main foodstuffs. Given the volumes of these foodstuffs used over a long time, these contracts make more sense than spot purchasing. We are already able to cut procurement costs of broiler chickens, rice, shrimp and some other raw materials in this way. We intend to expand the range of foodstuffs we order like this to achieve cost reductions across a broader range of areas.

Cost savings will be used to improve product quality and thus raise customer satisfaction. Facilitating systematic ordering and purchasing over the medium to long term requires a complete rethinking of our product lineup from the same extended perspective. We must quickly develop appealing menus in collaboration with vendors. Since the fall of fiscal 2001, we have been holding category-specific Menu Development Meetings with partner vendors to discuss new products to be sold nationwide or only locally. These meetings are designed to improve the quality of items sold on a regional basis and increase the frequency with which new ideas reach the market.

Number of Stores by Region and Prefecture
(Unit: Store)
Domestic Total 7,734 (As of February 28, 2002)



Opening Stores With a Greater Emphasis on Profitability

Lawson is the only convenience store chain in Japan with a presence in all 47 prefectures. We have used our size and network to grow. But for too long we overemphasized size, becoming preoccupied with the number of stores. Quality didn't keep pace. As a result, we have seen an increase in the proportion of stores with low daily sales and profits. These stores have hampered our growth. We have focused on raising the quality of the chain over the last couple of years by increasing daily sales at new stores and relocating and closing unprofitable ones. We had two aims: improve earnings for franchised owners and Lawson.

People at the heart of creating 'hot' stations—3
Akita Area Staff
When we opened stores in Akita we were determined not to compromise. We conducted extensive surveys and gathered detailed information on optimal store locations. This formed the basis of some frank discussions on where to locate.

At fiscal 2001 year-end, there were 7,734 stores in the Lawson chain in Japan, 51 more than a year ago. Several actions lifted average daily sales at new stores by approximately ¥10,000 over the previous fiscal year to ¥431,000. We lowered our target for new store openings from 725 to 600, as we placed greater emphasis on quality than quantity. We redefined parameters for prime new-store locations in each region, so-called "grid points," and worked to open a higher proportion of stores in these areas. And we concentrated on opening stores in two types of areas: major urban markets such as the Tokyo, Osaka and Nagoya regions; and areas within regions such as Tohoku, Shikoku and Kyushu where other chains haven't yet established a presence. We call this the first-mover advantage. Concurrently, we aggressively relocated and closed stores to also raise the quality of the chain and the earnings of relocated franchise owners. As a result, while existing store sales decreased by 1.6% from fiscal 2000, average daily sales for all stores were up ¥3,000 to ¥489,000.

Adherence to our strategy for raising the quality of the chain will increase return on investment in stores further. By holding down the number of new store openings in fiscal 2001, we had about 280 contracts for new stores at the start of fiscal 2002, around 50 more than in the previous year. And we have decided to reduce the target for new store openings by 100 to 500 in fiscal 2002. This will ease the pressure on development teams, allowing them to focus on quality, which basically means raising new store daily sales. Opening a greater percentage of stores in "grid point" areas will also enhance the chain's quality. Assisting us in this effort will be a new sales forecasting system that is slated to come on line in June this year. We believe that the system will be instrumental in improving daily sales at new stores by curbing the number of these stores that end up having low daily sales.

Earnings of new stores will be examined more closely, too. The nationwide average of new store daily sales will remain a key indicator. But we also plan to measure daily sales and earnings by region and store. New indicators are being considered for this purpose. Regional evaluations will reflect economic conditions surrounding each new store. Individual store evaluations will focus more on daily sales and the earnings of franchise owners and Lawson. In all, this approach signals are major shift to management that places even more importance on profitability.

People at the heart of creating 'hot' stations—4

Okinawans are passionate about Okinawa and staunchly proud of their community. Store owners and store supervisors often tell us that they want Lawson stores nationwide to carry products from Okinawa to help develop local industry. We'd love to let the rest of the country in on the secret of the quality of Okinawa produce. In Okinawa, we try our best to make products suited to local tastes, such as bento-boxes using locally grown nigauri that are sold only in Okinawa. Although Lawson was a latecomer to Okinawa, we have won strong support from local people. We aim to build on this trust by making our stores even more appealing.

MANABU KOMURA
District Operation Manager,
Naha District
Kyushu No.2 Division

Our seven-person development team began opening stores in Akita five years ago. Our unwavering policy has been to create stores that offer even greater levels of convenience—for example, our stores have large car parks and are licensed to sell alcohol and tobacco products. With the severe winters and large snowfalls in Akita Prefecture, opening stores before winter sets in is crucial.

HIDETSUGU SATO
Area Recruit Manager,
Akita Area
Tohoku Region

Realizing a Vision

MITSUNORI NAGAI (OWNER)
Kurashiki Kanda 3 Chome Store
Okayama Prefecture

About eight years ago, after a suggestion from some part-time workers, we started collecting and selling aluminum cans, donating the saved money to the local community. In the fourth year of the can collection drive, we donated three wheelchairs to local elementary schools. Students use the wheelchairs for practice before visiting senior citizen homes where they get first-hand experience of caring for the elderly. Customers aware of this program go out of their way to bring cans to our store.

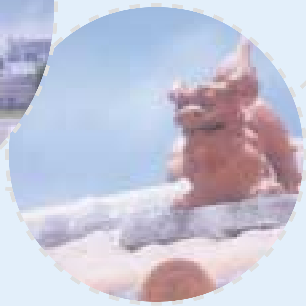
Opening new stores has been extremely difficult in recent years. We have faced stiff competition not just from peer companies, but also from the foodservice and restaurant industries and other retailers. Furthermore, we are seeing major shifts in store operating environments, particularly in major cities. This is necessitating relocation and closure of stores. Finding prime sites for opening stores on our own has become more problematic as a result, raising the importance of cooperating with other companies. That's why we are working to build many networks, such as with our strategic partner Mitsubishi Corp. These networks will allow us to gather information ahead of other companies about prime sites, such as those near railway stations that have become vacant as a result of bank restructuring and branch integrations, as well as to negotiate with land owners.

In fiscal 2002, we plan to dramatically reduce the number of company-operated stores and close 500 others. As plans also call for 500 new stores to be opened, there should be no change in the size of our chain in Japan from fiscal 2001. From fiscal 2003 onward, relocations by franchise owners will account for most closures; there should be no need to close company-operated stores. This should result in a net increase in the number of stores and greater profitability as quality improves.

People at the heart of creating 'hot' stations—5

Naha DR

Store supervisors discuss suggestions and opinions offered by franchise owners on how to make stores better suited to the Okinawan market.



Revitalizing Front-Line Operations

Organizational reforms implemented on June 1 this year will see us channel more resources to front lines and departments and stations supporting front lines. We streamlined Head Office with the aim of facilitating better support of front-line operations. Previously, we had 12 operational regions. These have now been divided into 19 to offer more detailed support and guidance to stores. And we increased the number of store supervisors by about 10%. Furthermore, former store supervisors and managers working at Head Office or district offices*5 have been appointed as chief supervisors to lead front-line operations. In another move, we plan to establish a FC Support Station in each region to carry out specialist administrative duties not directly related to efforts to boost store earnings. Freed from administrative duties, store supervisors will have more time to spend helping stores. Yet another initiative is weekly meetings at Head Office bringing together all District Office Managers (DOMs), key division managers and the president. Meeting on a more personal level with DOMs, who each supervise around 10 store supervisors, will bridge the communication gap between them and Head Office, allowing Head Office to better reflect front-line needs in strategy. This is one example of Head Office's new role as a Support Station*6.

These changes carry significant meaning. Supervisors will have more time to spend helping stores and franchise owners. Lawson will better take into consideration regional and customer preferences to create better stores and product lineups. In effect, the changes will allow us to devote our energies to creating "the 'hot' station in the neighborhood." What's more, information gathered from customers and store supervisors will play a more prominent role in the creation of products and services. The front line

People at the heart of creating 'hot' stations—6

Shinagawa DR

Store supervisors gather once a week at the District Office to receive instructions from the DOM, exchange information on popular products and freely share views. Information is fed back to Head Office and used to provide guidance to stores.

*5 District offices are the Head Office's main point of contact with stores. On average, 1 manager and around 10 store supervisors work at each district office.

*6 The Head Office is positioned as a Support Station, with the aim of realizing the corporate vision of transforming Lawson into "the 'hot' station in the neighborhood" by supporting franchise owners, store supervisors and other personnel in front-line sales. All Head Office divisions have now been renamed "Stations."

will be at the center of all our actions, with the result being greater customer satisfaction. We hope that this will be evident in all our stores nationwide by the end of fiscal 2003.

So as to encourage employees, we have created a system that enables them to concentrate on work at front lines. The better the results they deliver the more they will be paid. As previously mentioned, we have already introduced a performance-based remuneration system for executive officers and managers in which bonuses will differ dramatically depending on individual and company results. Supervisors will be evaluated based on earnings of franchise owners under their watch, not sales. This will increase their commitment to driving growth in earnings at franchise owners and Lawson.

Lawson firmly believes that people are key assets. Their actions are key to revitalizing stores that raise customers' view of Lawson. They are thus key to raising our corporate value.

