LAWSON

**ANNUAL REPORT 2003**

Year ended February 28, 2003

# A UNIQUE PRESENCE


## UNIQUE 01

*Onigiriya*, Lawson's new rice ball brand, was designed to achieve two simple goals: make Lawson synonymous with rice balls and be the best in its product category.



## UNIQUE 02

Unique to Lawson, mailboxes are now a standard feature at every store nationwide. And new format Postal Lawson stores, located at some post offices, are another innovative store format in the Lawson chain.


## UNIQUE 03

Preferential advance ticket sales and a shopping rewards program—these are just some of the many benefits only Lawson PASS cardholders enjoy.




Culture Convenience Club®

## UNIQUE 04

Customers of TSUTAYA and Lawson are both set to benefit from a shared shopping points program.

## UNIQUE 05

Our tie-up with Studio Ghibli, a leading animation studio, offers excitement to customers, on top of the convenience we can already provide, in the form of DVDs and videos of the box-office hit *Spirited Away*, and exclusive ticket sales for the Mitaka no Mori Ghibli Museum.

## UNIQUE 07

Our stores in hospitals also aspire to be "the 'hot' station in the neighborhood." Patients and their relatives and friends enjoy the convenience of "Hospital Lawson" stores, stocked with products needed for hospital stays and designed as barrier free, enabling people with disabilities to have easy access all parts of the store.


## UNIQUE 06

More drivers may soon be able to fill up and shop at the same time if the recent alliance with ENEOS proves viable. Lawson has plans in hand to open more convenience stores that double as ENEOS self-service stations.

**Lawson is proud of its corporate philosophy—"Making life more convenient for customers and contributing to local communities by valuing people and seeking innovative approaches." I think many of Lawson's past business successes have stemmed from understanding and closely following these words. So since my appointment as president in 2002, I have worked hard to impress upon employees, franchise owners, store crew and our business partners, the true meaning and significance of our philosophy. This is something I continue to do today. Why? Because I am certain that customers will value Lawson more if we realize the main tenets of our philosophy. And I firmly believe that a higher regard from our customers is the vital element in achieving sustainable growth over the medium and long term for your company.**

**TAKESHI NIINAMI**
*President and CEO*

# TO SHAREHOLDERS, OTHER INVESTORS, CUSTOMERS, FRANCHISE OWNERS, EMPLOYEES AND STORE CREW

## Using Communication to Make Lawson "The 'Hot' Station in the Neighborhood"

In the past year since my appointment, communication with staff at every level of the company has been, and will continue to be, a vital part of my approach. I spend a great deal of time communicating with employees. This includes participating in meetings every Monday at Head Office, and every Tuesday at regional headquarters, where I constantly focus on Lawson's corporate philosophy and explain the thinking and context behind current management initiatives. Where time allows, I also do the rounds at Head Office and visit regional headquarters to listen to and talk informally with employees. Having dinner with staff once or twice a week also gives me the opportunity to hear their ideas and thoughts about Lawson in an informal atmosphere.

Why am I telling you this? Because this kind of communication is driving change at Lawson. In this letter last year in Annual Report 2002, I targeted a long-term Lawson weakness—top-down management had dominated the Lawson corporate culture for too long. The details of Head Office strategies, and even the objectives and backgrounds of the strategies, were not always fully explained. Head Office would use complex language to express strategy and then somehow expect employees, franchise owners and store crew to be able to translate it into action. This led to dissatisfaction with Head Office, and front line Lawson personnel lost their drive. Meanwhile, Head Office employees went about their work the way they always had: not fully aware of what was happening overall in the company.

Thankfully, this top-down management approach is now history. A new corporate culture of free-thinking is taking root, one grounded in our corporate philosophy. This change has profound significance. By fully understanding what drives Lawson, employees throughout the company will be able to better express their creativity and satisfy customers.

More specifically, I am trying to create an atmosphere in which employees are encouraged to speak freely about Head Office strategies and other policies. At first, people held back, unsure how to respond to this new approach. But now, many employees are openly expressing strongly held views, including doubts or concerns they have about strategy and policy. I make a point of addressing those views one by one, taking them into account in the formulation of strategy. I would be unwise not to—franchise owners, store crew and front-line employees have direct contact with customers and can therefore offer valuable insights into ways of enhancing customer satisfaction. In return, I often tell employees how proud they can be of their company's corporate philosophy and encourage them to rediscover and embrace it. At the heart of this philosophy is raising customer convenience and satisfaction, as well as ensuring that franchise owners, store crew, business partners and every member of the extended Lawson family are content. I am encouraging our people to ask themselves what they should do to realize this vision and to take pride in their work.

Our people are listening. General managers and other management-level staff are now talking more with other employees, while all employees are communicating better with each other too. Fostering this kind of flourishing dialogue is one of the most important management tasks at Lawson. I want it to continue.

## Consolidated Financial Highlights

LAWSON, INC. and Subsidiaries
Years Ended February 2003 and 2002

| | Millions of Yen | | Percent change | Thousands of U.S. Dollars(1) |
|---|---|---|---|---|
| | 2003 | 2002 | 2003/2002 | 2003 |
| **For the Year:** | | | | |
| Net sales of all stores | ¥1,294,042 | ¥1,285,557 | 0.7% | $10,989,741 |
| Operating income | 34,107 | 36,363 | (6.2) | 289,656 |
| Income before income taxes and minority interests | 17,603 | 29,028 | (39.4) | 149,495 |
| Net income | 8,861 | 16,123 | (45.0) | 75,253 |
| **Per Share Data (Yen and dollars):** | | | | |
| Net income | ¥ 82 | ¥ 146 | (43.8)% | $ 0.70 |
| Cash dividends | 41 | 41 | — | 0.35 |
| **At Year-End:** | | | | |
| Total assets | ¥ 342,599 | ¥ 342,934 | (0.1)% | $ 2,909,546 |
| Total shareholders' equity | 151,864 | 149,827 | 1.4 | 1,289,715 |

Note: The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2003, of ¥117.75=$1.

Communication with franchise owners and store crew is just as important. I use Lawson Seminars held at eight locations throughout Japan every six months as forums for explaining management strategy and encouraging my audience to take ownership of Lawson's Three Challenge Practices and our corporate philosophy. The response from franchise owners and store crew has been so overwhelmingly positive that we now hold twice-yearly seminars at regional headquarters as well. These seminars are bridging the gap between Head Office and stores, helping us to create better strategies.

I believe that when Head Office and front lines think as one on these crucial issues of philosophy and strategy, we will be able to realize the Lawson vision of becoming "the 'hot' station in the neighborhood" throughout Japan.

### Dealing With Unproductive Assets and Revamping Our Cost Structure

In 2002, I pledged to deal with all the company's unproductive assets. We did that. Unprofitable stores were shuttered, around 500 jobs were restructured, and some marketable securities and other non-performing assets were discarded. These were just some of the bold steps we took to reengineer our cost structure and to make Lawson a leaner organization. Thanks to these steps, there are no longer any major barriers standing in the way of future growth.

But that doesn't mean we are resting on our laurels. If we sit back now, we will soon have other issues to deal with. So making further improvements to our cost structure must be an ongoing process. To ensure we stay focused on this goal, we established a Cost-Cutting Committee in the latter half of fiscal 2002. This committee has started looking at the company's entire cost base. No part of the company will be exempt from its assessment. Everything, from store and Head Office rent to store construction expenses through consumables used in stores and office products at Head Office, is already under the microscope. And the results have already exceeded our expectations. The committee has now set a bold target for this fiscal year—to drastically cut costs.

In terms of headcount, we expect to see a drop of around 200 through natural attrition of the workforce this year. We don't intend to replace these people unless it is necessary for raising productivity. But even then the increase would only be slight. We will cover the reduction through greater use of IT and revamping work practices and roles.

## Building on the Success of *Onigiriya* to Raise Sales

Recently, I have been hearing often, not just from employees and franchise owners, but also from vendors and acquaintances, that Lawson seems to be undergoing a renaissance. I have no doubt that the improved communication I was talking about before is one reason for this. The success of our *Onigiriya* rice balls is another.

These rice balls were the brainchild of the *Onigiriya* Project Team, which brought together members from different divisions throughout the company. Taking the standpoint of customers, as well as incorporating views from inside and outside the company, the team set about developing rice balls that took the Lawson taste to a new level. Up to now the common belief was that only seasoned professionals could develop new products. But this team of relative novices proved that theory wrong. They succeeded in developing a product with more value—thought to be impossible in terms of cost and production methods. Conventional thinking was discarded and a raft of innovative approaches employed to achieve this success. Methods for procuring raw materials were revised, the quality of raw materials was dramatically improved, the latest production equipment was introduced and marketing surveys were conducted using the Internet. This approach, and the resulting new value these products offer, has been vindicated by a rise of over 20% in same-store sales of rice balls year-on-year.

Moreover, front-line staff, franchise owners and store crew were given the opportunity to act as taste testers so they could assess the difference for themselves. No compromises were made in developing this product. The rice used is the celebrated *Koshihikari* rice grown in Niigata, for example. The quality of the product has been a source of pride for everyone at Lawson, leading to greater motivation. The combination of a wonderful product, a new-found confidence in our product development capabilities, the pride and motivation to sell the rice balls, as well as the support of effective advertising, resulted in a product that has won high marks from customers.

The *Onigiriya* Project has been the inspiration for several other cross-company projects that are now underway. I find it personally gratifying to see project members working so hard—and with such passion and enjoyment—on these projects. In addition to rice balls, we are not far away from being able to bring to market a succession of other products packed with value that we are confident will exceed customers' expectations.

# First Quarter, Fiscal 2002 (March 1, 2002 to May 31, 2002) →

### April 16, 2002

**Lawson Challenge 2004 medium-term management plan unveiled, targeting growth in earnings**

Plan sets out targets of ROE of 15% and consolidated operating income of ¥50 billion in fiscal 2004

### May 1, 2002

**New *Loppi* multimedia terminals with multimedia servers (MMS) are installed in all Lawson stores**

MMS enables customers to use Loppi to order a wider variety of products, at the same time making *Loppi* even faster and more convenient to use

### May 10, 2002

**Ticket sales for latest production from Studio Ghibli* get underway**

Sale of related goods and success of previous campaign helped to boost customer footfall

**A leading animation studio, famous for its Oscar-winning production "Spirited Away"*

## Optimizing Manufacturing, Distribution and Procurement Networks

Tireless efforts and negotiations since 2002 are part of our efforts to rebuild our vendor network for staple products like main dishes, including rice balls, prepared breads and prepared noodles, all of which are the lifeblood of the convenience store business. Starting in Tokyo, Nagoya and Osaka, we are gradually narrowing down the number of vendors who make our products. By the end of fiscal 2003, we plan to have in place an organization of various mega-vendors. These mega-vendors are financially strong and have the ability to make investments in new equipment. This is important because we will be contracting the manufacture of more products to them than before, and so we will be asking them to make further investments in the latest manufacturing equipment. For Lawson, they will be important strategic partners. The end result will be higher-quality products. Having a limited number of strategic partners will also enable better management of product safety and reliability. Supply Chain Management will also be easier.

The Japanese are taking a greater interest in food safety due to a recent spate of product-quality incidents. Health consciousness is also rising as the percentage of Japanese population who are elderly rapidly increases. As a company with a deep sense of social responsibility, we are committed to delivering safe, healthy and high-quality products with value that continually exceeds customer expectations. The realignment of our vendor network better positions us to fulfill this role.

We have also made moves on other fronts to improve product safety and quality. In May 2003, we eliminated preservatives from original Lawson products, such as *bento*-boxes, rice balls, prepared breads, delicatessen items and salads, sold in the Kanto and Kinki regions. Furthermore, we have set upper limits on the amount of food additives used in our products. Lawson may not be the first company to eliminate preservatives in the food retail industry in Japan, but we are the first to cap the use of food additives. We will continuously review the use of food additives to keep customers fully informed and deliver safety and peace of mind to them. And we will keep customers up to date by explaining in simple terms our thinking behind the limits and how additives are used.