LETSS to Revitalize Stores

In fiscal 2002, we will complete the switch over to LETSS (Lawson's Epoch-making Total Strategic System), our next-generation online information system. In the first half of fiscal 2002, POS registers, store computers and other hardware will be replaced, followed by all software in the second half. The introduction of new machines will improve the efficiency of store operations and the speed at which data is processed. Loppi multimedia terminals will be appreciably faster and store management systems easier to use, for example. There will be a greater sense of speed all round. System components that help raise sales—from forecasting demand and managing the ordering process to creating planograms—will be significantly upgraded, contributing to better support for stores.

LETSS will pinpoint customer needs. In addition, a sophisticated program for forecasting demand will prevent lost sales opportunities, and LETSS will be a value tool for creating planograms tailored to each store, as well as offering more appealing products and services with high added value. This will be a giant first step on the way to becoming "the 'hot' station in the neighborhood."

People at the heart of creating 'hot' stations—7
Yamagata DR
The managers of company-operated stores participate in regular weekly meetings at district offices with store supervisors. Participation in these meetings energizes managers and is part of our staff-training program.

People at the heart of creating 'hot' stations—8

In a tie-up with Mitsubishi Corp., Lawson sold premium goods together with tickets for the popular movie Spirited Away, using Loppi multimedia terminals. Lawson started sales of movie tickets and packs featuring Lawson limited-edition character goods and CD-ROMs of the movie theme song in June 2001, about one month before the movie opened at box offices. This successful campaign netted sales of roughly ¥1 billion. Loppi multimedia terminals gained a higher profile among customers when Lawson started using them to sell tickets on an exclusive basis tickets for Mitaka no Mori Ghibli Museum, which opened in Mitaka City, Tokyo, in October 2001.

FUMIO YAMAZAKI (LEFT)
General Manager, Multi-Media Dept.
Deputy General Manager, New Business Development Division

KINO ARAI (RIGHT)
New Business Development Division

Staff Training—An Investment in Lawson's Future

While we have offered training to front-line employees in the past, there wasn't a clear career path. Instead of relying on outside hiring to recruit the managers we need as we have in the past, we intend to groom people inside Lawson as future managers. Overhauling our staff-training framework to create a career path is vital in this regard. Already, we have started giving young and mid-career employees the chance to be managers or be part of task forces working on important projects so that they learn and gain experience.

We are also considering creating new positions to give people with specialist skills the chance to apply them as 'super' store managers or 'super' store supervisors. At the same time, we will continue to actively recruit people from outside Lawson. This is important for stimulating the organization and creating new value.

This human resource development program is to be created in fiscal 2002 and should be fully operational in fiscal 2003. We view the expenses here as an investment in Lawson's future.

True to the Name—Becoming More Convenient

Lawson Challenge 2004 sets consolidated targets, not parent-company only goals. These targets for fiscal 2004 factor in earnings from consolidated subsidiaries. Three companies are strategically important—Lawson Tickets*7, LAWSON ATM Networks*8 and LAWSON CS Card*9. They will all raise convenience and thus encourage customers to visit our stores more often.

Lawson is unique in that all stores have Loppi multimedia terminals that allow customers to order products and services and access information. The products and services offered through these machines—concert, sports events, movies and other tickets, as well as related products and services—set Lawson apart from rival companies. Instrumental to this service is Lawson Tickets, one of the top companies in a ticketing industry dominated by a few main players. Lawson Tickets is intent on building a stronger position in the industry, while

*7 Established in July 1992, Lawson Tickets sells concert, sports and other event tickets via Loppi multimedia terminals. In fiscal 2001, it had capital of ¥1.7 billion, an annual turnover of ¥38.2 billion and operating income of ¥0.6 billion. Lawson Tickets is 88.9% owned by Lawson. The next largest shareholder is Dai Nippon Printing Co., Ltd. (4.3%).
*8 Established in May 2001, LAWSON ATM Networks is 65% owned by Lawson. Of the remaining shares, 4 major financial groups collectively hold 23%, Mitsubishi Corp. 5%, SECOM CO., LTD. 2.5% and others the remainder. It has capital of ¥3.0 billion.
*9 Established in February 2002, LAWSON CS Card is 50% owned by Lawson, 30% by Credit Saison and 20% by Mitsubishi Corp. It has capital of ¥5.0 billion.

enhancing its capabilities to further differentiate itself. In doing so, Lawson Tickets will deliver greater convenience to Lawson customers.

The provision of financial services is also adding to Lawson's appeal. In May 2001, we formed LAWSON ATM Networks, which has struck up alliances with all city banks, including Japan's top four banking groups, and major regional banks. This covers almost all the ATM cards held by Lawson customers. As of May 31, 2002, LAWSON ATM Networks had installed ATMs in approximately 2,150 Lawson stores in Tokyo, Kanagawa, Osaka, Hyogo, Nara, Aomori, Hokkaido, Nagano and Nagasaki. Plans call for around 3,000 stores to have ATMs before the end of fiscal 2002, raising customer convenience in even more regions of Japan. Ultimately, we want to install ATMs in as many stores as possible. The ATMs can also be linked with Loppi multimedia terminals to provide a variety of financial services.

The third strategic subsidiary, LAWSON CS Card, established with Credit Saison and Mitsubishi Corp. in February this year, is promoting LAWSON PASS, a Lawson-brand credit card. Customers can withdraw small amounts of cash with this card, as well as accumulate shopping points that can be traded in for products under a loyalty program that aims to get customers visiting stores more often. The card is also an important conduit for gathering information for one-to-one database marketing to preferred customers. Lawson will enhance the usefulness of LAWSON PASS as a new means for stores to cement relationships with customers.

Realizing a Vision

HIROSHI ITABASHI (OWNER, RIGHT)
HIROKO ITABASHI (LEFT)
Inokashira 5 Chome Store Tokyo

I became an affiliated member of the Lawson network six years ago after running the liquor store my grandfather set up in 1950. I feel strongly about preserving my town and running a Lawson store helps me to do that. Like my grandfather I became a volunteer firefighter. About five years ago, I received an award from the Fire and Disaster Management Agency for being the first to arrive at the scene of a fire before the fire brigade.

Creating a Vibrant Lawson

Lawson is also testing new ways to make its stores more convenient from an entirely different perspective. This approach involves reassessing what convenience means.

Convenience stores typically have 100 to 150 square meters of floor space with around 2,500 products, most of which people use or consume on a daily basis. Stores are also clean and open 24/7. In the case of Lawson, men in their 20s and 30s are the largest customer segment.

But convenience stores in their present form don't cater fully to the diverse and ever-changing needs of customers. We are asking ourselves an important question: Are we catering to needs in specific locations and to customers other than our main customers? We have started to draw up plans for super convenience stores that go beyond the conventional model, as we attempt to answer all needs.

Hospital-based Lawson stores are one example. The role of these stores, in closed surroundings, are materially different from those of roadside stores. The product mix must be changed to offer nursing care and personal care items for patients. Designs must change—these stores must be barrier free, offering more aisle space. A new approach is thus needed for such unique areas. University campuses, offices and theme parks are other examples of locations possessing potential for stores that are largely immune to competition from rival stores. By opening innovative stores that break conventional wisdom in these locations, we can cater to specific customer needs.

Natural Lawson is another trial format. This format is designed to cater to what Lawson sees as an emerging market—consumers who are becoming increasingly health conscious, especially older people and women. Lawson believes that as people go about their busy daily lives they will seek natural, healthy products that can be purchased with a minimum of fuss. We feel such a need exists particularly in major metropolitan areas.

We are intent on creating new paradigms based on innovative ideas. We hope that this will re-ignite the spirit of challenge that has always defined Lawson. Making Lawson an exciting, vibrant place will spur new growth.

Natural Lawson

NATURAL LAWSON

Hospital-based Lawson

FIVE-YEAR SUMMARY

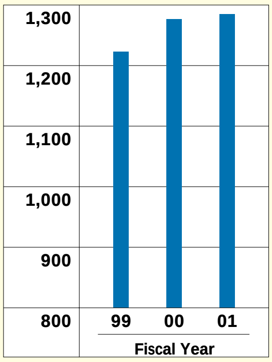
LAWSON, INC. and Consolidated Subsidiaries
Years Ended February

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2002	2001	2000	1999	1998	2002
For the year:						
Operating revenues:						
Franchise commission						
from franchised stores	¥ 141,621	¥ 135,237	¥ 124,587	¥115,087	¥ 106,829	$1,054,120
Net sales from						
Company-operated stores	101,353	132,921	155,388	177,070	180,995	754,395
Other	13,142	12,060	11,878	10,559	16,087	97,819
Total operating revenues	256,116	280,218	291,853	302,716	303,911	1,906,334
Net sales by product category:						
Fast foods	356,784	362,979	350,702	333,580		2,655,631
Daily delivered foods	91,108	90,569	89,248	87,818		678,139
Processed foods	583,712	562,777	528,188	494,090		4,344,712
Non-food products	253,953	261,313	254,742	243,309		1,890,234
Total store sales	1,285,557	1,277,638	1,222,880	1,158,797		9,568,716
Operating income	36,363	41,279	40,185	37,073	38,666	270,659
Income (loss) before income taxes						
and minority interest	29,028	29,846	33,869	26,411	(83,105)	216,062
Net income (loss)	16,123	16,368	15,011	10,675	(40,586)	120,007
At year-end:						
Total assets	¥ 342,934	¥ 387,236	¥ 339,413	¥411,994	¥ 448,704	$2,552,542
Total shareholders' equity	149,827	178,448	95,932	83,124	72,449	1,115,200
Total number of stores[1]	7,824	7,749	7,432	7,066	6,686	
Number of employees (Full-time)	3,548	4,170	4,234	4,418	4,482	
	Yen					U.S. Dollars
Per share data:						
Net income (loss)[2]	¥ 146	148	143	102	¥ (473)	$ 1.09
Cash dividends	41	35	850	700		0.31
ROE	9.8%	11.9%	16.8%	13.7%	(63.1)%	
ROA	4.4%	4.5%	4.0%	2.5%	(9.2)%	

Notes: 1. The "Total number of stores" includes stores belonging to Shanghai Hualian Lawson Co., Ltd., as of its December 31, 2001 balance date.
2. The data has been restated to reflect the 1 to 50 stock split on April 14, 2000.