Natural Lawson, a new Lawson format we launched in 2002, is at the vanguard of our efforts to identify and respond to customer needs for healthier products. Rice balls and *bento*-boxes made using brown or germinated rice, and delicatessen items, such as salads, developed with these needs in mind have garnered strong support from customers. Showing the benefits of leveraging such successes in

# Second Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002) →

**July 11, 2002**
**Stores begin accepting payment by QUO Card**
Later sold through in-store *Loppi* multimedia terminals; cards expected to attract more customers and lift sales

**July 29, 2002**
**Lawson starts offering Asahi Bank services**
Becomes the first convenience store chain to tie up with all major nationwide banks

**August 1, 2002**
**Services for LAWSON PASS, a members-only credit card, launched**
With more than 300,000 applications by the end of July 2002, this card was an effective tool in drawing in customers

regular Lawson stores, strong sales have also been recorded in a number of locations and among certain customer groups. Going forward, Natural Lawson will continue to be the testing ground for a whole host of innovative products under development.

To raise quality of our products further and better communicate their value to customers, further investments are required. To date, we have been heavily reliant on external sources when procuring raw materials for our original Lawson products. Now though, with the establishment of an independent Raw Materials Procurement Department, we are aiming to buy better-quality products at more competitive prices. Lawson purchases approximately ¥110 billion worth of raw materials every year. So any efficiency savings made in purchasing could spell significant benefits. The cost savings we generate will be plowed back into raising product quality, supporting owners' procurement efforts, and advertising and promotion activities.

### The Key Theme for Fiscal 2003—Attracting More Customers

A key theme for fiscal 2003 is attracting more customers to our stores. Thanks partly to *Onigiriya*, spending per customer has been rising steadily since the latter half of 2002, helping same-store sales to remain stable. But, although the number of customers is trending upward, it hasn't risen as much as spending per customer or as much as we had hoped for. Customer numbers are still down at existing stores year–on–year.

I think we can arrest this trend by raising the level of quality of strategic products, as I mentioned before, and by adhering to Lawson's Three Challenge Practices: create stores and store layouts that strike a chord with customers; keep stores clean; and serve customers with courtesy. We plan to earmark resources for these basic but vitally important approaches to get the results we want. Naturally, other steps will also be taken to attract more customers.

First, we are promoting the LAWSON PASS. Already, 1.1 million cardholders have signed up for this Lawson-branded credit card in just under one year since its launch. What's also significant, and the data bears this out, is that the more cardholders a store has, the greater its sales growth. Building on the early success of LAWSON PASS, we intend to make the shopping rewards program even more attractive and encourage store staff to sign up even more cardholders.

## Third Quarter, Fiscal 2002 (September 1, 2002 to November 30, 2002) →

**September 6, 2002**

**Began emphasizing regional-centric stores, using visual identities matched to locations**

New store in Marunouchi Building opened with color scheme to match environment

**October 31, 2002**

**Applications for LAWSON PASS exceed the 1-million mark**

Achieved in less than 5 months from launch

Commemorative campaign launched on November 1

**November 5, 2002**

**Bolstered mainstay rice ball lineup**

Sales of new brand, ***Onigiriya***, begin on November 5

Next, our recently announced alliance with TSUTAYA, a major chain being developed by Culture Convenience Club Co., Ltd. (CCC) that sells and rents CDs, DVDs , videos and game software, will also help to draw in customers with a shared shopping rewards program. From fall 2003, we plan to give TSUTAYA members points for shopping at our stores when they show their membership card. TSUTAYA has around 18 million members, of which about 15-20% visit our stores regularly. I believe the points system will be instrumental in drawing in other TSUTAYA members as well. TSUTAYA is supporting our efforts through notices throughout their store network and via mobile phone messaging and e-mail. Apart from a shared points program, we have also agreed to cooperate with CCC in other areas. These include planning co-sponsored exclusive concerts, selling exclusive tickets and related goods, using points for rewards and allowing TSUTAYA members to return rentals at Lawson stores.

Campaigns will be another feature of our customer-attraction drive during 2003. These will be timed to coincide with important seasonal events. In the spring, we targeted Golden Week, when Japanese traditionally take extended holidays. More campaigns are planned for the summer break, the fall sightseeing season and Christmas.

### Two Incidents Refocus Efforts on Building Consumer Trust

Recently, two unrelated incidents in May and June this year threatened to undermine consumer confidence in Lawson. The first incident concerned the use of ingredients in some *Onigiriya* rice balls that were partly different to those labeled, a breach of the JAS Law. The second incident involved the unauthorized disclosure of personal information relating to around 560,000 LAWSON PASS cardholders.

Recognizing the seriousness of these incidents, we moved quickly to disclose all related information in a timely, proactive manner in both cases. We are now carrying out rigorous investigations to determine how the incidents could happen and taking all possible countermeasures to prevent a reoccurrence. Simultaneously, we plan to redouble our efforts to reinforce our corporate governance and compliance systems.

These incidents have potentially tarnished the Lawson brand at a crucial time for the company. I wish to apologize to shareholders and other investors for any concern caused by these incidents. Please be assured that we are doing our utmost to ensure customer trust and confidence in the Lawson brand.

## Fourth Quarter, Fiscal 2002 (December 1, 2002 to February 28, 2003)

**December 2002**
**Sales of year-end gifts and traditional New Year's food were strong, supported by Lawson's tie-up with Takashimaya**
Lawson became the first convenience store chain to sell New Year's cuisine supplied by a famous department store

**January 1, 2003**
**Installation completed of Japan Post in-store mailboxes in all stores**
Mail collection service starts on January 1

**January 10, 2003**
**Tie-up formed with Ski Okoku NAGANO in Nagano Prefecture**
Includes joint merchandizing for the Nagano tourist industry

## Staying Focused on Opening Profitable Stores for Qualitative Chain Growth

In fiscal 2002, there was a net decrease of 109 stores as we took resolute actions to deal with stores holding back the chain. I am pleased to report that profitability at new stores was up about 10% year on year on average. Achieving further gains in the profitability of new stores is an ongoing theme.

In the current fiscal year, we aim to achieve a net 200 increase in the number of stores, by opening 600 new stores and closing 400 others. We are well positioned to achieve this goal for a number of reasons. One is that we had an adequate pipeline of 284 contracts for stores at the start of fiscal 2003. Second, general managers of the Store Management Division, managers and store supervisors and even franchise owners are now feeding back valuable local information to the Store Development Division. We are also fostering relationships with influential companies in each region that can serve as a valuable source of information for opening new stores by identifying prime sites for stores. Store instructors, responsible for training store personnel, are also spending more time than before supporting the opening of new stores. Whereas one week was devoted to store openings in the past, they are now spending an average of three weeks during this key period. This is playing a vital role in making sure that new stores find their feet quickly and grow. Our new store opening initiative also encompasses experimenting with new possibilities. Illustrating this are Lawson stores that have been opened in hospitals, a tie-up with Japan Post to open convenience stores in post offices, and a deal with Nippon Oil Corporation to operate convenience stores at their ENEOS self-service stations.

## Target-Based Management and Human Resource Development Revitalizing the Organization

The mantra of “valuing people” that is enshrined in our corporate philosophy strikes a personal chord with me. My personal philosophy is that, as “partners,” people should be rewarded for their cooperation in helping Lawson achieve its goals. That’s why, for example, we have introduced a target-based management system not just for managers but for all employees. Evaluations are both quantitative and qualitative. People are evaluated on the achievement of targets as well as the degree to which they understand and adhere to our corporate philosophy. I evaluate people first and foremost by whether they work according to this philosophy. People that do, as well as deliver results, are given higher marks. And if these people can also offer leadership skills, then all the better.

# First Quarter, Fiscal 2003 (March 1, 2003 to May 31, 2003) →

**March 3, 2003**

**Business alliance with Culture Convenience Club Co., Ltd. (CCC) announced**

TSUTAYA, a video rental chain run by CCC with about 18 million members, and Lawson, with 7,600 stores nationwide, will promote shared point program

**March 25, 2003**

**Two stores based on new Post Shop Lawson format opened**

Agreement with Japan Post to trial convenience stores in post offices

**March 27, 2003**

**Launch of a new store format—Convenience Banks**

Agreement on development of new store format combining financial services and convenience store products and services with The Hokuriku Bank, Ltd. Plan calls for the opening of experimental stores in Tokyo and Toyama City in July 2003

We must give our people more training as well if we expect them to develop the skills to be assessed on a targets basis. To this end, we have decided to encourage education and also established a Lawson University program. The communication I mentioned earlier in this letter will be a core part of the program's curriculum, to foster common understanding of our corporate philosophy and strategy. Furthermore, we intend to enhance the skills of managers and other employees. Moreover, the development of leadership skills will be targeted with a special program. Case studies and other techniques will be used with candidates showing the potential to be president or a general manager in the future, to get them to think about and debate the future shape of Lawson from a management standpoint. I intend to participate in this program and debate pressing issues with participants. We will also improve training sessions for franchise owners and are considering establishing an education program for store crew to raise the abilities and consciousness of everyone across the board about what Lawson stands for and what our goals are.

Our commitment to employees' education, which I think has been insufficient to date, is underscored by the fact that we are earmarking much more money and other resources to this area in the current year. One aspect of this is that much of my time will be spent on staff education. Investments in education are extremely important but they also take time to bear fruit. Over time, however, I am certain that our people will improve their general ability and aptitude, and many new leaders will emerge. In short, I believe employee education will contribute directly to our future growth.

## Unity Towards Achieving the Lawson Challenge 2004 Goals and Vision

Customers and our partners are both sensing a brighter mood at Lawson as we make smooth progress with Lawson Challenge 2004, our current management plan launched in 2002. If over the next year everyone at the company works day in and day out to execute our strategy for fiscal 2003, when I write my letter next year I will be able to report that Lawson has become an even more powerful presence in the industry. We will then almost certainly be able to deliver on our Lawson Challenge 2004 targets (a consolidated operating income of ¥50 billion and ROE of 15%), have established a sound basis for sustainable medium- and long-term growth, and made Lawson the 'hot' station. As we go about achieving our goals, I ask for your continued support and encouragement for everyone in the Lawson family.

June 2003

**TAKESHI NIINAMI**
*President and CEO*

# CORPORATE GOVERNANCE

Lawson is implementing corporate governance reforms so as to safeguard the interests of shareholders and other stakeholders.

## Re-election of Directors

The Board of Directors was increased from eight to nine members following approval at the Ordinary Annual General Meeting of Shareholders on May 27, 2003 and at a Board meeting held immediately afterward. The Board is now made up of four directors from within Lawson and five outside directors. Previously, there were five internal directors and three outside directors.

The change in internal directors involved the resignation of two directors and the appointment of one new director. The post of chairman is to remain vacant and the newly appointed CRO and executive vice president has been appointed as a director.

The change in outside directors involved the appointment of two new directors. Yukio Ueno brings extensive experience in management planning from Mitsubishi Corporation, Lawson's strategic partner. Mr. Ueno will advise on and monitor progress in attaining the goals of management plans based on the Plan-Do-Check-Action cycle, to increase Lawson's corporate value. Muneaki Masuda is president of Culture Convenience Club Co., Ltd. (CCC), which formed an alliance with Lawson in March 2003. An accomplished business leader, who was instrumental in guiding CCC to its listing on the first section of the Tokyo Stock Exchange, Mr. Masuda is well-versed in the entertainment industry and franchise businesses. His advice and insight should prove invaluable to the management team.

It is rare in Japan for outside directors to outnumber internal directors on corporate boards. But we believe that getting approval from outside directors on important proposals, including

**KATSUHIKO YAMASAKI**
*Executive Vice President, General Manager, Line Support Division, CRO (Chief Risk Management Officer)*

**TERUO AOKI**
*Director, Senior Executive Vice President, Representative Director, President, LAWSON CS Card, INC.*

**EIICHI TANABE**
*Director, Executive Vice President, Corporate Station Director and Chief Financial Officer (CFO)*

**YUKIO UENO**
*Director (Executive Vice President, General Manager, Corporate Planning Department, Mitsubishi Corporation)*

**TAKESHI NIINAMI**
*Representative Director, President and CEO*

**MUNEAKI MASUDA**
*Director (President and Chief Executive Officer, Culture Convenience Club Co., Ltd.)*

nominees for representative director, president and CEO, will ensure the fairness of resolutions and lead to higher corporate value. Moreover, expertise from other industries and personal networks that transcend industry lines are vital for Lawson to create a new breed of convenience store. The appointment of more outside directors provides access to a broader network and in-depth knowledge that will benefit Lawson.

In fiscal 2002, Lawson formed the Compensation Committee. The role of this committee is to establish compensation structures that motivate directors and executive officers to fulfill their duties and achieve targets, and clarify their accountability.

## The New Regional Headquarters System and Re-election of Executive Officers

Lawson has divided its nationwide organization into seven regional headquarters. The organizational changes are guided by three imperatives.