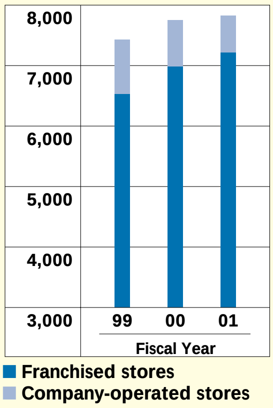
MANAGEMENT'S DISCUSSION AND ANALYSIS

Total Net Sales (Consolidated)
(Billions of Yen)



*Including franchised-store sales

Total Number of Stores (Consolidated)
(Stores)



OVERVIEW

The Japanese economy slid deeper into recession in fiscal 2001, ended February 28, 2002. Exports and capital expenditures fell due to a downturn in IT demand, share prices dropped and the jobless rate rose. The uncertainty created by these factors led consumers to tighten their purse strings. The convenience store industry faced difficulties too, with the average spending per customer in stores falling on account of protracted deflation and lower prices in the foodservice and restaurant industries.

Lawson responded to these challenging conditions by working to attract more customers to its stores. Actions included sales promotions, such as the *New Thank-you Sale*, and the sale of tickets to popular movies and concerts through affiliations with promoters. Despite these efforts, existing store sales edged down year over year and the Company experienced delays in opening new stores. As a result, net sales throughout the Lawson chain fell far short of the target for the year, rising only 0.6% to ¥1,285,557 million (US$9,568,716 thousand). Lawson managed to maintain the store gross profit ratio at the same level as fiscal 2000 despite downward pressure on margins from sales promotions. However, operating income dropped 11.9% to ¥36,363 million (US$270,659 thousand), as the Company was unable to make sufficient progress cutting costs to cope with soft sales. Progress was hampered by the Company's inflexible selling and administrative expense structure. Net income was ¥16,123 million (US$120,007 thousand), a marginal fall of 1.5% from the previous fiscal year. Propping up the bottom line was a 65.1% decrease in interest expense and the booking of a gain on securities contributed to an employees' retirement benefit trust upon the introduction of new accounting standards for retirement benefits.

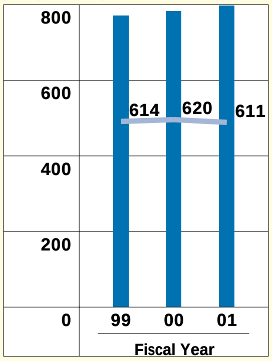
STORE NETWORK

Number of Stores

In fiscal 2001, Lawson opened 601 new stores and closed 550, including store relocations, resulting in a net increase of 51. This number was sharply lower than the net increase of 305 stores in fiscal 2000 and reflects the priority that Lawson has placed since last fiscal year on "quality first" in store development. At year-end, Lawson's convenience store network consisted of 7,734 stores. In addition, there were 89 stores in Shanghai, China at year-end, 20 more than a year ago.

Average Number of Customers (Per Day) & Average Transaction Value (Per Customer)

(People, Yen)



Customers
Transaction value per customer

The number of Company-operated stores decreased by 156 to 555 stores as a result of actions to close inefficient stores and convert others to more efficient franchise formats. The Company plans to close another 200 or so low-profit stores during fiscal 2002 and convert around 50 profitable stores into franchised stores, bringing the number of Company-operated stores to approximately 300.

(Stores)

	Fiscal 1999	Fiscal 2000	**Fiscal 2001**
Number of stores	7,378	7,683	**7,734**
Openings	712	725	**601**
Closures	350	420	**550**
Net increase	362	305	**51**

Number of Stores by Region

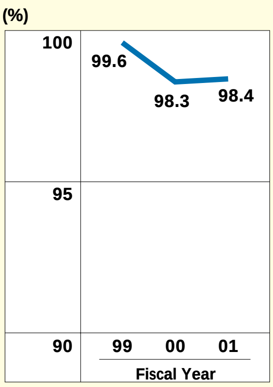
The Company worked to cement its first-mover advantage as the only Japanese convenience store chain with a presence in all of Japan's 47 prefectures. To raise the efficiency of store operations, the Company pursued a strategy of opening stores mainly in strategic regions, namely major metropolitan centers and areas where it has opened stores ahead of competitors. During the year, Lawson reached the 100-store mark in Aomori, Ibaraki, Tochigi and Tokushima prefectures, giving it at least 100 stores in 28 prefectures.

By region, Lawson's 7,734 stores nationwide break down as follows: Kanto 25.2%, Kinki 23.3%, Kyushu 11.3%, Tokai 8.3%, Tohoku 8.2%, Hokkaido 6.1%, Chugoku & Shikoku 10.5%, Koshinetsu 4.2% and Hokuriku 2.9%. In fiscal 2001, net store increases were recorded mainly in Kyushu, Shikoku and Tohoku. Meanwhile, the number of Lawson stores decreased chiefly in Tokyo, Kanagawa and Osaka, as the Company relocated or closed stores with low average daily sales, particularly Company-operated stores.

A New Yardstick for Store Development

Lawson has formulated a new policy of placing even greater emphasis than before on profitability when opening stores. Average daily sales have been the primary measure of the earnings potential of new stores in convenience store operations. But averages often smooth out regional characteristics, which can vary significantly. Therefore, the Company plans to use profitability by region and store, which takes into account regional differences, as its basic yardstick for store development. The Company is presently working out a specific formula, which it hopes to introduce before the end of the current fiscal year. In fiscal 2002, the Company will reduce the number of store openings from 600, as in the past, to 500 by developing stores with an increased emphasis on profitability in this manner. Thereafter, it aims to increase its store network by a net 200–300 every year.

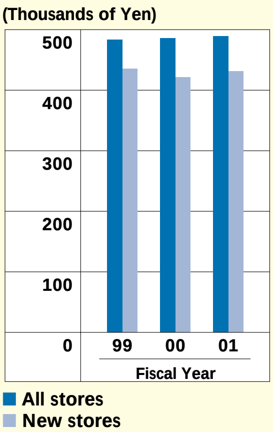
Existing Store Sales



Number of ATMs in Stores

Lawson and subsidiary LAWSON ATM Networks, Inc. began offering ATM services in October 2001 using ATMs installed in Lawson stores. City banks, including Japan's four major banking groups, and major regional banks are offering services through these machines. One key advantage of Lawson's in-store ATM services is that most customers hold a cash card from one of the participating banks with which they can use these ATMs. As of May 2002, ATMs had been installed in stores in the prefectures of Hokkaido, Aomori, Nagano, Kanagawa, Nara, Hyogo and Nagasaki, as well as Tokyo and Osaka. Since their installation, Lawson has seen a gradual rise in the frequency of use. Lawson plans to enhance convenience, attract customers to stores more frequently, as well as win new customers, by offering additional ATM services. This should help lift consolidated earnings. As of February 28, 2002, ATMs had been installed at 1,922 stores, with plans calling for 3,000 stores to have ATMs by the end of fiscal 2002. Eventually, all Lawson stores throughout the country will have ATMs.

Average Daily Sales



STORE OPERATION ANALYSIS

Net Sales

Total net sales of Lawson stores including franchised stores were ¥1,285,557 million (US$9,568,716 thousand) in fiscal 2001, up 0.6% year on year. Sales increases in daily delivered foods and processed foods were largely negated by declines in fast foods and non-food products.

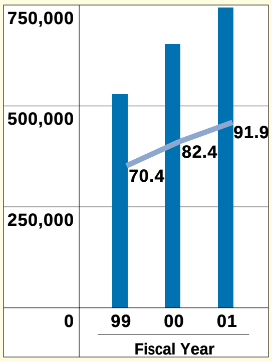
(a) Existing Store Sales

In fiscal 2001, net sales at existing stores fell for the fourth straight year, adversely affected by a number of lingering macroeconomic factors. These included weak consumer sentiment, continuing deflation, fierce price competition in the ready-to-eat and foodservice industries, and the start of 24-hour operations at supermarkets and other business formats. Sales were particularly soft in the second half of the year as the *New Thank-you Sale*, which spurred a dramatic increase in store visitors in the first half of the year, was half as effective in the second half of the year. The result was that lower prices and a lower number of customers dragged sales down.