1. Facilitate rapid decision-making closer to customers.
2. Create a company firmly rooted in the communities and neighborhoods where stores are located.
3. Focus the Head Office on back-office work in support of regional headquarters.

These measures will make us better able to react and establish deeper ties with communities. We hope it will also better support franchise stores, revitalizing existing stores.

We have carefully chosen personnel who have extensive experience at the Head Office or on the front lines to serve as general managers and deputy managers of regional headquarters, and who have been vested with considerable authority to facilitate agile operations. At the same time, general managers have clearly defined responsibilities to achieve profit targets.

Lawson will continue its stock option program for executive officers to provide greater incentive for them to excel. The conditions for exercising stock options are set so as to motivate executive officers to increase Lawson's corporate value over the medium and long terms.

## Proactive Disclosure

Lawson received the Tokyo Stock Exchange's Fiscal 2002 Disclosure Award. Lawson believes that the openness of disclosure reflects the quality of management. That's why we are committed to engaging in dialogue with all stakeholders not in a one-sided manner with just shareholders, as is traditionally the case. We aim to communicate with individual shareholders, customers, employees, franchise owners and all other parties with an interest in Lawson.

**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 CHALLEN
# REPORT CARD
— Progress With the Reform Plan —

At the start of fiscal 2002, we took a bold step by launching Lawson Challenge 2004, a radical reform plan designed to firstly turn around the company, and then propel it to a new stage of growth. The ultimate objective of the plan is to transform Lawson into "the 'hot' station in the neighborhood." So how has this plan fared? We believe well. We have made steady progress implementing our strategy in the past year, doing everything we set out to achieve. By opening channels of communication with employees to realize our vision and by steadily working through all stages of Lawson Challenge 2004, we believe that our ambitious targets of consolidated operating income of ¥50 billion and ROE of 15% in fiscal 2004 are possible.

## 01 Disposed of unproductive assets in fiscal 2002

Determined to directly confront problems that have hamstrung growth, Lawson dealt quickly with unprofitable assets during the year.

>>see page 14

## 02 Made networks more efficient to improve products and draw in more customers

Lawson has looked for ways to make its manufacturing, distribution and purchasing networks more efficient. Cost savings are being channeled into raising the quality of original Lawson products, such as rice balls with the *Onigiriya* brand.

>>see page 14

## 03 Revitalized front-line operations

Increased number of supervisors and established Franchise Support Stations to support Supervisors' activities. Supervisors are now able to spend more time mentoring stores as a result. Lawson will continue to maintain a close relationship with the front line and give top priority to activating them.

>>see page 16

## 04 Established Lawson University to nurture human resources

The newly established Lawson University will provide systematic education and training programs for employees as well as store owners and crew.

>>see page 17

## 05 Introduced a target-based management system for all employees to reward individuals who produce results.

In April 2003, the target-based management system was extended to all employees. Under this system, almost 20% of the pay of an employee will be linked to performance. At the same time, executive officers and managers will have their management skills carefully assessed. This will result in fair and rigorous performance evaluation.

>>see page 18

## 06 Increasing the opening of profitable stores and setting profit targets that take into account regional differences

Daily sales and earnings at new stores have improved as a result of our renewed focus on profitability. We are now taking regional economic differences in Japan's 47 prefectures into consideration and looking at new store daily sales on a regional basis, as well as making and maintaining targets for profits generated by franchise owners and by Head Office. This signals an even tighter focus on profitability in store management.

>>see page 20

## 07 Formed equity tie-ups and business alliances to deliver more convenience to customers

We are aiming to give customers more choice and opportunity. We plan to achieve this through an alliance with Nippon Oil Corporation to operate convenience stores at their ENEOS self-service stations, and a collaboration to open stores in post offices with Japan Post. We are also championing "Convenience Banks," offering convenience store and banking services in single locations, with regional banks, who are applying to the Financial Services Agency for permission to introduce this innovative format.

>>see page 21

GE 2004

## 01 Disposed of unproductive assets in fiscal 2002

In the past year, we confronted issues head on, without putting off tough decisions, and worked hard to rid the company of assets that held back growth.

Initially we had planned on maintaining our store network at its fiscal 2001 year-end level, based on new store openings and closures of 500 apiece. In fact, there was actually a net decrease of 109 stores in fiscal 2002. This was the result of concerted efforts to close or convert to franchise operations poorly performing company-operated stores, and by closing or relocating sub-par franchise stores. We had aimed to reduce our 550 or so company-operated stores to around 300 through closures and conversions, but our focus on franchise stores meant that company-operated stores at the end of the year stood at around 330.

During the year, we launched the “challenge owner” system, whereby displaced employees were given the opportunity to become franchise owners, and offered early voluntary retirement packages, as part of our efforts to deal with surplus manpower arising from the closure of company-operated stores. About 550 employees took advantage of these opportunities, resulting in a fiscal year-end workforce of 3,200 employees, a reduction of 348 personnel year on year. We expect the effect of reduced labor costs to become apparent in our results from fiscal 2003 onward.

We also recorded an extraordinary loss on the retirement of hardware and software superseded by our next-generation information system LETSS (Lawson’s Epoch-making Total Strategic Systems), installed in fiscal 2002, as well as on the write-down of marketable securities.

In this way, we completed actions to deal with unproductive assets. Consequently, we believe in fiscal 2002 we created an excellent departure point on our journey to a new stage of growth.

## 02 Made networks more efficient to improve products and draw in more customers

Eliminating the lack of uniform quality across our range of original products, such as *bento*-boxes, rice balls, prepared breads, prepared noodles, delicatessen items, salads and desserts, has been a pressing issue at Lawson. This is vital because these items are the core earners of Lawson convenience stores. We have gone right to the crux of the problem by realigning our vendor network—the 60 or so manufacturing partners nationwide will be pared to a handful of mega-vendors. We intend to deepen relationships mainly with our six mega-vendors because they are prepared to make investments in the latest production equipment and to enhance food safety. We want partners who are committed to making improvements in quality, coming up with new ideas, and upgrading hygiene and safety.

The realignment process was started in the Kanto and Kinki regions in April 2003 and is slated for completion by the end of February 2004. Next on our list is the Chubu region.

In other product-related initiatives, we began eliminating the use of preservatives in original products in the Kanto and Kinki regions in May 2003, responding to consumer concerns over food healthiness and safety in general. Lawson also became the first company in the food retailing industry to impose proprietary limits capping the use of additives in products as we work to gradually reduce the volume of additives we use. As with the vendor reorganization, these initiatives will be extended nationwide throughout fiscal 2003.

Changes are also afoot in purchasing. In October 2002, we established a Raw Materials Procurement Department, which is responsible for creating a proprietary purchasing framework. Our aim is to reduce costs by radically reviewing purchasing across multiple channels to optimize the procurement of not just food ingredients but also things like packaging. This comprehensive review will not be restricted by past business affiliations.

## Realizing a Vision

**Takeshi Takemura (Store Owner) Nankoku Tochi Park Town Store Kouchi prefecture**

**My store has been open for five years and is located at the entrance to a new residential development. Most of my customers live in an area called Park Town and I know their faces well. But that's why I pay all the more attention to how I serve them. That includes the children—I want them to have fond memories of the store so they come back when they're older. Building customer relationships, that's the key to long-term success.**

In the past year, good progress was also made in optimizing our distribution network. In January 2003, we completed the reorganization of our dry distribution network handling products that do not require any temperature control. Our previous system consisted of a mix of both DDPs[1] used as temporary transit points and DDCs[2], which are distribution centers with warehousing functions. This 34-facility system was replaced with a leaner 27-facility network made up entirely of DDCs, helping us to generate new cost savings.

Fiscal 2002 saw a sea change in product strategy: a shift from our low-price strategy in fiscal 2001 to a high value-added strategy emphasizing product quality. The significance of this is high-lighted by the fact that around 80% of sales come from food products. Main dishes are especially important. Original products like *bento*-boxes and rice balls, which help to distinguish Lawson from its rivals, are vital to our future success.

These original food items were just too important to the company for us to wait for the positive effects of our vendor realignment to start showing through. We took the initiative to improve quality ourselves through a fundamental review of existing raw material purchasing methods and product development. Below are just a few of our accomplishments thus far.

**Eel and Rice Dishes**

We chose the hottest part of the year to launch our *Tokusen Unajyu*, a variation on an eel and rice dish traditionally eaten during the summer in Japan to boost stamina. Our direct involvement in the purchasing process, including the actual sourcing of the eels themselves, played a key part in significantly improving the quality of the ingredients at competitive prices, and led directly to strong sales of the product. *Gekkan Konbini*, a monthly magazine published by THE SHOGYOKAI PUBLISHING CO., LTD. that focuses on the convenience store industry, selected Lawson's *Tokusen Unajyu* as by far and away the best eel dish on the market in its September 2002 issue.

**The *Onigiriya* Project**

The *Onigiriya* brand, a new line of Lawson rice balls, was the driving force behind the year-on-year increase in December 2002 existing store sales, the first growth recorded in 18 months. We launched the *Onigiriya* brand in November 2002 with the

[1] Dry Distribution Points
[2] Dry Distribution Centers

express aim of making Lawson synonymous with rice balls. Since then, rice ball sales, both monetary and unit volume, have been running at significantly higher levels than in fiscal 2001.

The secret of this success lies in the way we drew people from all corners of the Lawson network to form a product development team characterized by out-of-the-box thinking. Project team members included Lawson employees, franchise owners, store crew[3] and business partners. Persuading all our manufacturing vendors to introduce new rice ball molding machines was also a key step. In the coming year, we plan to transfer this success to other product categories to drive sales higher.

**Area Ichioshi *Bento*-Boxes**

November 2002 also saw the launch of new *bento*-boxes that more closely reflect local preferences—Area Ichioshi *Bento*-Boxes. This concept involved dividing the country up into 10 regions and developing one new product a month for each that reflects local taste preferences and that differ in price and ingredients. Input from owners, store crew, supervisors and other area employees is a key ingredient in the planning of these products. Strong sales of these *bento*-boxes, together with *Onigiriya* rice balls, drove a turnaround at the Main Dish Division from November 2002.

In other efforts to imbue Lawson stores with a more regional feel, we have actively sought to form tie-ups with local media and baseball teams. One example was in the Kinki region, where we joined hands with Yoshimoto Kogyo Co., Ltd.[4] We plan to actively increase these kinds of relationships in fiscal 2003.

In a separate development, we began a tie-up with Takashimaya Co. Ltd., one of Japan's leading department store chains with 18 stores nation-wide, in Christmas and New Year food and gifts. Part of this collaboration included developing a range of Christmas cakes created by the re-nowned Japanese chef Hiroyuki Sakai.

## Revitalized front-line operations 03

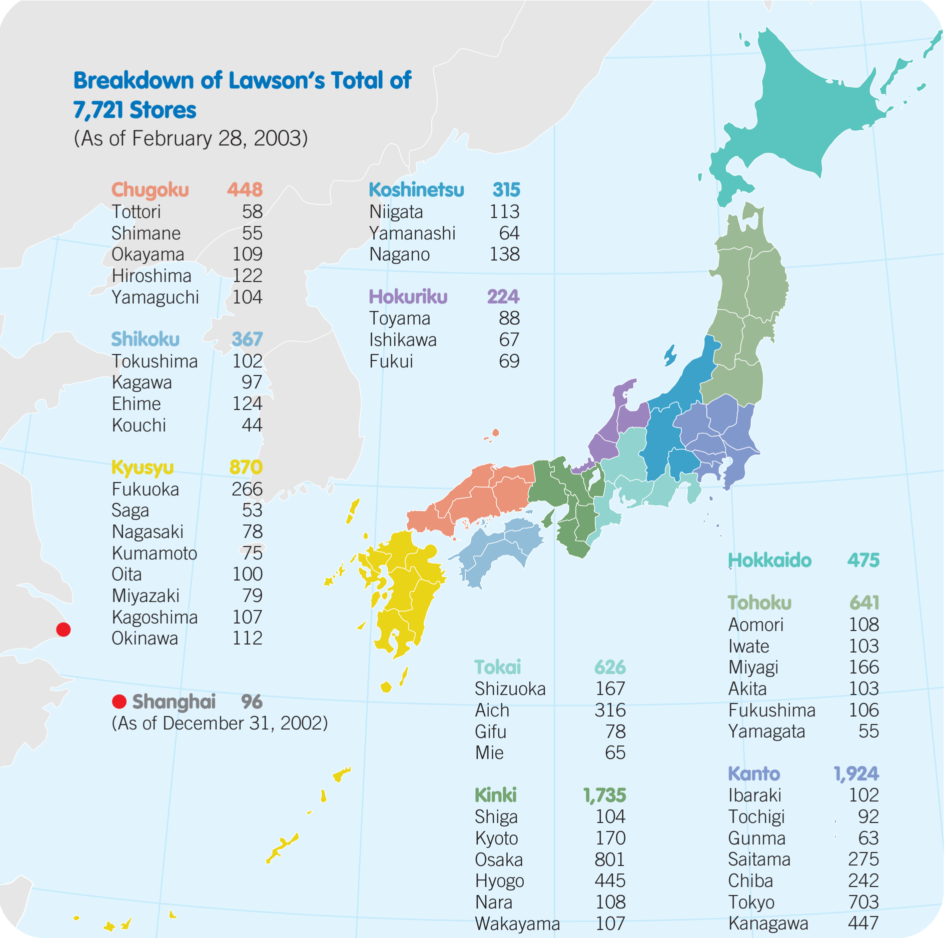
We at Lawson are creating stores which satisfy our customers. To achieve this, we follow Lawson's Three Challenge Practices to ensure every store becomes "the 'hot' station in the neighborhood".