(b) Average Daily Sales

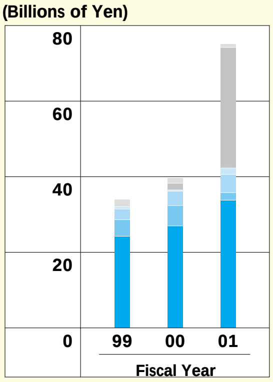
Average daily sales for all stores during fiscal 2001 were ¥489,000, ¥3,000 higher than the previous fiscal year. Sales growth at stores opened in the previous fiscal year countered weak sales at existing stores. In fact, average daily sales at new stores rose ¥10,000 to ¥431,000 due to the concentration of store openings in major metropolitan areas, greater emphasis on the quality of stores and an improved system for forecasting daily sales at new stores.

Third-Party Bill Settlement Service
(Millions of Yen)



Transaction volume
No. of settlements (Millions of transactions)

Loppi (Multimedia Terminal) Transaction Volume
(Billions of Yen)



Concert tickets
Game software
Travel tickets
Copyrighted items
Bill settlement
Others

Breakdown of Sales by Product Category

Sales of processed foods increased 3.7% year on year to ¥583,712 million (US$4,344,712 thousand) on strong demand for tobacco products, and confectionary products priced at ¥100. Processed foods accounted for 45.4% of total net sales. Fast food sales decreased 1.7% to ¥356,784 million (US$2,655,631 thousand) due to lackluster demand for boxed lunches, rice balls, sushi and other main dishes, as well as prepared breads and other products. Daily delivered food sales edged up 0.6% to ¥91,108 million (US$678,139 thousand) thanks to strong demand for fresh and chilled foods, which offset soft sales of frozen foods and ice cream. Food sales as a whole increased 1.5% to ¥1,031,604 million (US$7,678,482 thousand).

Sales of non-food products declined 2.8% to ¥253,953 million (US$1,890,234 thousand) despite encouraging sales of an enhanced lineup of women's cosmetics available only in Lawson stores and health drinks. This growth was negated by lower demand for toys, magazines and other products.

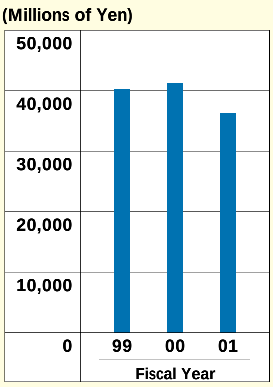
	Millions of Yen					
	Fiscal 1999		Fiscal 2000		Fiscal 2001	
	Net sales	% of net sales	Net sales	% of net sales	Net sales	% of net sales
Processed foods	¥ 528,188	43.2%	¥ 562,777	44.1%	**¥ 583,712**	**45.4%**
Fast foods	350,702	28.7%	362,979	28.4%	**356,784**	**27.8%**
Daily delivered foods	89,248	7.3%	90,569	7.1%	**91,108**	**7.1%**
Food total	968,138	79.2%	1,016,325	79.6%	**1,031,604**	**80.3%**
Non-food products	254,742	20.8%	261,313	20.4%	**253,953**	**19.7%**
Chain total	¥1,222,880	100.0%	¥1,277,638	100.0%	**¥1,285,557**	**100.0%**

Bill Settlement Services and Loppi

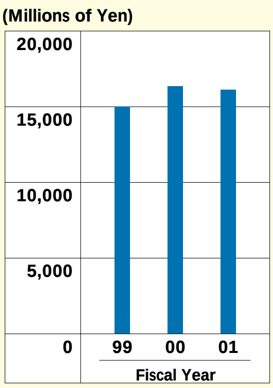
In fiscal 2001, the total value of transactions handled by Lawson, mainly consisting of public utility bills, was ¥743,482 million, up 13.9% year on year. Handling commissions were ¥5,689 million, up 7.9% year on year.

Sales through Lawson's Loppi multimedia terminals climbed 92.8% to ¥75,054 million, reflecting a continuation of steadily increasing sales of concert tickets via subsidiary Lawson Tickets Co., Ltd. Also boosting sales were a dramatic increase in demand for billing settlement services, spurred by the use of Loppi to apply for university entrance exams and Kanji certification tests as well as for round-the-clock repayment of loans to consumer finance companies.

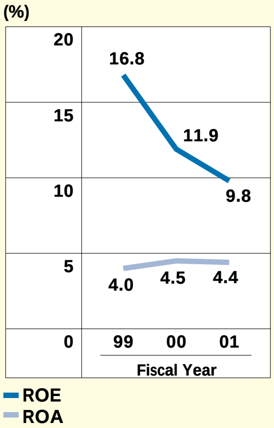
Operating Income



Net Income



Return on Equity
Return on Assets



INCOME AND EXPENSES

Total net sales of Lawson stores including franchised stores increased 0.6% to ¥1,285,557 million (US$9,568,716 thousand). But operating revenues decreased ¥24,102 million (8.6%) to ¥256,116 million (US$1,906,334 thousand). This decline mainly reflected a ¥31,568 million (23.7%) fall in net sales from Company-operated stores resulting from closures of some stores and efforts to convert stores to the highly efficient franchise format. Countering this decline was a 4.7% increase to ¥141,621 million (US$1,054,120 thousand) in franchise commission from franchised stores on higher sales at these stores, and a 9.0% rise in other operating revenues to ¥13,142 million (US$97,819 thousand) due principally to higher ticket transaction volumes at Lawson Tickets.

Selling, general and administrative expenses increased ¥4,085 million (2.9%) to ¥144,523 million (US$1,075,720 thousand). The main components of this increase were a ¥1,230 million (18.9%) rise in facility leasing expenses due to the introduction of MMS (Multi-Media Server) and a new POS (Point of Sales) system, and a ¥2,394 million (7.0%) increase in leasing costs because more properties were leased for opening more stores. Consequently, operating income fell ¥4,916 million (11.9%) to ¥36,363 million (US$270,659 thousand).

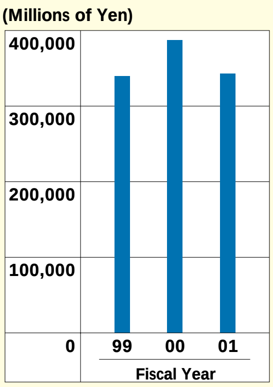
Income before income taxes and minority interest decreased ¥818 million (2.7%) to ¥29,028 million (US$216,062 thousand). This reflected a ¥3,857 million gain on securities contributed to an employees' retirement benefit trust upon the adoption of related accounting standards, which was outweighed by other expenses amounting to ¥10,057 million. The main components of these expenses were a ¥6,017 million loss on disposal of property and store equipment from store closures and ¥2,685 million for premium severance benefits attached to an early voluntary retirement program. Net income decreased ¥245 million (1.5%) to ¥16,123 million (US$120,007 thousand). Net income per share, which takes into account the effects of stock splits, decreased ¥2 (1.4%) to ¥146.

ROA decreased by 0.1 of a percentage point to 4.4% and ROE declined 2.1 percentage points to 9.8%.

SUBSIDIARIES

The consolidated results include the results of 5 consolidated subsidiaries and 2 equity-method affiliates. The Lawson Group is engaged in convenience store, ticket sales, e-commerce and financial services businesses. The results of major Group companies included within the scope of consolidation for the year were as follows:

Total Assets

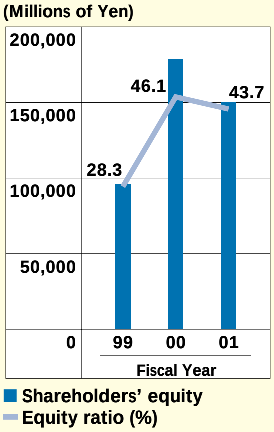


Operating Results of Major Group Companies

	Millions of Yen						
	Lawson Tickets Co., Ltd.	Shanghai Hualian Lawson Co., Ltd.	LAWSON ATM Networks, Inc.	LAWSON e-Planning, Inc.	i-Convenience, Inc.	ECONTEXT, INC.	LAWSON CS Card, INC.
	Consolidated subsidiary	Consolidated subsidiary	Consolidated subsidiary	Consolidated subsidiary	Consolidated subsidiary	Equity-method affiliate	Equity-method affiliate
Fiscal 2000							
Operating revenues . . .	4,514	2,292	—	159	0	36	—
Operating income (loss)	510	(149)	—	20	(58)	(214)	—
Net income (loss)	642	(168)	—	11	(70)	(217)	—
Fiscal 2001							
Operating revenues . . .	**5,119**	**3,033**	**1,248**	**178**	**103**	**480**	**—**
Operating income (loss)	**508**	**(183)**	**(303)**	**22**	**(473)**	**(244)**	**—**
Net income (loss)	**275**	**(146)**	**(326)**	**5**	**(470)**	**(233)**	**—**

Note 1: Shanghai Hualian Lawson Co., Ltd. has a December 31 balance date.