The Three Challenge Practices comprise firstly, winning the support of customers of company-operated stores by creating stores that can be enjoyed by all customers in the catchment area; secondly, actively working to keep both the store and the catchment area neat and tidy; and thirdly, instilling in customers the desire to revisit the store.

The Three Challenge Practices are necessary because although we have long cited the need to maintain high standards of Quality, Service and Cleanliness (QSC), recently the QSC concept has become a little clouded. It is clear to us all that our Three Challenge Practices are the indispens-able foundation of any action to promote cus-tomer satisfaction.


## Breakdown of Lawson's Total of 7,721 Stores

(As of February 28, 2003)



| Chugoku | 448 |
|---|---|
| Tottori | 58 |
| Shimane | 55 |
| Okayama | 109 |
| Hiroshima | 122 |
| Yamaguchi | 104 |

| Shikoku | 367 |
|---|---|
| Tokushima | 102 |
| Kagawa | 97 |
| Ehime | 124 |
| Kouchi | 44 |

| Kyusyu | 870 |
|---|---|
| Fukuoka | 266 |
| Saga | 53 |
| Nagasaki | 78 |
| Kumamoto | 75 |
| Oita | 100 |
| Miyazaki | 79 |
| Kagoshima | 107 |
| Okinawa | 112 |

Shanghai 96
(As of December 31, 2002)

| Koshinetsu | 315 |
|---|---|
| Niigata | 113 |
| Yamanashi | 64 |
| Nagano | 138 |

| Hokuriku | 224 |
|---|---|
| Toyama | 88 |
| Ishikawa | 67 |
| Fukui | 69 |

| Tokai | 626 |
|---|---|
| Shizuoka | 167 |
| Aich | 316 |
| Gifu | 78 |
| Mie | 65 |

| Kinki | 1,735 |
|---|---|
| Shiga | 104 |
| Kyoto | 170 |
| Osaka | 801 |
| Hyogo | 445 |
| Nara | 108 |
| Wakayama | 107 |

| Hokkaido | 475 |
|---|---|

| Tohoku | 641 |
|---|---|
| Aomori | 108 |
| Iwate | 103 |
| Miyagi | 166 |
| Akita | 103 |
| Fukushima | 106 |
| Yamagata | 55 |

| Kanto | 1,924 |
|---|---|
| Ibaraki | 102 |
| Tochigi | 92 |
| Gunma | 63 |
| Saitama | 275 |
| Chiba | 242 |
| Tokyo | 703 |
| Kanagawa | 447 |

## Lawson Regional Headquarters

**Hokkaido Branch Office**
Hokkaido
**Tohoku Branch Office**
Aomori, Iwate, Akita, Yamagata, Miyagi, Fukushima
**Kanto Branch Office**
Niigata, Saitama, Gunma, Ibaraki, Tochigi, Chiba, Tokyo, Kanagawa
**Chubu Branch Office**
Aichi, Gifu, Mie, Nagano, Yamanashi, Shizuoka, Ishikawa, Fukui, Toyama
**Kinki Branch Office**
Kyoto, Shiga, Hyogo, Nara, Wakayama, Osaka
**Chugoku & Shikoku Branch Office**
Tottori, Okayama, Shimane, Hiroshima, Yamaguchi, Kagawa, Tokushima, Ehime, Kouchi
**Kyusyu Branch Office**
Fukuoka, Nagasaki, Saga, Oita, Kumamoto, Miyazaki, Kagaoshima, Okinawa

A key goal for us during fiscal 2002 was to revitalize our front line—our stores. We have had a measure of success. By increasing the number of store supervisors and giving them more support with the establishment of Franchise Support Stations, we have created an environment where store supervisors have more time and resources to help stores. Weekly meetings that bring together District Operations Managers (DOMs[5]), division managers and the president are now a firmly embedded element of our management approach. This has enhanced communication, helping to bring front lines and Head Office closer together. DOMs are also responsible for communicating the key points of weekly meetings to store supervisors to ensure that management thinking reaches every corner of the organization. Similarly, DOMs pass on front-line developments and requests to the upper levels of the company so they can be better reflected in Head Office strategy. Enhancing communication with the front line will continue to be a key goal for Lawson going forward.

In fact, we have already taken additional steps to wed this new management approach more closely to our local operations by revamping our regional support framework in March 2003. The main points are as follows:

① Lawson's nationwide convenience store chain, which is based on 20 operating divisions, will be managed by 7 regional headquarters in Hokkaido, Tohoku, Kanto, Chubu, Kinki, Chugoku-Shikoku and Kyushu.

② Each regional headquarters will conduct all business activities in its area (store development, operations and merchandising) under the direct supervision of the regional headquarters regional manager. Each regional headquarters will also have a Marketing Division[6] and a Franchise Support Division[7]. These units will work closely with Head Office departments to assist stores.

[3] Part-time staff employed at Lawson stores are called "store crew"
[4] One of Japan's largest entertainment companies, involved in the planning and production of programming for a wide range of media, and the distribution of other forms of entertainment. (http://www.yoshimoto.co.jp)
[5] Responsible for each of Lawson's approximately 120 district offices in Japan
[6] Supporting sales efforts
[7] Supporting back-office processes

## Established Lawson University to nurture human resources

Outside experts in management, merchandising and store development are also being used to galvanize our people and help reenergize the way we do business.

The newly established Lawson University, a structured education and training program for employees will help energize operations. Under this program, employees and management will first take a leadership program.

In April 2003, we began introducing a target-based management system for all Lawson employees, including store supervisors after paving the way for this new system in fiscal 2002 with a range of temporary incentives. In the past, performance evaluation had been based on sales targets. The temporary incentives focused on franchise owner profits instead, fundamentally changing how our people look at performance. This system was structured to encourage better teamwork at the district office level, the fundamental building block of Lawson's organization, by not rewarding individuals but the team performance—DOMs, chief supervisors[8], store supervisors, assistant supervisors[9] and store instructors[10]. Put more simply, if district office targets are not met, no incentives are paid. Thanks to the clear relationship between rewards and results, one benefit is already apparent: a marked improvement in front-line employee motivation as they strive to increase franchise owner profits. This preparatory stage was vital for the smooth introduction of the full target-based management system now being rolled out.

## Introduced a target-based management system for all employees to reward individuals who produce results.

In fiscal 2002, we introduced a target-based management system for executive officers and managers. In April 2003, we extended this system to all employees.

Our revamped personnel system is based on a concept that is simple and now more widely held in Japan: reward should be directly related to results. We are confident this approach will win the full support of employees. A weakness of the previous system was that performance and ability were not truly reflected in pay—performing and non-performing employees were being treated almost exactly the same. Now almost 20% of the

### Realizing a Vision

**Toshikazu Iwashige (Store Owner) Kajiki Kida Store Kagoshima prefecture**

**Before becoming a Lawson franchise owner, I ran a liquor store, so I was full of confidence about store management and interacting with customers. In reality though, running a convenience store was much tougher than I imagined. For a long time, sales remained flat. What helped me turn things around though, was the valuable advice from other store owners, and sheer hard work of course. I focused on doing the basics well—making sure that the store, both inside and out, was clean. I'm sure that's one reason I've seen an increase in customer footfall. I believe more customers are coming to my store because the tidier, cleaner impression we give is the first step on the road to winning their trust.**


pay of an employee will be linked to performance. Previously, this was a mere 7%.

In fiscal 2002, we also introduced a system whereby each executive officer responsible for divisions or Franchise Support Stations is entrusted with missions for achieving Lawson's publicly released targets. From fiscal 2003, managers and employees will also be assigned missions based on the missions of their executive officers. The net impact of these reforms will be a wedding of the interests of Lawson as the franchiser, with those of its franchisees. The profits of franchise owners are now just as important in measuring performance as the profits of Head Office. We are confident this will make our front-line activities more dynamic.

In addition, executive officers and managers will have their management skills closely assessed, resulting in fair and rigorous performance evaluation.

### LETSS: Up and Running

Following on from the successful introduction of LETSS during fiscal 2002, our focus has now turned to maximizing the full potential of this powerful system. Using LETSS, we plan to enhance our retailing capabilities, expand new business, increase the accuracy of our store opening strategy, improve store operations, and inject real value into our IT network.

Key to this will be store owners, store crew and supervisors. That's why training for supervisors has been identified as a major priority for the company, demonstrated by the establishment of an Operation Education & Training Department in October 2002 to enhance leadership skills. And in a radical departure from the past, we are bringing in outside experts to take overall responsibility for training programs, helping us to move away from legacy approaches.

The main point of LETSS has been to show supervisors how they can use the system to refine their thinking and skill and, as a result, create better stores. Through the installation of new machines, we improved the flow and quality of product and customer data between stores and Head Office. This has given us the capability to tailor product lineups to individual stores, and ensure we can continue to offer local customers the merchandise and services they value the most. The advantages of our new system do not end there: thanks to LETSS, we have enhanced usability compared to previous systems, and now have the tools to improve store operating efficiency and speed up data processing and analysis.

## 06 Increasing the opening of profitable stores and setting profit targets that take into account regional differences

### New Stores, a New Strategy

At the end of fiscal 2002, Lawson's network consisted of 7,625 stores in all of Japan's 47 prefectures. This represented a net decline of

[8] DOM support role: providing their wealth of front-line experience to store supervisors through on-the-job training and other programs.
[9] Candidates for store supervisor: working closely with store supervisors to learn the role.
[10] Trainer role: training new owners and store crews.

109 stores on the 2001 fiscal year-end, the first time since the company was founded in 1975 that store closures have outnumbered store openings. This was the result of lowering opening targets by around 100, compared with fiscal 2001, to about 500 stores to ease the pressure on our store development corps and give them more time to concentrate on qualitative—profitability-focused—rather than quantitative network expansion. The results are there to be seen—daily sales at new stores improved and store earnings recovered. We also eased pressure by avoiding the typical burst of store-opening activity toward the end of the fiscal year, achieving a more even pace of openings throughout the year.

Using our "grid point" system, which identifies prime store locations using key parameters, we increased the percentage of new store openings in prime locations in each region. And by employing the latest modeling systems to identify likely areas of low daily sales, we were better able to manage our store opening process. The net result was an improvement of about ¥26,000 in average daily sales at new stores to ¥457,000, and an increase in profitability of approximately 10%. The increase in profitability actually exceeded the rate of increase in average daily sales, highlighting how we managed to enhance the quality of our store network in the past year.


Meanwhile, we put priority on aggressive existing store relocations and closures and significantly reduced the number of unprofitable Company-operated stores. As a result, store closures were 611, far outnumbering openings. The combined effect of the above measures was a much stronger store network at the end of the year in terms of quality, and better profits for franchise owners whose stores were given a new start at a new site.

**The Ongoing Challenge of Enhancing Store Profitability**

As part of ongoing efforts to further raise store profitability, we plan to more carefully assess the potential performance of new stores, boosting profits through a net increase in stores starting in fiscal 2003.