Shareholders' Equity & Equity Ratio



FINANCIAL POSITION

Current assets decreased ¥46,460 million to ¥131,221 million (US$976,710 thousand). This principally reflected a ¥62,006 million decrease in cash equivalents and marketable securities resulting from the sale of securities held for investment to fund the repurchase and retirement of treasury stock.

Property and store equipment decreased ¥12,629 million to ¥76,436 million (US$568,931 thousand), mainly due to the devaluation of land. Investments and other assets increased ¥14,787 million to ¥135,277 million (US$1,006,901 thousand) due to the recognition of ¥6,088 million in deferred tax assets for land revaluation. An increase in software development costs and other capital costs for LETSS resulted in a ¥6,737 million rise in intangible fixed assets to ¥13,905 million (US$103,498 thousand). As a result, total assets stood at ¥342,934 million (US$2,552,542 thousand), down ¥44,302 million from a year ago.

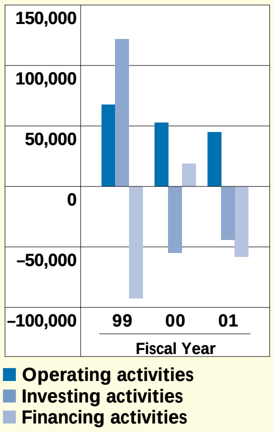
Current liabilities decreased ¥3,815 million to ¥130,513 million (US$971,440 thousand). There was a combined increase of ¥10,573 million in accounts payable, income taxes payable and other accounts. Efforts to reduce debt, however, resulted in a ¥17,250 million decrease in the current portion of long-term debt to ¥3,140 million (US$23,372 thousand).

Long-term liabilities decreased ¥12,663 million to ¥60,316 million (US$448,946 thousand), reflecting partly a ¥3,140 million reduction in long-term debt to ¥0. In fiscal 2000, the Company recorded a cumulative effect of ¥7,973 million liability for employees' retirement benefits as well as ¥5,773 million for retirement allowances. In fiscal 2001, the liability for employees' retirement benefits decreased to ¥3,006 million. The change resulted from the adoption of accounting standards for retirement benefits effective from the fiscal year under review.

Total liabilities decreased ¥16,478 million (7.9%) to ¥190,829 million (US$1,420,387 thousand).

Cash Flows

(Millions of Yen)



Interest-bearing debt declined ¥20,390 million (86.7%) to ¥3,140 million (US$23,372 thousand).

Shareholders' equity decreased ¥28,621 million to ¥149,827 million (US$1,115,200 thousand). This principally reflected a ¥22,772 million decline in retained earnings as ¥34,675 million in funds were used to repurchase and cancel 7.3 million shares of treasury stock to raise earnings per share and ROE. The shareholders' equity ratio decreased 2.4 percentage points to 43.7%. Taking into account the effect of stock splits, shareholders' equity per share decreased from ¥1,553.07 to ¥1,392.45, down ¥160.62 (10.3%).

CASH FLOWS

Lawson's financial policy is to procure sufficient capital and maintain a sufficient level of liquidity for its operating activities. Fundamentally, investment to expand operations, including new stores and renovations, is carried out within the limits of cash provided by operating activities.

Operating activities provided net cash of ¥44,804 million (US$333,488 thousand), ¥7,989 million (15.1%) less than the previous fiscal year. The main reasons for this were a ¥6,800 million contribution to a retirement benefit trust and an increase of ¥2,491 million in income taxes paid.

Investing activities used net cash of ¥44,031 million (US$327,734 thousand). The Company used ¥44,957 million in cash to purchase marketable securities, ¥22,249 million for purchases of property and store equipment related to new store openings, and a ¥2,947 million increase in lease deposits from the opening of new stores. The main elements of capital expenditures were ¥15,807 million for investment in new stores, ¥8,863 million for renovation and other work on existing stores, and ¥10,045 million for a new store system. Free cash flow—the difference between net cash provided by operating activities and net cash used in investing activities—was ¥773 million.

Financing activities used net cash of ¥58,236 million (US$433,465 thousand), ¥20,390 million for the repayment of long-term debt, ¥34,675 million for the purchase of treasury stock for cancellation and ¥4,220 million for cash dividends paid.

As a result, cash and cash equivalents at the end of the year totaled ¥71,269 million (US$530,473 thousand), down ¥57,386 million (44.6%) from a year ago.

CONSOLIDATED BALANCE SHEETS

LAWSON, INC. and Consolidated Subsidiaries
February 28, 2002 and 2001

ASSETS	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 1) 2002
CURRENT ASSETS:			
Cash and cash equivalents	¥ 71,269	¥128,655	$ 530,473
Time deposits	796	1,013	5,925
Marketable securities (Note 6)	30,338	19,453	225,813
Accounts receivable:			
Due from franchised stores (Notes 4 and 11)	6,197	6,075	46,126
Other	13,396	12,873	99,710
Allowance for doubtful accounts	(40)	(74)	(298)
Inventories	2,097	2,577	15,608
Deferred tax assets (Note 14)	1,881	1,404	14,001
Prepaid expenses and other current assets	5,287	5,705	39,352
Total current assets	131,221	177,681	976,710
PROPERTY AND STORE EQUIPMENT (Note 5)**:**			
Land (Note 7)	6,536	20,933	48,649
Buildings	82,267	74,180	612,333
Furniture, fixtures and equipment	79,036	90,095	588,284
Total	167,839	185,208	1,249,266
Accumulated depreciation	(91,403)	(96,143)	(680,335)
Net property and store equipment	76,436	89,065	568,931
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Note 6)	8,112	7,408	60,380
Investments in affiliated companies	322	84	2,397
Long-term loans receivable	5,971	2,928	44,444
Lease deposits (Note 8)	91,277	91,169	679,397
Deferred tax assets (Note 14)	8,060	10,265	59,993
Deferred tax assets for land revaluation (Note 7)	6,088		45,314
Other assets	16,420	9,008	122,218
Allowance for doubtful accounts	(973)	(372)	(7,242)
Total investments and other assets	135,277	120,490	1,006,901
TOTAL	¥342,934	¥387,236	$2,552,542

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 1) 2002
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 9)	¥ 3,140	¥ 20,390	$ 23,372
Accounts payable:			
Trade for Company-operated and franchised stores (Note 10)	62,180	60,260	462,821
Due to franchised stores (Note 11)	4,904	4,617	36,502
Other (Note 10)	17,450	13,797	129,885
Income taxes payable (Note 14)	10,546	5,833	78,496
Money held as agent	27,866	24,831	207,413
Accrued expenses and other current liabilities	4,427	4,600	32,951
Total current liabilities	130,513	134,328	971,440
LONG-TERM LIABILITIES:			
Long-term debt (Note 9)		3,140	
Liability for employees' retirement benefits (Notes 3 and 12)	3,006	13,746	22,374
Liability for directors' and corporate auditors' retirement benefits	300	203	2,233
Guarantee deposits received from franchised stores	55,806	55,020	415,378
Lease deposits from lessees	849	870	6,319
Other	355		2,642
Total long-term liabilities	60,316	72,979	448,946
MINORITY INTEREST	2,278	1,481	16,956
SHAREHOLDERS' EQUITY (Notes 13 and 17)**:**			
Common stock—authorized, 412,300,000 shares in 2002 and 419,600,000 shares in 2001; issued and outstanding, 107,600,000 shares in 2002 and 114,900,000 shares in 2001	58,507	58,507	435,482
Additional paid-in capital	41,520	41,520	309,044
Land revaluation difference	(8,408)		(62,583)
Retained earnings	55,649	78,421	414,209
Net unrealized gain on available-for-sale securities	2,323		17,291
Foreign currency translation adjustments	237		1,764
Treasury stock—at cost	(1)		(7)
Total shareholders' equity	149,827	178,448	1,115,200
TOTAL	¥342,934	¥387,236	$2,552,542

CONSOLIDATED STATEMENTS OF INCOME

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
NET SALES REPORTED BY FRANCHISED STORES	**¥1,184,204**	¥1,144,717	**$8,814,321**
OPERATING REVENUES:			
Franchise commission from franchised stores	**¥ 141,621**	¥ 135,237	**$1,054,120**
Net sales from Company-operated stores	**101,353**	132,921	**754,395**
Other	**13,142**	12,060	**97,819**
Total	**256,116**	280,218	**1,906,334**
COST AND OPERATING EXPENSES:			
Cost of sales for Company-operated stores (Notes 15 and 16)	**75,230**	98,501	**559,955**
Selling, general and administrative expenses (Notes 12 and 15)	**144,523**	140,438	**1,075,720**
Total	**219,753**	238,939	**1,635,675**
Operating income	**36,363**	41,279	**270,659**
OTHER INCOME (EXPENSES):			
Interest expense—net (Note 15)	**12**	(888)	**89**
Gain on securities contributed to an employees' retirement benefit trust	**3,857**		**28,708**
Premium severance benefit	**(2,685)**		**(19,985)**
Loss on disposal of property and store equipment	**(6,017)**	(2,723)	**(44,786)**
Loss on sales of property and store equipment	**(1,140)**		**(8,485)**
Write-off of unamortized service cost (Note 3)		(7,011)	
Other—net	**(1,362)**	(811)	**(10,138)**
Other expenses—net	**(7,335)**	(11,433)	**(54,597)**
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	**29,028**	29,846	**216,062**
INCOME TAXES (Note 14)**:**			
Current	**13,212**	7,226	**98,340**
Deferred	**47**	6,262	**350**
Total	**13,259**	13,488	**98,690**
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARIES	**354**	10	**2,635**
NET INCOME	**¥ 16,123**	¥ 16,368	**$ 120,007**