Although store profitability remains a key issue, we are well aware that the strength of the company is also dependent on the number of stores in our network. So from fiscal 2003, we plan to move back onto the offensive. We are well placed to open the 600 new stores we plan to in fiscal 2003, around 100 more than in fiscal 2002. This is being done as we open stores that are genuinely appreciated by customers for giving them more regional flavor. Because very few closures of Company-operated stores will be required this fiscal year, we can direct our attention to the needs of franchise owners who want to relocate.

Meanwhile, we have great hopes for LETSS. Using its mapping system and the vast amount of data it gathers, we will improve the efficiency of locating, analyzing and managing promising new store locations. Used in conjunction with our "grid point" method, LETSS will also reduce the likelihood that new stores generate low daily sales and greatly contribute to improving the productivity of Recruit Field Counselors who are responsible for new store opening programs.




## Realizing a Vision

**Shinichiro Miyawaki (Store Owner) Fujisawa Higashi Yokosuka Store Kanagawa prefecture**

**My store is in the frontline of the battle in the convenience store market—3 competing stores have opened up in the area in the last 2 years. When I sat down and thought about how best to take on this competition, I knew instantly the prime focus had to be customers and how our seasoned store crew interacted with them. Our store crew, calling on all their experience, have changed how they talk with and engage customers. Their friendly and relaxed style has built closer relationships and, I believe, is the reason for an increase in the number of regular customers. The importance of good customer contact was vindicated by an increase in year-on-year sales.**

### Staying One Step Ahead of the Competition

To ensure we obtain a truly accurate picture of store network performance, we are adopting more precise performance benchmarks for new stores. To start with, this means we will measure average daily sales and profits at new stores on a local and even individual store basis rather than just on a nationwide basis, as has been the case in the past. This new approach, which takes into consideration differences in regional economies, will allow us to clearly identify profit-generating regions and stores in a network that covers all 47 of Japan's prefectures, and place more emphasis on franchise owners' and Head Office profits. We believe this is a necessary and important prerequisite for profit-oriented management.

In recent years, we have had to contend with intensifying competition, not just from our traditional peers, but also from restaurants, *bento*-box chains, 24-hour supermarkets and other food retailers. These forces are reshaping our operating landscape, making it increasingly difficult to find and secure prime sites for new stores. And in Japan's major metropolitan areas, there is still a need to close or relocate stores due to massive changes in local operating environments.

But we are fortunate to have a network that gives us access to many different channels of information, notably from strategic partner Mitsubishi Corporation, which allows us to identify prime sites ahead of competitors. This gives us an advantage in negotiations to put stores in pivotal locations.

### 07 Formed equity tie-ups and business alliances to deliver more convenience to customers

In a mature market, Lawson is actively developing new convenience store formats to meet the rapidly shifting and increasingly diverse needs of customers. We believe the standard convenience store format is no longer capable of meeting the whole spectrum of customer needs. We are also transferring the know-how gleaned from new store formats to our regular stores, thereby enhancing the competitiveness of the entire Lawson chain.

Our so-called “antenna shops” are being used to test out new store formats. Natural Lawson is one example, a store format we have been developing since fiscal 2001 based on the concept of providing customers with natural, healthy food. Others include stores located in specific locations to meet a certain demand base. All ideas are aimed at widening the menu of useful everyday services that Lawson provides, so as to become an integral part of the community itself.

**Hospital Lawson**

Our hospital-based Lawson stores are all barrier free to make them as easy as possible for wheel-chair-bound patients to use. This means aisles are wider, checkouts are lower, automatic doors are standard, and toilets are designed to accommodate wheelchairs and other patients. The product lineup is also tailored to the needs of hospital users and patients, with a full range of personal care products such as toiletries and slippers, and nursing and hygiene products such as adult diapers and gauze bandages. We believe other services already provided at regular Lawson stores will also make the lives of both patients and hospital workers much more convenient: 24-hour ATM services (for participating banks only), public utility bill payment, *Loppi* multimedia terminals to book tickets and order other services, and the ability to use credit cards so patients don’t have to carry cash around with them in the hospital. A number of Hospital Lawson stores also have extended opening hours so staff on nightshift, emergency outpatients and their families can benefit from the convenience of these stores. Other innovations include hospitality counters at certain stores to help patients with their shopping. The ultimate aim is to create a warm and welcoming atmosphere so patients and their relatives can relax and feel at home. The Hospital Lawson format itself continues to evolve as we offer an ever-growing range of services, such as experimental dry-cleaning and video rental services at stores where customers have requested them.

**Lawson’s New Potentialities**

At Lawson, our perennial challenge is how to further enhance convenience for customers. In rising to this challenge, we are discarding traditional thinking and seeking new solutions based on whole new approaches.

Two examples are a deal with Nippon Oil Corporation to operate convenience stores at their ENEOS self-service stations, and a tie-up with Japan Post to open convenience stores in post offices. We are also planning to establish “Convenience Banks,” convenience store and banking services in single locations, with regional banks. These banks are applying to the Financial Services Agency for permission for this new business model. Also, our alliance with TSUTAYA, a major chain developed by Culture Convenience Club Co., Ltd., enables customers to share a shopping rewards program.

**How We Grasped the Nettle in Fiscal 2002**

In the past year, we made great strides in transforming Lawson’s organizational make up, and there is a real spring in our step again—something many of our business partners and customers have already noticed. In fiscal 2003, we will work even harder to make sure our new initiatives bed down and ensure our key measures deliver results. By doing this, we will put in place a firm base to ensure the sustainable medium to long-term growth of the company.


Culture Convenience Club®

# FINANCIAL SECTION



**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.

# CONSOLIDATED FIVE-YEAR SUMMARY

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February

| | Millions of Yen | | | | | Thousands of U.S. Dollars[4] |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 | 2003 |
| **For the year:** | | | | | | |
| Operating revenues: | | | | | | |
| Franchise commission from franchised stores | ¥ 149,032 | ¥ 141,621 | ¥ 135,237 | ¥ 124,587 | ¥ 115,087 | $ 1,265,665 |
| Net sales from company-operated stores | 80,954 | 101,353 | 132,921 | 149,458 | 163,707 | 687,507 |
| Other | 20,348 | 13,142 | 12,060 | 17,808 | 23,922 | 172,807 |
| Total operating revenues | 250,334 | 256,116 | 280,218 | 291,853 | 302,716 | 2,125,979 |
| Operating income | 34,107 | 36,363 | 41,279 | 40,185 | 37,073 | 289,656 |
| Net income | 8,861 | 16,123 | 16,368 | 15,011 | 10,675 | 75,253 |
| Cash flows from operating activities | 33,860 | 44,804 | 52,793 | 67,790 | 57,868 | 287,558 |
| Cash flows from investing activities | (3,787) | (44,031) | (54,696) | 121,758 | (5,494) | (32,161) |
| Cash flows from financing activities | (7,247) | (58,236) | 18,707 | (92,521) | (47,539) | (61,546) |
| Capital expenditure | 34,162 | 35,191 | 32,651 | 30,703 | 23,442 | 290,123 |
| Depreciation and amortization[1] | 16,071 | 16,328 | 16,021 | 15,017 | 16,039 | 136,484 |
| **At year-end:** | | | | | | |
| Total assets | ¥ 342,599 | ¥ 342,934 | ¥ 387,236 | ¥ 339,413 | ¥ 411,994 | $ 2,909,546 |
| Total shareholders' equity | 151,864 | 149,827 | 178,448 | 95,932 | 83,124 | 1,289,715 |
| Interest-bearing debt | — | 3,140 | 23,530 | 71,817 | 166,109 | — |
| Ratio of Interest-bearing debt | — | 0.9% | 6.1% | 21.2% | 40.3% | — |
| Cash and cash equivalents | 93,994 | 71,269 | 128,655 | 111,753 | 14,767 | 798,251 |
| Total number of stores | 7,721 | 7,824 | 7,749 | 7,432 | 7,066 | |
| Number of employees (Full-time) | 3,462 | 3,817 | 4,170 | 4,234 | 4,418 | |

| | Yen | | | | | U.S. Dollars |
|---|---|---|---|---|---|---|
| **Per share data:** | | | | | | |
| Net income[2] | ¥ 82 | ¥ 146 | ¥ 148 | ¥ 143 | ¥ 102 | $ 0.70 |
| Cash dividends[2] | 41 | 41 | 35 | 17 | 14 | 0.35 |
| **Financial data:** | | | | | | |
| ROE | 5.9% | 9.8% | 11.9% | 16.8% | 13.7% | |
| ROA | 10.0% | 10.0% | 11.4% | 10.7% | 8.6% | |
| **Net sales of all stores:** | | | | | | |
| Net sales by store category: | | | | | | |
| Franchised stores[3] | ¥1,213,088 | ¥1,184,204 | ¥1,144,717 | ¥1,073,422 | ¥ 995,090 | $10,302,234 |
| Company-operated stores | 80,954 | 101,353 | 132,921 | 149,458 | 163,707 | 687,507 |
| Net sales by product category[3]: | | | | | | |
| Processed foods | 600,508 | 583,712 | 562,777 | 528,188 | 494,090 | 5,099,856 |
| Fast foods | 303,098 | 297,030 | 362,979 | 350,702 | 333,580 | 2,574,081 |
| Daily delivered foods | 138,353 | 150,862 | 90,569 | 89,248 | 87,818 | 1,174,972 |
| Non-food products | 252,083 | 253,953 | 261,313 | 254,742 | 243,309 | 2,140,832 |
| Net sales of all stores | ¥1,294,042 | ¥1,285,557 | ¥1,277,638 | ¥1,222,880 | ¥1,158,797 | $10,989,741 |

*Notes: 1. Including depreciation and amortization of intangible fixed assets.*
*2. The data has been restated to reflect the 1 to 50 stock split on April 14, 2000.*
*3. These figures, as reported by franchised stores, are unauditied.*
*4. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2003, of ¥117.75=$1.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### Economic Overview

During the past fiscal year, there were some encouraging economic trends in Japan as exports rose early in the year and there was a rebound in industrial activity. However, in the year's second half, mounting concerns about the U.S. economy along with falling stock prices held down final demand and kept consumer spending soft. The result was a further weakening of the Japanese economy.

**The Retail Industry in Japan**

In the retailing sector, the pace of realignment is accelerating due to the entry of major foreign retailers and other events. Even as the retailing industry in Japan contracts, the convenience store sector continues to expand, although at a slower pace. Although same-store sales again declined year on year, the convenience store industry continued to capture a greater share of total retail sales in Japan. The last increase in the number of convenience stores in Japan occurred in 2000. In each of the subsequent three years, store closings by the five largest convenience store operators have exceeded 1,000. The major players are currently moving quickly to close low-volume stores while conducting large-scale programs to replace them with more productive stores. As the store networks of these companies grow, the number of stores at other convenience store companies is falling. As a result, the leading convenience stores are accounting for an increasing share of the market, a trend that is expected to continue.

Competition in the retailing industry is expected to become still more heated. One reason is the extended operating hours of supermarkets and rising competition from restaurants. Another is plans by Seven-Eleven Japan, the largest convenience store company in Japan, to open more stores in the Nagoya and Osaka regions.

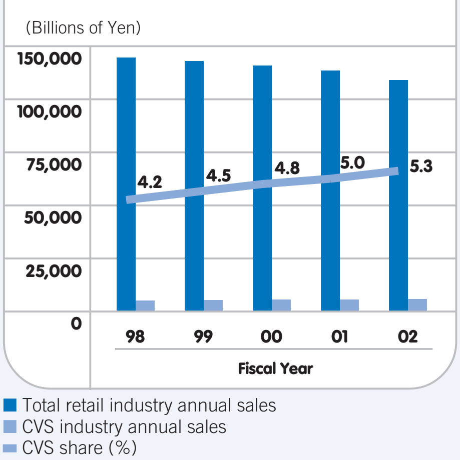
Due to these factors, net sales at all Lawson stores increased 0.7% to ¥1,294,042 million. Operating revenues decreased 2.3% to ¥250,334 million due to the decline in the number of company-operated stores. Operating income decreased 6.2% to ¥34,107 million, mainly the result of expenses for a new information management system. Other significant items affecting earnings were an increase in equity in losses of affiliated companies, loss on disposal of property due to the closing of company-operated stores and the previous information management system, and higher severance benefits associated with a voluntary early retirement program. The result was a 45.0% decline in net income to ¥8,861 million.

**Convenience Store (CVS) Share of the Total Retail Market** (Billions of Yen)

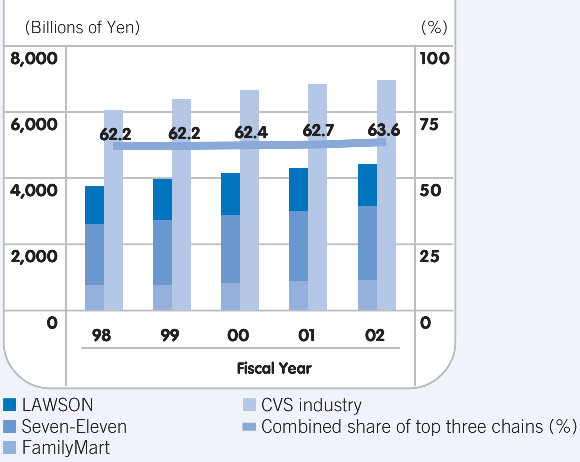
| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Total retail industry annual sales | 130,760 | 136,087 | 139,132 | 141,450 | 143,494 |
| CVS industry annual sales | 6,980 | 6,846 | 6,680 | 6,383 | 6,049 |
| CVS share (%) | 5.3% | 5.0% | 4.8% | 4.5% | 4.2% |

Based on data in the "Survey of Commerce" published by the Ministry of Economy, Trade and Industry

**CVS Share of the Total Retail Market**




**Share of CVS Market Held by Top Three Chains (Sales)**



### Share of CVS Market Held by Top Three Chains (Sales)

(Billions of Yen)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| LAWSON | **1,294** | 1,282 | 1,275 | 1,221 | 1,157 |
| Seven-Eleven | **2,213** | 2,114 | 2,047 | 1,964 | 1,848 |
| FamilyMart | **932** | 899 | 843 | 783 | 758 |
| Combined share of top | **4,439** | 4,295 | 4,165 | 3,968 | 3,763 |
| three chains (%) | **63.6%** | 62.7% | 62.4% | 62.2% | 62.2% |
| CVS industry | **6,980** | 6,846 | 6,680 | 6,383 | 6,049 |

## Store Network

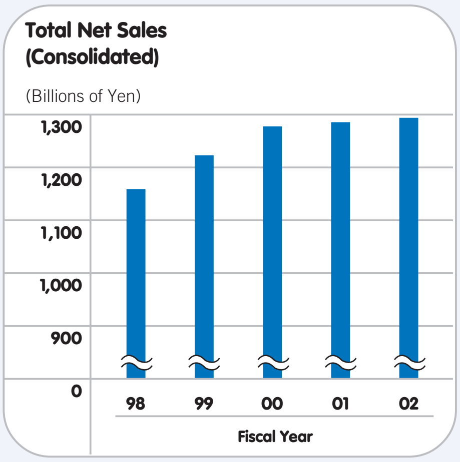
### Revision in Standards for New Stores

Until now, Lawson has based decisions on opening new stores largely on estimated average daily sales. While retaining this standard, Lawson has adopted a revised system that places more emphasis on returns on investments. Variations in rents and other operating expenses in different regions of Japan mean that high sales volumes do not always translate into a high return. To reflect these regional differences, Lawson's revised system sets sales targets at a level in each region of Japan that is needed to achieve the necessary return. This stance better enables Lawson to open stores in a manner that places priority on profitability. At the same time, many low-volume and unprofitable stores have been closed or moved to better locations and company-operated stores have been converted to franchised operations. Due to the greater emphasis on the quality of new stores, there has been a steady improvement in returns on investment at new stores. Lawson will continue to pay close attention to profitability when opening stores, thus further increasing Lawson's total return on invested capital.

### Number of Stores

Due to the emphasis on opening quality stores, in Japan, there were 502 store openings during the past fiscal year but 611 store closings, including store relocations. The largest component of store closings was the closing or relocation of 211 company-operated stores. The result was a net decrease of 109 in the number of Lawson stores in Japan to 7,625 as of February 28, 2003.

Although Lawson reported the first net decrease in stores in its history, this was a positive action that rid the company of most of its unprofitable stores, part of a series of measures aimed at removing unproductive assets from the balance sheet. The company plans to resume increasing the number of stores from now on while retaining its emphasis on quality.




In the People's Republic of China, Shanghai Hualian Lawson Co., Ltd. increased its store network in the Shanghai area by 6 to 96 locations. This gave Lawson a total network of 7,721 stores, 7,625 in Japan and 96 outside Japan.

**Number of Stores in Lawson Network** Years Ended February (Stores)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Number of stores ....... | **7,721** | 7,824 | 7,749 | 7,432 | 7,066 |
| Openings .......... | **519** | 626 | 739 | 718 | 664 |
| Closures ........... | **622** | 551 | 422 | 352 | 284 |
| Net increase (decrease) .. | **(103)** | 75 | 317 | 366 | 380 |

### New Regional Headquarters System

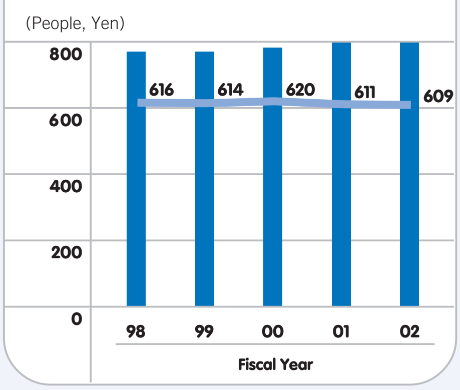
Lawson introduced a system of regional headquarters in March 2003 for the purpose of offering services that are even more closely rooted in each locality. Unlike in the previous system where merchandise, operations and store development tasks were organized in a top-to-bottom fashion, the new system gives each regional headquarters autonomy in all these areas. By facilitating speedy decision-making, this system will allow stores to better meet regional needs. Each regional headquarters CEO has been delegated considerable authority, thus clarifying accountability for meeting performance targets.

The regional headquarters system was first introduced in October 2002 in the Nagoya and Kansai areas. In both cases, concrete benefits of the new system are already becoming evident.

### Placement of ATMs in Stores

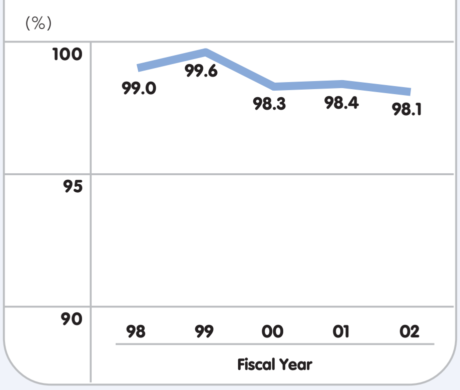
Since October 2001, Lawson and subsidiary LAWSON ATM Networks, Inc. have been placing ATMs in Lawson stores. Lawson has ATM alliances with all four of Japan's major banking groups as well as large regional banks. As a result, almost all customers hold an ATM card that is accepted by Lawson ATMs. As of May 2003, ATMs were placed in Lawson stores in the following prefectures: Hokkaido, Aomori, Niigata, Nagano, Tokyo, Kanagawa, Saitama, Chiba, Aichi, Nara, Osaka, Hyogo and Nagasaki. Utilization of the ATMs is rising steadily. Through more ATM alliances, Lawson plans to make this service even more convenient in order to raise the frequency of customer visits and attract new customers to its stores, thus leading to higher consolidated earnings. As of February 28, 2003, a total of 2,712 ATMs were operating at Lawson stores.

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




■ Customers
■ Transaction value per customer (Yen)

**Existing Store Sales (Compared with Previous Year)**



### New Lawson Store Formats

As of February 28, 2003, Lawson was operating 12 of its Natural Lawson format stores to gauge market response. To date, much useful data have been collected. These stores have been used for a number of tests, such as the sale of *bento*-boxes that allow customers to select contents and the inclusion of in-store bakeries. In addition, Natural Lawson corners have been set up in selected Lawson stores, enabling this category to make an increasing contribution to sales. Regarding other formats, there are currently four Lawson stores located in hospitals. Lawson views this as an attractive growth opportunity, in part because of Japan’s aging population, and plans to increase the number of these stores. Lawson will continue to experiment with new store formats to expand its network in more ways and create new opportunities for growth.

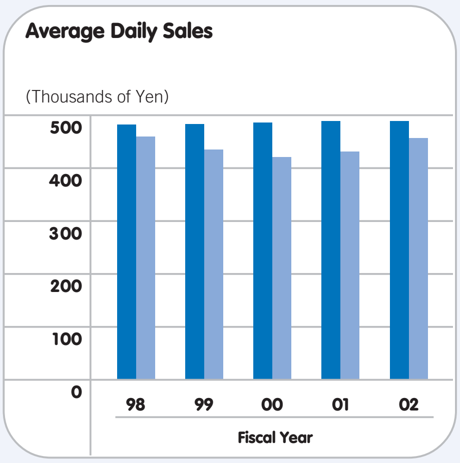
### Outlook

The past fiscal year was a period when Lawson took measures required to position the company for long-term growth in an extremely challenging operating environment. The benefits of these actions are expected to become evident in the fiscal year ending in February 2004. The company expects earnings per share to increase approximately twofold. Lawson’s ongoing disposal of negative assets and cost savings from personnel reductions are expected to be the primary sources of the projected growth in earnings.

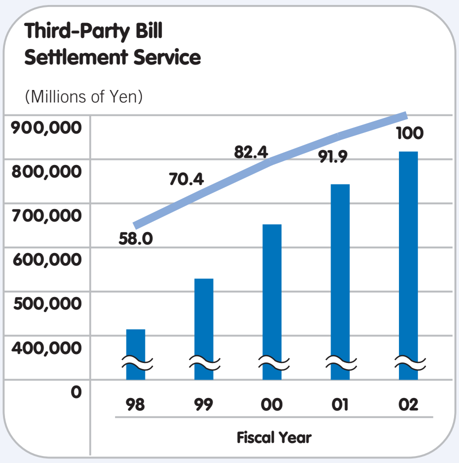
One of the most urgent issues at Lawson is increasing the number of customers. Although there was an upturn in the number of customer visits on a same-store basis late in the past fiscal year, total customer visits nevertheless were lower for the entire fiscal year. Lawson plans to increase sales and attract more customers by offering a more appealing merchandise selection, forming more alliances with other companies and through other means. Plans further call for a net increase of between 200 and 300 in the number of stores each year beginning with the fiscal year ending in February 2004. Leasing expenses will increase because most new stores will be located in the Tokyo, Nagoya and Osaka areas and many new stores will have contracts requiring the payment of leasing expenses by Lawson. However, this is expected to be offset by growth in fees paid by store operators.

Earning will be pressured by depreciation expenses resulting from investments to upgrade existing stores. Furthermore, Lawson foresees an increase in leasing fees and depreciation expenses following the completion of investments in the new LETSS information management system in the past fiscal year. Despite these increases, Lawson expects to reduce its total operating expenses in the fiscal year ending in February 2004 primarily through a far-reaching cost-cutting program centered on the procurement of raw materials.

Earnings at group companies are expected to improve. Through the measures outlined here, Lawson will make a concerted effort to reach its target of consolidated operating income of ¥50 billion in the fiscal year ending in February 2005. Lawson also plans to raise its ROE to at least 15% in the fiscal year ending February 2004 by raising earnings and using its substantial cash flows to repurchase shares.



■ All stores
■ New stores



■ Transaction volume
■ No. of settlements (Millions of transactions)

## Store Operation Analysis

### Net Sales

Net sales at all Lawson stores increased 0.7% to ¥1,294,042 million. This was due mainly to an approximate 10 percentage point improvement in the store operation rate due to a more even rate of store openings. This countered the effect of a net decrease in the number of stores.

By product category, sales of fast foods and processed foods increased while sales of daily delivered foods and non-food products decreased.

***(a) Existing Store Sales***

Same-store sales had been declining each year since the fiscal year that ended in February 1999. Persistently soft consumer spending, an extended period of deflation, intense price and value-based competition from the restaurant and ready-made food industry, and the start of 24-hour operations by supermarkets have all contributed to the sales decline. Same-store sales have now recovered due to the success of new main dishes such as *Onigiriya* rice balls and Area Ichioshi *bento*-boxes.