	Yen		U.S. Dollars
	2002	2001	**2002**
PER SHARE OF COMMON STOCK (Notes 2.n and 17)**:**			
Net income	**¥ 146**	¥ 148	**$ 1.09**
Cash dividends	**41**	35	**0.31**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
COMMON STOCK:			
Balance, beginning of year	**¥ 58,507**	¥30,877	**$ 435,482**
Public offering of common stock		27,630	
Balance, end of year	**¥ 58,507**	¥58,507	**$ 435,482**
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of year	**¥ 41,520**		**$ 309,044**
Public offering of common stock		¥41,520	
Balance, end of year	**¥ 41,520**	¥41,520	**$ 309,044**
LAND REVALUATION DIFFERENCE:			
Balance, beginning of year			
Land revalued	**¥ (8,408)**		**$ (62,583)**
Balance, end of year	**¥ (8,408)**		**$ (62,583)**
RETAINED EARNINGS:			
Balance, beginning of year	**¥ 78,421**	¥65,055	**$ 583,707**
Net income	**16,123**	16,368	**120,007**
Deductions:			
Cash dividends	**(4,220)**	(3,002)	**(31,410)**
Purchase and cancellation of treasury stock	**(34,675)**		**(258,095)**
Balance, end of year	**¥ 55,649**	¥78,421	**$ 414,209**
NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES:			
Balance, beginning of year			
Increase due to application of the new accounting standard (Note 2.e)	**¥ 2,323**		**$ 17,291**
Balance, end of year	**¥ 2,323**		**$ 17,291**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:			
Balance, beginning of year			
Increase due to application of the revised accounting standard (Note 2.m)	**¥ 237**		**$ 1,764**
Balance, end of year	**¥ 237**		**$ 1,764**
TREASURY STOCK—AT COST:			
Balance, beginning of year			
Acquisition	**¥ 34,675**		**$ 258,095**
Redemption	**(34,675)**		**(258,095)**
Net change—other activities in treasury stock	**(1)**		**(7)**
Balance, end of year	**¥ (1)**		**$ (7)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
OPERATING ACTIVITIES:			
Income before income taxes and minority interest	**¥ 29,028**	¥ 29,846	**$ 216,062**
Adjustments for:			
Income taxes paid	**(8,500)**	(6,009)	**(63,267)**
Depreciation and amortization	**16,328**	16,021	**121,533**
Gain on securities contributed to an employees' retirement benefit trust	**(3,857)**		**(28,708)**
(Reversal of) provision for employees' and directors' and corporate auditors' retirement benefits	**(6,099)**	8,938	**(45,396)**
Provision for allowance for doubtful accounts	**567**	1	**4,220**
Loss on disposal of property and store equipment	**4,571**	1,892	**34,023**
Loss on sales of property and store equipment	**1,140**		**8,485**
Other—net	**1,409**	1,035	**10,488**
Changes in assets and liabilities:			
Increase in accounts receivable	**(631)**	(800)	**(4,697)**
Decrease in inventories	**491**	423	**3,655**
Decrease (increase) in prepaid expenses and other current assets	**408**	(702)	**3,037**
Increase (decrease) in accounts payable	**5,823**	(1,828)	**43,342**
Increase in money held as agent	**3,035**	3,336	**22,590**
Increase (decrease) in accrued expenses and other liabilities	**326**	(668)	**2,426**
Increase in guarantee deposits received from franchised stores	**786**	1,380	**5,851**
Decrease in lease deposits from lessees	**(21)**	(72)	**(156)**
Total adjustments	**15,776**	22,947	**117,426**
Net cash provided by operating activities	**44,804**	52,793	**333,488**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(44,957)**	(19,453)	**(334,626)**
Proceeds from redemption of marketable securities	**34,072**		**253,606**
Proceeds from sale of investments in securities	**2,433**		**18,109**
Purchases of property and store equipment	**(22,249)**	(21,058)	**(165,605)**
Increase in lease deposits	**(2,947)**	(6,785)	**(21,935)**
Other	**(10,383)**	(7,400)	**(77,283)**
Net cash used in investing activities	**(44,031)**	(54,696)	**(327,734)**
FINANCING ACTIVITIES:			
Decrease in short-term borrowings		(138)	
Repayment of long-term debt	**(20,390)**	(48,163)	**(151,768)**
Proceeds from issuance of common stock, net of stock issuance costs		68,656	
Cash dividends paid	**(4,220)**	(3,002)	**(31,410)**
Proceeds from minority shareholders	**1,050**	1,354	**7,815**
Purchase of treasury stock for cancellation	**(34,675)**		**(258,095)**
Treasury stock—at cost	**(1)**		**(7)**
Net cash (used in) provided by financing activities	**(58,236)**	18,707	**(433,465)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**77**	98	**573**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(57,386)**	16,902	**(427,138)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**128,655**	111,753	**957,611**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 71,269**	¥128,655	**$ 530,473**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2002 and 2001

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different from International Accounting Standards in certain respects as to application and disclosure requirements. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥134.35 to $1, the approximate rate of exchange at February 28, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Mitsubishi Corporation indirectly owned 32,389 thousand shares of common stock of LAWSON, INC. ("Company") as of February 28, 2002 which represented 30.1% of the Company's shares. Accordingly, Mitsubishi Corporation is a principal shareholder.

The Company used to be an affiliated corporation of The Daiei, Inc. ("Daiei"), however, effective July 26, 2000, Daiei was no longer the parent company nor a principal shareholder as a result of the issuance of new shares of the Company's common stock through a public offering in connection with the listing of stock on the Tokyo Stock Exchange and Osaka Securities Exchange as well as the sale of shares held by Daiei and its subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Companies").

Under the control or influence concept, those entities in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of the Company's investments in consolidated subsidiaries and affiliated companies over its equity in the net assets at the dates of acquisition is being amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

b. Franchise Agreement and Basis of Recognizing Franchise Commission—The Company operates principally in a single industry commonly classified as the convenience store business with its own stores and franchised stores. The Company allows each independent franchisee to operate relatively small-sized convenience stores using specific designs and the Lawson brand names, and provides related managerial or technical know-how under a franchise agreement. Under the agreement, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchisor. In return, such franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's annual gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the annual gross margin earned by each franchised store and the applicable commission percentage. According to the franchise agreement, a franchised store may pay additional guarantee deposits of twice the average monthly sales amounts of respective stores and pay a lower commission percentage.

The term of a franchise agreement is effective for 10 years from the commencement date of a new store's operation as a franchised store, and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

The franchise agreement provides that the franchised store shall make a cash payment to the Company in the amount of ¥3 million upon commencement. Upon receipt of such payment,

¥1.5 million is credited to income of the Company as "Operating revenues—franchise commission from franchised stores" for services related to the opening of the Lawson store. The remaining amount received by the Company is credited to "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures and equipment designed for the Lawson stores. In some cases, franchisees may also be provided with the land or buildings of the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

c. Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, demand deposits and short-term investments, which mature or become due within three months of the date of acquisition and which are readily convertible into cash and are exposed to insignificant risk of changes in value.

d. Inventories—Inventories are stated at cost determined by the retail method as generally applied in the retail industry.

e. Marketable and Investment Securities—Prior to March 1, 2001, current and non-current marketable securities listed on stock exchanges were stated at the lower of cost, determined by the moving-average method, or market.

Effective March 1, 2001, the Companies adopted a new accounting standard for financial instruments. The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

The effect of this change was to increase income before income taxes by ¥513 million ($3,818 thousand) for the year ended February 28, 2002.

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

f. Property and Store Equipment—Property and store equipment are stated at cost except for land (see Note 7). Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and structures and from 2 to 20 years for furniture, fixtures and equipment.

g. Amortization—Amortization of intangible assets and deferred charges included in "Other assets" in the accompanying consolidated balance sheets is computed on the straight-line method over the period set forth in the Japanese Commercial Code (the "Code") and Japanese tax laws. Stock issuance costs are charged to income as incurred.

h. Liability for Employees' Retirement Benefits—Prior to March 1, 2001, the Company provides for employees' retirement benefits at 100% of the amount which would be required if all employees voluntarily terminated their services at the balance sheet date for the unfunded retirement benefits plan and the costs of such retirement benefits obligations are recorded based on the projected benefit obligations determined by an accepted actuarial method less the fair value of the related plan assets for the funded contributory trusted pension plan (see Note 3).

Effective March 1, 2001, the Companies adopted a new accounting standard for employees' retirement benefits, which was substantially the same as the accounting policy adopted by the Companies, and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥125 million ($930 thousand), determined as of the beginning of year, is charged to income and presented as other expense in the consolidated statements of income. As a result, net periodic benefit costs as compared with the prior method, decreased by ¥131 million ($975 thousand) and income before income taxes and minority interests increased by ¥131 million ($975 thousand).