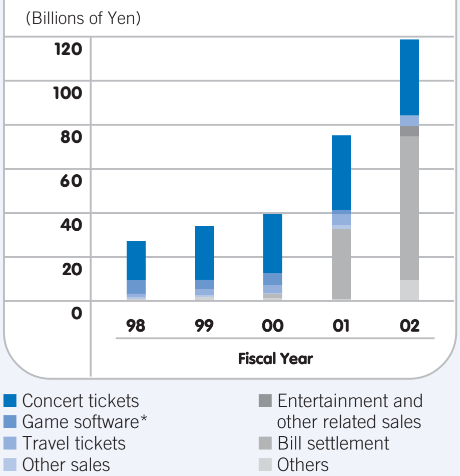
***(b) Average daily sales***

Average daily sales at all Lawson stores was ¥489,000, unchanged from the previous fiscal year. This was the combination of weak sales at existing stores and higher sales at stores opened in the previous fiscal year. Average daily sales at new stores was ¥457,000, ¥26,000 higher than in the previous fiscal year. This improvement was attributable to the concentration of store openings in large urban areas and measures to improve the quality of new stores, such as by using a more powerful new store sales forecasting system.

## Sales by Product Category

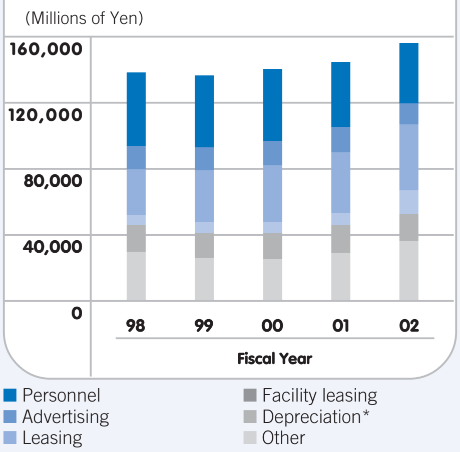
Sales of processed foods increased 2.9% because of the popularity of chilled beverages and Lawson's series of ¥100 confections. In fast foods, sales rose 2.0% on the strength of prepared noodle dishes such as *yakisoba* and *yakiudon*. Sales of daily delivered foods were down 8.3% because of weakness in the dessert and fresh foods categories. As a result, total food sales increased 1.0%. Sales of non-food products decreased 0.7% as weakness in cosmetics and magazines offset strong sales of DVDs and videotapes of the popular animated feature *Spirited Away*.

***Loppi*** **(Multimedia Terminal) Transaction Volume**




*From the year under review, sales of game software are included in entertainment and other related sales.

**Breakdown of Selling, General and Administrative Expenses**




*Including depreciation and amortization of intangible fixed assets.

**Breakdown of Net Sales by Product Segment** Years Ended February (Millions of Yen)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Processed foods . . . . . . . . . | ¥ 600,508 | ¥ 583,712 | ¥ 562,777 | ¥ 528,188 | ¥ 494,090 |
| Fast foods . . . . . . . . . . . . | 303,098 | 297,030 | 362,979 | 350,702 | 333,580 |
| Daily delivered foods . . . . . | 138,353 | 150,862 | 90,569 | 89,248 | 87,818 |
| Non-food products . . . . . . | 252,083 | 253,953 | 261,313 | 254,742 | 243,309 |
| Net sales of all stores . . . | ¥1,294,042 | ¥1,285,557 | ¥1,277,638 | ¥1,222,880 | ¥1,158,797 |

Note: Effective from the fiscal year ended February 28, 2003, bakery items were reclassified from “fast foods” to “daily delivered foods,” while pickles and some delicatessen items were reclassified from “daily delivered foods” to “fast foods.”

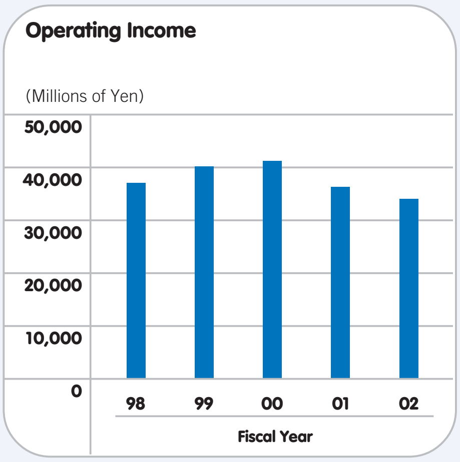
**Ratio of Net Sales by Product Segment** Years Ended February (%)

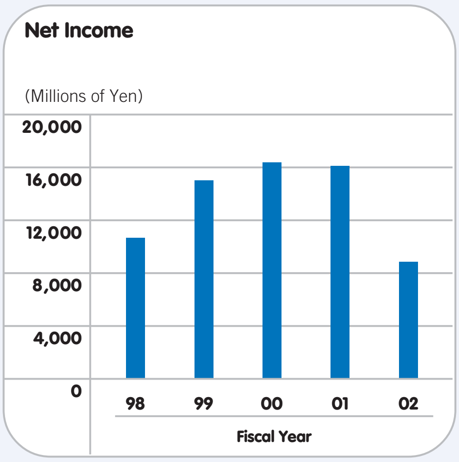
| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Processed foods . . . . . . . . | 46.4 | 45.4 | 44.1 | 43.2 | 42.6 |
| Fast foods . . . . . . . . . . . . | 23.4 | 23.1 | 28.4 | 28.7 | 28.8 |
| Daily delivered foods . . . . . | 10.7 | 11.7 | 7.1 | 7.3 | 7.6 |
| Non-food products . . . . . . | 19.5 | 19.8 | 20.4 | 20.8 | 21.0 |
| Net sales of all stores . . . | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Bill Settlement Services and *Loppi***

Bill settlement volume, which mainly represents the processing of utility payments, increased 9.9% to ¥817,656 million, generating commissions of ¥5,990 million, an increase of 5.3%.

Sales through Lawson’s *Loppi* multimedia terminals surged 58.2% to ¥118.7 billion. Driving this growth was the popularity of *Spirited Away* DVDs and videos, membership applications for fan clubs of various celebrities, and growth in photo printing.



## Income and Expenses

Operating revenues decreased ¥5,782 million, or 2.3%, to ¥250,334 million. There were increases in franchise commissions due to higher sales at franchised stores and in ATM fees at subsidiary LAWSON ATM Networks. However, this growth was outweighed by the decline in sales at company-operated stores as many of these stores were closed or converted to franchised stores.

Operating income decreased ¥2,256 million, or 6.2%, to ¥34,107 million, declining 0.6 percentage point to 13.6% of operating revenues. There was a ¥11,815 million increase in selling, general and administrative expenses because of growth in ATM operating expenses, higher store leasing expenses and an increase in leasing expenses for a new store computer system.

Net income fell ¥7,262 million, or 45.0%, to ¥8,861 million. There were ¥5,778 million in gains on sales of stock, but losses of ¥4,322 million for higher severance benefits associated with a voluntary early retirement program and ¥9,691 million on the disposal of property and store equipment resulting from the closing of low-volume and unprofitable stores. Equity in losses of affiliated companies was ¥2,134 million, primarily the result of losses resulting from start-up investments at affiliate LAWSON CS Card, INC.

## Subsidiaries

The consolidated financial statements include five consolidated subsidiaries and one equity-method affiliate. The Lawson group of companies is primarily engaged in convenience stores, ticket sales, e-commerce and financial services. Please refer to the following page for operating results of the consolidated subsidiaries.

**Profiles**

***Lawson Tickets Co., Ltd. (Consolidated subsidiary)***

Sales of tickets to sporting events, movies and other events, mainly through *Loppi* multimedia terminals at Lawson stores.

***Shanghai Hualian Lawson Co., Ltd. (Consolidated subsidiary)***

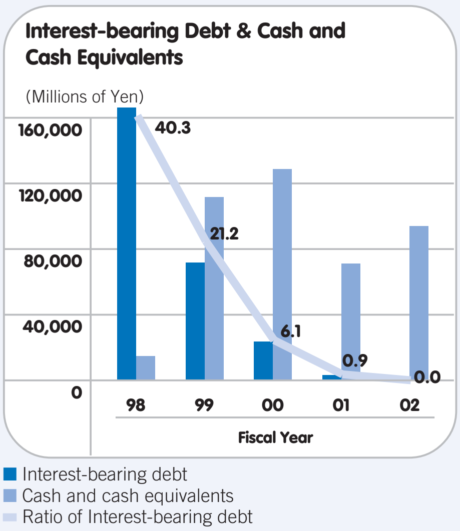
Operation of Lawson store network in the Shanghai area.

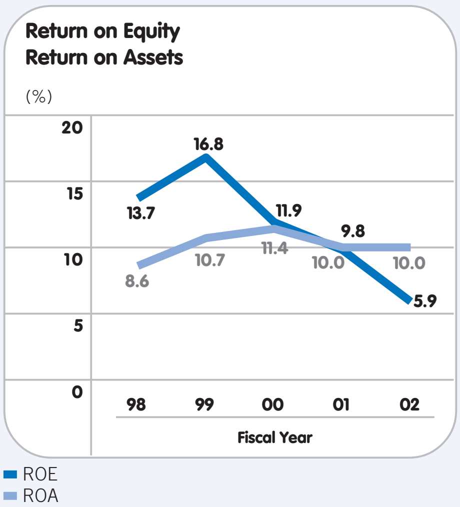
***LAWSON e-Planning, Inc. (Consolidated subsidiary)***

Idea incubation, business planning and promotion, and partnering with companies outside the retailing sector, alliances and assistance for venture companies, all for the purpose of developing e-business ventures. This company terminated its operations at the end of August 2002.

***i-Convenience, Inc. (Consolidated subsidiary)***

Operation of the official "iLAWSON" i-mode Internet site, including merchandise sales and the provision of services and information.



***LAWSON ATM Networks, Inc. (Consolidated subsidiary)***

Placement, management and operation of jointly operated ATMs in Lawson stores; outsourcing of clerical tasks for partner banks involving financial services such as deposits, withdrawals and fund transfers performed through these ATMs.

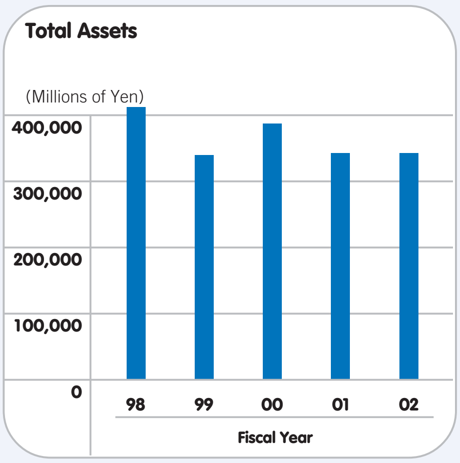
***LAWSON CS Card, INC. (Equity-method affiliate)***

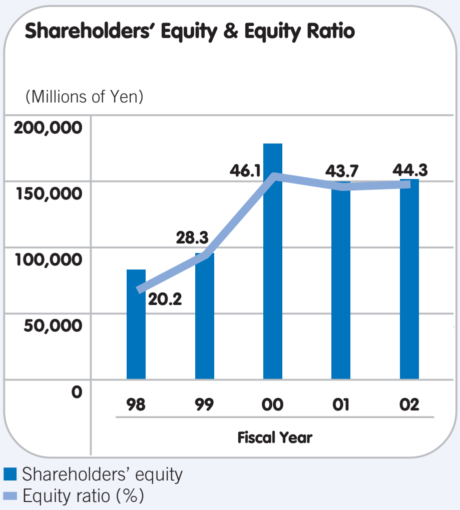
Issues credit cards to Lawson customers and extends card-based services through *Loppi* terminals and other channels. LAWSON CS Card posted a large loss due to start-up expenses in the fiscal year under review, but plans to clear losses by the year ending February 2005 through a steady increase in cardholders.