In March and May 2001, the Company contributed certain cash and available-for-sale securities to an employees' retirement benefit trust for the Company's contributory pension plans, and recognized a non-cash gain of ¥3,857 million ($28,709 thousand). The securities held in this trust are qualified as plan assets.

i. Liability for Directors' and Corporate Auditors' Retirement Benefits—The provisions are calculated to state the liability at 100% of the amount that would be required if all directors and corporate auditors resigned as of each balance sheet date.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in Note 15.

k. Income Taxes—The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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

m. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiary is translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the current exchange rate.

Prior to March 1, 2001, differences arising from such translation were shown as "Foreign currency translation adjustments" as either all asset or liability in the balance sheet. Effective March 1, 2001, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

n. Per Share Information—The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation were 110,780 thousand shares for 2002 and 110,873 thousand shares for 2001.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

Fully diluted net income per share is not disclosed because the Company did not have any convertible bonds, bonds with warrants or stock options which would have resulted in a dilutive effect.

3. ACCOUNTING CHANGE

Prior to March 1, 2000, the Company provided for employees' retirement benefits at 100% of the amount which would be required if all employees voluntarily terminated their services at the balance sheet date for the unfunded retirement benefits plan and the amounts contributed to the fund were charged to income when paid for the funded contributory trusted pension plan. Effective March 1, 2000, however, the Company changed its method of accounting for the costs of such retirement benefits obligations, which are recorded based on the projected benefit obligations determined by an accepted actuarial method less the fair value of the related plan assets. The effect of this change was to decrease income before income taxes and minority interests for the year ended February 28, 2001, by ¥7,973 million which included a cumulative effect of ¥7,011 million. This cumulative effect was presented as "write-off of unamortized service cost" in the 2001 consolidated statement of income.

4. DUE FROM FRANCHISED STORES

Under the franchise agreement, the Company is responsible for providing architectural and designing services with respect to the franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Company generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the franchise agreement, the Company, as a representative for all franchised stores, pays amounts payable to the vendors on the stores' behalf. When the merchandise is received by each franchised store, the Company records the cost of the merchandise in the "Accounts receivable—due from franchised stores" account since such costs shall be subsequently recovered from respective franchised stores.

The "Due from franchised stores" account represents net amounts recoverable from the franchised stores.

5. PROPERTY AND STORE EQUIPMENT

Property and store equipment as of February 28, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Used by franchised stores:			
Land	**¥ 893**	¥ 1,836	**$ 6,647**
Buildings	**70,049**	60,139	**521,392**
Furniture, fixtures and equipment	**64,729**	71,667	**481,793**
Total	**135,671**	133,642	**1,009,832**
Accumulated depreciation	**(74,600)**	(74,904)	**(555,266)**
Net	**61,071**	58,738	**454,566**
Used by Company-operated stores and other:			
Land	**5,643**	19,097	**42,002**
Buildings	**12,218**	14,041	**90,942**
Furniture, fixtures and equipment	**14,307**	18,428	**106,490**
Total	**32,168**	51,566	**239,434**
Accumulated depreciation	**(16,803)**	(21,239)	**(125,069)**
Net	**15,365**	30,327	**114,365**
Net property and store equipment—total	**¥ 76,436**	¥ 89,065	**$ 568,931**

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Current:			
Government and corporate bonds	**¥30,338**	¥18,953	**$225,813**
Trust fund investments		500	
Total	**¥30,338**	¥19,453	**$225,813**
Non-current—Marketable equity securities	**¥ 8,112**	¥ 7,408	**$ 60,380**

The carrying amounts and aggregate fair values of marketable and investment securities at February 28, 2002 were as follows:

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value (Carrying Amount)
Securities classified as:				
Available-for-sale—equity securities	¥ 4,047	¥4,714	¥708	¥ 8,053
Held-to-maturity	30,338	2	13	30,327

	Thousands of U.S. Dollars			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value (Carrying Amount)
Securities classified as:				
Available-for-sale—equity securities	$ 30,123	$35,087	$5,270	$ 59,940
Held-to-maturity	225,813	15	97	225,731

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of February 28, 2002 was as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale—Equity securities	¥59	$439

Proceeds from sales of available-for-sale securities for the year ended February 28, 2002 were ¥2,433 million ($18,109 thousand) while there were no such sales for the year ended February 28, 2001. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥21 million ($156 thousand) and ¥105 million ($782 thousand), respectively, for the year ended February 28, 2002.

Securities classified as held-to-maturity at February 28, 2002 will be due for redemption within one year.

The carrying amount and aggregate market values of non-current marketable securities at February 28, 2001 were as follows:

	Millions of Yen
	2001
Carrying amount	¥ 7,333
Aggregate market value	13,412

The difference between the above carrying amount and the amount shown in the accompanying consolidated balance sheets principally consisted of non-marketable equity securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

7. LAND REVALUATION

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

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly. The details of the one-time revaluation as of February 28, 2002 were as follows:

Land before revaluation:	¥21,032 million ($156,546 thousand)
Land after revaluation:	¥6,536 million ($48,649 thousand)
Land revaluation difference:	¥14,496 million ($107,897 thousand) (net of income taxes: ¥8,408 million ($62,583 thousand))

8. LEASE DEPOSITS

Under certain circumstances, the Company leases land and/or buildings for its owned Lawson stores or for franchisees to operate as franchised stores. The leases are based on long-term, cancelable lease agreements with owners. In connection with such agreements, the lessor requires leasehold deposits equivalent to approximately several months' rent, which are non-interest bearing and refundable only when the leases are terminated.

Lease deposits as of February 28, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Lease deposits for franchised stores	**¥72,740**	¥70,200	**$541,422**
Lease deposits for Company-operated stores and other	**18,537**	20,969	**137,975**
Total	**¥91,277**	¥91,169	**$679,397**

9. LONG-TERM DEBT

Long-term debt as of February 28, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Loans from banks, other financial institutions, due serially through 2003 with interest rates ranging from 2.20% to 3.15% (2002) and from 1.79% to 3.15% (2001)	**¥ 3,140**	¥ 23,530	**$ 23,372**
Less current portion	**(3,140)**	(20,390)	**(23,372)**
Long-term debt, less current portion	**Nil**	¥3,140	**Nil**

As is customary in Japan, the Company maintains deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

10. ACCOUNTS PAYABLE—TRADE FOR COMPANY-OPERATED AND FRANCHISED STORES AND OTHER

The balances of "Accounts payable—trade for Company-operated and franchised stores" represent the amounts payable to vendors for merchandise purchased by Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for Company-operated stores and franchised stores and makes collective payments to vendors (see Note 4 above).

Accounts payable—trade for Company-operated and franchised stores and others at February 28, 2002 and 2001 were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Accounts payable—trade for franchised stores	¥57,702	¥54,736	$429,490
Accounts payable—trade for Company-operated stores and other	21,928	19,321	163,216
Total	¥79,630	¥74,057	$592,706

11. ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to the franchised stores is recorded as "Accounts receivable—due from franchised stores" as described in Note 4 above.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of "Accounts receivable—due from franchised stores." In the accompanying consolidated balance sheets, such excess balances are presented as "Accounts payable—due to franchised stores."

12. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and on annuity payment from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

Effective March 1, 2001, the Companies adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at February 28, 2002 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 21,720	$ 161,667
Fair value of plan assets	(14,226)	(105,888)
Unrecognized prior service cost	1,060	7,890
Unrecognized actuarial loss	(5,548)	(41,295)
Net liability	¥ 3,006	$ 22,374

The components of net periodic benefit costs for the year ended February 28, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥2,088	$15,541
Interest cost	548	4,079
Expected return on plan assets	(213)	(1,585)
Amortization of transitional obligation	125	931
Premium severance benefit	2,685	19,985
Net periodic benefit costs	¥5,233	$38,951

Assumptions used for the year ended February 28, 2002 are set forth as follows:

Discount rate:	
The unfunded retirement benefits plan	2.0%
The funded contributory trusted pension plan	2.5%
Expected rate of return on plan assets	4.5%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years
Amortization period of transitional obligation	Fully amortized

Total expenses for the retirement plans were ¥1,807 million for the year ended February 28, 2001.

13. SHAREHOLDERS' EQUITY

The Company is subject to the Code to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥727 million ($5,411 thousand) and ¥520 million as of February 28, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

During two years ended February 28, 2002, the number of the Company's stock varied as follows:

	Thousands of Shares
Balance as of March 1, 2000	2,098
Increase due to a stock split by way of a par value split (from ¥500 to ¥50) and of a free share distribution at the rate of 5 shares for each outstanding share made on April 14, 2000	102,802
Increase due to public offering at the price of ¥7,200 per share made on July 26, 2000	10,000
Balance as of February 28, 2001	114,900
Decrease due to redemption of treasury stock made on August 10, 2001	(7,300)
Balance as of February 28, 2002	107,600

At the general shareholders meeting held on May 26, 2000, the Company's shareholders approved a stock option plan for the Company's directors and key employees, and the issuance of new shares for such stock options.

The plan provides for granting options to purchase up to 1,416 thousand shares of the Company's common shares in the period from May 27, 2002 to May 25, 2007. The options will be granted at the price of ¥7,500. The Company plans to issue the new shares for proceeds of ¥10,620 million ($79,047 thousand) upon exercise of all stock options.

Unrealized gains, net of applicable taxes reported in a separate component of shareholders' equity are not readily available for dividend until realized.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended February 28, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets as of February 28, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Deferred tax assets:			
Marketable securities	**¥ 2,754**	¥ 2,823	**$20,499**
Land	**1,168**	1,168	**8,694**
Accrued enterprise tax	**1,224**		**9,111**
Employees' retirement benefits	**5,466**	4,974	**40,685**
Tax loss carryforward	**734**	541	**5,463**
Other	**2,638**	2,589	**19,635**
Less valuation allowance	**(740)**	(426)	**(5,508)**
Total	**¥13,244**	¥11,669	**98,579**
Deferred tax liabilities:			
Gain on securities contributed to employees' retirement benefit trusts	**1,620**		**12,058**
Unrealized gain on available-for-sale securities	**1,681**		**12,512**
Other	**2**		**15**
Total	**3,303**		**24,585**
Net deferred tax assets	**¥ 9,941**		**$73,994**

The actual effective tax rates differed from the normal effective statutory tax rate for the following reasons:

	2002	2001
Normal effective statutory tax rate	42.0%	42.0%
Increase (decrease) in tax rate resulting from:		
Permanently nondeductible expenses	0.9	2.4
Inhabitants taxes—per capita	1.1	1.0
Tax loss carryforward of subsidiaries	1.6	
Other—net	0.1	(0.2)
Actual effective tax rates	45.7%	45.2%

As of February 28, 2002, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,985 million ($14,775 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 376	$ 2,799
2004	242	1,801
2005	186	1,384
2006	238	1,772
2007 and thereafter	943	7,019
Total	¥1,985	$14,775

15. LEASES

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

Total lease payments under finance leases for the years ended February 28, 2002 and 2001 were ¥6,996 million ($52,073 thousand) and ¥6,452 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 28, 2002 and 2001 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Leased to franchised stores:			
Furniture, fixtures and equipment:			
Acquisition cost	¥39,575	¥27,746	$294,566
Accumulated depreciation	16,395	14,149	122,032
Net leased property	¥23,180	¥13,597	$172,534
Obligations under finance leases:			
Due within one year	¥ 6,462	¥ 4,685	$ 48,098
Due after one year	17,174	9,342	127,831
Total	¥23,636	¥14,027	$175,929

	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars 2002
Used by Company-operated stores and other:			
Furniture, fixtures and equipment:			
Acquisition cost	**¥9,304**	¥4,501	**$69,252**
Accumulated depreciation	**1,996**	3,412	**14,857**
Net leased property	**¥7,308**	¥1,089	**$54,395**
Obligation under finance leases:			
Due within one year	**¥1,651**	¥630	**$12,289**
Due after one year	**5,686**	514	**42,322**
Total	**¥7,337**	¥1,144	**$54,611**

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥6,433 million ($47,882 thousand) and ¥5,831 million for the years ended February 28, 2002 and 2001, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥516 million ($3,841 thousand) and ¥598 million for the years ended February 28, 2002 and 2001, respectively.

The minimum rental commitments under noncancelable operating leases at February 28, 2002 were as follows:

	Millions of Yen 2002	Thousands of U.S. Dollars 2002
Due within one year	**¥ 893**	**$ 6,647**
Due after one year	**7,142**	**53,159**
Total	**¥8,035**	**$59,806**

16. RELATED PARTY TRANSACTIONS

During the year ended February 28, 2002, the Company purchased products delivered on a daily basis amounting to ¥46,543 million ($346,431 thousand) from Mitsubishi Corporation (a principal shareholder).

Purchases include amounts related to purchases by the franchised stores.

The above transactions with Mitsubishi Corporation show the transactions for the period from December 1, 2001 (date of the initial transaction after Daiei Logistics Systems Inc. transferred its logistics business to the Company) to February 28, 2002 as well as the balances as of February 28, 2002.

During the year ended February 28, 2001, the Company purchased products delivered on a daily basis amounting to ¥110,944 million from Daiei Logistics Systems Inc. (a subsidiary of Daiei).

Transactions of the Companies with Daiei, affiliates of Daiei (20% or greater equity ownership), directors and principal shareholder for the year ended February 28, 2001 were as follows:

	Millions of Yen 2001
Purchases	¥210,603
Rental expenses	396
Lease payments	738
Operating expenses—other	708

Purchases include amounts related to purchases by the franchised stores.

Effective January 30, 2001, Isao Nakauchi, representative director, retired, and transactions with his companies are no longer considered as related party transactions and the above amounts are aggregated from March 1, 2000 to January 30, 2001.

17. SUBSEQUENT EVENTS

a. The following appropriation of retained earnings as of February 28, 2002 was approved at the general shareholders meeting held on May 29, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥21 ($0.16) per share	**¥2,260**	**$16,822**

b. At the general shareholders meeting held on May 29, 2002, the Company's shareholders approved the following stock option plan for the Company's directors, executive officers and key employees and the repurchase of treasury stock:

(1) The plan provides for granting options to directors, executive officers and key employees to purchase up to 400 thousand shares of the Company's common shares in the period from December 1, 2002 to May 31, 2007.
(2) The Company is authorized to repurchase up to 7 million shares of the Company's common stock (aggregate amount of ¥28 billion ($208,411 thousand)).

c. On March 1, 2002, the Company sold 21,507 thousand shares of Daiei OMC, Inc., owned by the Company and also sold 7,000 thousand shares of that company, which had been owned within the comprehensive trust account by The Chuo Mitsui Trust and Banking Company, Limited, as a management securities trust depository, from the viewpoint of improving asset management efficiency, because holding these shares became less significant due to the Company's decision to promote its own card business. As a result, the Company recorded a gain on sales of investments in securities of ¥5,763 million ($42,895 thousand) and a loss on the disposal of the trust assets on ¥1,981 million ($14,745 thousand).

INDEPENDENT AUDITORS' REPORT

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome,
Minato-ku, Tokyo 108-8530, Japan

Tel: +81-3-3457-7321
Fax:+81-3-3457-1694
www.tohmatsu.co.jp

Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of LAWSON, INC.:

We have examined the consolidated balance sheets of LAWSON, INC. and subsidiaries as of February 28, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of LAWSON, INC. and subsidiaries as of February 28, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change made as of March 1, 2000, with which we concur, in the accounting for retirement benefits obligations, as discussed in Note 3.

As discussed in Note 2, effective March 1, 2001, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

May 29, 2002

CORPORATE DATA

Company name
LAWSON, INC.

Address
Tokyo Headquarters:
4-9-25 Shibaura, Minato-ku, Tokyo 108-8563
Tel: +81-3-5476-6800

Osaka Headquarters:
9-1 Toyotsu-cho, Suita-shi, Osaka 564-0051
Tel: +81-6-6380-4491

Representative directors*
Chairman, Kenji Fujiwara
President and CEO, Takeshi Niinami

Employees
3,548 (Consolidated)

Business activities
Franchise chain development of Lawson convenience stores

Total net sales
¥1,282.3 billion (Consolidated) (Fiscal 2001)

Number of stores
7,734 (in Japan, as of February 28, 2002)

Operating region
All 47 Japanese prefectures; Shanghai, PRC (joint venture)

(As of February 28, 2002)
*As of May 29, 2002

INVESTOR INFORMATION

Established
April 15, 1975

Capital
¥58,506,644,000

Authorized shares
412,300,000

Shares outstanding
107,600,000

Shareholders
58,370

Major Shareholders

Shareholder	Shareholdings (Shares)	Shareholdings (%)
M.C. Retail Investment Co., Ltd.	32,089,300	29.82
Marubeni Foods Investment Co., Ltd.	5,939,500	5.52
Japan Trustee Services Bank, Ltd. (Trust account)	5,754,200	5.35
Nintendo Co., Ltd.	3,447,000	3.20
The Chuo Mitsui Trust and Banking Company, Limited (Management securities trust depository)	3,219,000	2.99
UFJ Trust Bank Limited (Trust account "A")	2,754,800	2.56
Mitsubishi Trust and Banking Corporation (Trust account)	2,577,900	2.40
State Street Bank and Trust Company	1,606,950	1.49
The Chuo Mitsui Trust and Banking Company, Limited (Pension trust account 2)	1,562,100	1.45
The Sumitomo Trust & Banking Co., Ltd. (Trust account B)	1,504,800	1.40

Stock Exchange Listings
Tokyo Stock Exchange (1st Section)

Osaka Securities Exchange (1st Section)

Stock Transfer Agent
The Chuo Mitsui Trust and Banking Company, Limited

3-33-1, Shiba, Minato-ku, Tokyo, Japan

(As of February 28, 2002)

Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of Lawson and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in the Japanese convenience store industry, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

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TEL +81-3-5476-6800
URL http://www.lawson.co.jp/

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Printed in Japan