**Operating Results of Group Companies** Years Ended February (Millions of Yen)

| | Lawson Tickets Co., Ltd. | Shanghai Hualian Lawson Co., Ltd.[1] | LAWSON ATM Networks, Inc. | LAWSON e-Planning, Inc. | i-Convenience, Inc. | LAWSON CS Card, INC. |
|---|---|---|---|---|---|---|
| | Consolidated subsidiary | Consolidated subsidiary | Consolidated subsidiary | Consolidated subsidiary | Consolidated subsidiary | Equity-method affiliate |
| 2001 | | | | | | |
| Operating revenues | ¥4,514 | ¥2,292 | ¥ — | ¥ 159 | ¥ 0 | ¥ — |
| Operating income (loss) | 510 | (149) | — | 20 | (58) | — |
| Net income (loss) | 642 | (168) | — | 11 | (70) | — |
| 2002 | | | | | | |
| Operating revenues | ¥5,119 | ¥3,033 | ¥1,248 | ¥178 | ¥ 103 | 0 |
| Operating income (loss) | 508 | (183) | (303) | 22 | (473) | (1) |
| Net income (loss) | 275 | (146) | (326) | 5 | (470) | (5) |
| **2003** | | | | | | |
| Operating revenues | **¥5,426** | **¥2,642** | **¥6,718** | **¥ 69** | **¥ 213** | **¥ 858** |
| Operating income (loss) | **788** | **(191)** | **(529)** | **9** | **(383)** | **(3,935)** |
| Net income (loss) | **387** | **(190)** | **(529)** | **(1)** | **(489)** | **(3,936)** |

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



## Financial Position

Current assets declined ¥273 million, or 0.2%, to ¥130,948 million. There was a ¥22,725 million increase in cash and cash equivalents mainly because of proceeds from bond redemptions and the sale of stock but a ¥24,893 million decrease in marketable securities. This caused the current ratio to increase by 0.9 percentage point to 101.4%. Working capital increased ¥1,154 million to ¥1,862 million.

Property and store equipment increased ¥1,137 million, or 1.5%, to ¥77,573 million, primarily reflecting an increase in buildings and structures. Investments and other assets decreased ¥1,199 million to ¥134,078 million. There was a ¥3,231 million increase in software, mainly resulting from investments in the new store information system, a ¥1,457 million increase in investments in affiliated companies, and a ¥7,137 million decrease in investments in securities due to sales.

Current liabilities decreased ¥1,427 million, or 1.1%, to ¥129,086 million. The main components were a ¥5,164 million increase in deposits, the result of growth in companies for which Lawson collects bills, a decrease of ¥1,677 million in accounts payable because of the net decrease in the number of stores, and a decrease of ¥2,931 million in income taxes payable.

Long-term liabilities decreased ¥897 million, or 1.5%, to ¥59,419 million. This was mainly due to a ¥1,666 million decline in guarantee deposits and a ¥780 million increase in liability for employees' retirement benefits.

Shareholders' equity increased ¥2,037 million, or 1.4%, to ¥151,864 million. Although there was a net unrealized loss on available-for-sale securities of ¥2 million, ¥2,325 million less than the prior year's unrealized gain, the land revaluation difference improved by ¥1,491 million and retained earnings increased ¥2,959 million. This raised the equity ratio from 43.7% to 44.3%.

## Cash Flows

Net cash provided by operating activities decreased ¥10,944 million to ¥33,860 million. This was mainly attributable to lower income before income taxes and minority interest, a decrease in accounts payable and an increase in income taxes paid.

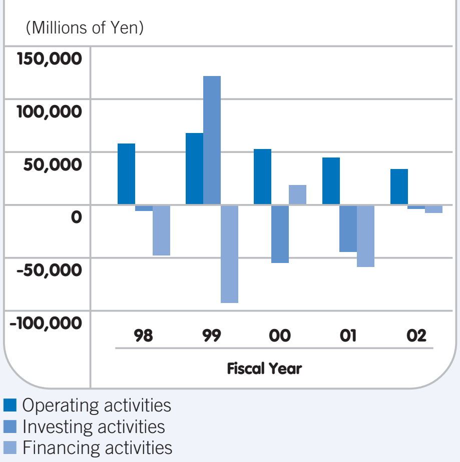
Net cash used in investing activities decreased ¥40,244 million to ¥3,787 million. This decline was mainly the result of an increase of ¥35,778 million in net purchases of marketable securities compared with the prior fiscal year. Purchases of property and store equipment were largely unchanged at ¥22,543 million as the company concentrated on opening productive stores and made investments to relocate and close unprofitable stores and adopt a new information system.

Free cash flows, the sum of operating and investing cash flows, decreased ¥6,478 million to ¥5,180 million, excluding gains on securities.

Net cash used in financing activities decreased ¥50,989 million to ¥7,247 million. This difference was mainly attributable to an expenditure of ¥34,675 million for the purchase of treasury stock in the prior fiscal year. Major uses of cash in the current fiscal year were debt repayments of ¥3,140 million and dividend payments of ¥4,412 million.

The net result of these cash flows was a ¥22,725 million increase in cash and cash equivalents to ¥93,994 million.

### Cash Flows



# CONSOLIDATED BALANCE SHEETS

LAWSON, INC. and Subsidiaries
February 28, 2003 and 2002

| ASSETS | Millions of Yen 2003 | Millions of Yen 2002 | Thousands of U.S. Dollars (Note 1) 2003 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | ¥ 93,994 | ¥ 71,269 | $ 798,251 |
| Time deposits | 150 | 796 | 1,274 |
| Marketable securities (Note 5) | 5,445 | 30,338 | 46,242 |
| Accounts receivable: | | | |
| Due from franchised stores (Notes 3 and 9) | 7,039 | 6,197 | 59,779 |
| Other | 15,964 | 13,396 | 135,575 |
| Allowance for doubtful accounts | (93) | (40) | (790) |
| Inventories | 1,492 | 2,097 | 12,671 |
| Deferred tax assets (Note 12) | 2,445 | 1,881 | 20,764 |
| Prepaid expenses and other current assets | 4,512 | 5,287 | 38,319 |
| Total current assets | 130,948 | 131,221 | 1,112,085 |
| **PROPERTY AND STORE EQUIPMENT** (Note 4)**:** | | | |
| Land (Note 6) | 6,178 | 6,536 | 52,467 |
| Buildings | 88,716 | 82,267 | 753,427 |
| Furniture, fixtures and equipment | 54,665 | 79,036 | 464,246 |
| Total | 149,559 | 167,839 | 1,270,140 |
| Accumulated depreciation | (71,986) | (91,403) | (611,346) |
| Net property and store equipment | 77,573 | 76,436 | 658,794 |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investments securities (Note 5) | 975 | 8,112 | 8,280 |
| Investments in associated companies | 1,779 | 322 | 15,108 |
| Long-term loans receivable | 8,958 | 5,971 | 76,076 |
| Lease deposits (Note 7) | 89,499 | 91,277 | 760,076 |
| Deferred tax assets (Note 12) | 8,918 | 8,060 | 75,737 |
| Deferred tax assets for land revaluation (Note 6) | 5,009 | 6,088 | 42,539 |
| Software | 16,584 | 13,353 | 140,841 |
| Other assets | 3,784 | 3,067 | 32,137 |
| Allowance for doubtful accounts | (1,428) | (973) | (12,127) |
| Total investments and other assets | 134,078 | 135,277 | 1,138,667 |
| TOTAL | ¥342,599 | ¥342,934 | $2,909,546 |

*See notes to consolidated financial statements.*

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2003 | Millions of Yen 2002 | Thousands of U.S. Dollars (Note 1) 2003 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Current portion of long-term debt | | ¥ 3,140 | |
| Accounts payable: | | | |
| Trade for Company-operated and franchised stores (Notes 8 and 14) | ¥ 63,860 | 62,180 | $ 542,335 |
| Due to franchised stores (Note 9) | 4,799 | 4,904 | 40,756 |
| Other (Note 8) | 15,348 | 17,450 | 130,344 |
| Income taxes payable (Note 12) | 7,615 | 10,546 | 64,671 |
| Money held as agent | 33,030 | 27,866 | 280,510 |
| Accrued expenses and other current liabilities | 4,434 | 4,427 | 37,656 |
| Total current liabilities | 129,086 | 130,513 | 1,096,272 |
| **LONG-TERM LIABILITIES:** | | | |
| Liability for employees' retirement benefits (Note 10) | 3,786 | 3,006 | 32,153 |
| Liability for directors' and corporate auditors' retirement benefits | 223 | 300 | 1,894 |
| Guarantee deposits received from franchised stores | 54,207 | 55,806 | 460,357 |
| Lease deposits from lessees | 782 | 849 | 6,641 |
| Other | 421 | 355 | 3,575 |
| Total long-term liabilities | 59,419 | 60,316 | 504,620 |
| **MINORITY INTERESTS** | 2,230 | 2,278 | 18,939 |
| **SHAREHOLDERS' EQUITY** (Notes 11 and 15)**:** | | | |
| Common stock—authorized, 412,300,000 shares in 2003 and 2002; issued, 107,600,000 shares in 2003 and 2002 | 58,507 | 58,507 | 496,875 |
| Additional paid-in capital | 41,520 | 41,520 | 352,611 |
| Retained earnings | 58,608 | 55,649 | 497,732 |
| Land revaluation difference | (6,917) | (8,407) | (58,744) |
| Net unrealized (loss) gain on available-for-sale securities | (2) | 2,323 | (17) |
| Net foreign currency translation adjustments | 150 | 236 | 1,274 |
| Total | 151,866 | 149,828 | 1,289,731 |
| Treasury stock—at cost, 565 shares in 2003 and 171 shares in 2002 | (2) | (1) | (16) |
| Total shareholders' equity | 151,864 | 149,827 | 1,289,715 |
| TOTAL | ¥342,599 | ¥342,934 | $2,909,546 |

# CONSOLIDATED STATEMENTS OF INCOME

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2003 and 2002

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **OPERATING REVENUES:** | | | |
| Franchise commission from franchised stores | **¥149,032** | ¥141,621 | **$1,265,665** |
| Net sales from Company-operated stores | **80,954** | 101,353 | **687,507** |
| Other | **20,348** | 13,142 | **172,807** |
| Total | **250,334** | 256,116 | **2,125,979** |
| **COST AND OPERATING EXPENSES:** | | | |
| Cost of sales for Company-operated stores (Notes 13 and 14) | **59,889** | 75,230 | **508,612** |
| Selling, general and administrative expenses (Notes 10 and 13) | **156,338** | 144,523 | **1,327,711** |
| Total | **216,227** | 219,753 | **1,836,323** |
| Operating income | **34,107** | 36,363 | **289,656** |
| **OTHER INCOME (EXPENSES):** | | | |
| Interest income—net | **200** | 12 | **1,699** |
| Gain on sales of investments securities | **5,778** | | **49,070** |
| Gain on securities contributed to an employees' retirement benefit trust | | 3,857 | |
| Premium severance benefit | **(4,322)** | (2,685) | **(36,705)** |
| Loss on disposal of property and store equipment | **(9,691)** | (6,017) | **(82,301)** |
| Loss on sales of property and store equipment | **(58)** | (1,140) | **(493)** |
| Equity in losses of associated companies | **(2,134)** | (142) | **(18,123)** |
| Other—net | **(6,277)** | (1,220) | **(53,308)** |
| Other expenses—net | **(16,504)** | (7,335) | **(140,161)** |
| **INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS** | **¥ 17,603** | ¥ 29,028 | **$ 149,495** |
| **INCOME TAXES** (Note 12)**:** | | | |
| Current | **7,852** | 13,212 | **66,684** |
| Deferred | **1,339** | 47 | **11,371** |
| Total | **9,191** | 13,259 | **78,055** |
| **MINORITY INTERESTS IN NET INCOME** | **449** | 354 | **3,813** |
| **NET INCOME** | **¥ 8,861** | ¥ 16,123 | **$ 75,253** |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **PER SHARE OF COMMON STOCK** (Notes 2.n and 15): | | | |
| Net income | **¥ 82** | ¥ 146 | **$ 0.70** |
| Cash dividends | **41** | 41 | **0.35** |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2003 and 2002

| | Thousands | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued Number of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Land Revaluation Difference | Unrealized Gain (Loss) on Available-for-sale Securities | Net Foreign Currency Translation Adjustments | Treasury Stock |
| BALANCE, MARCH 1, 2001 | 114,900 | ¥ 58,507 | ¥ 41,520 | ¥ 78,421 | | | | |
| Net income | | | | 16,123 | | | | |
| Annual cash dividends, ¥18 per share | | | | (2,068) | | | | |
| Interim cash dividends, ¥20 per share | | | | (2,152) | | | | |
| Land revalued | | | | | ¥ (8,407) | | | |
| Net increase in unrealized gain on available-for-sale securities | | | | | | ¥ 2,323 | | |
| Net increase in foreign currency translation adjustments | | | | | | | ¥ 236 | |
| Treasury stock—at cost: | | | | | | | | |
| Purchase of treasury stock | | | | | | | | ¥(34,675) |
| Cancellation of treasury stock | (7,300) | | | (34,675) | | | | 34,675 |
| Increase in treasury stock (171 shares) | | | | | | | | (1) |
| BALANCE, FEBRUARY 28, 2002 | 107,600 | 58,507 | 41,520 | 55,649 | (8,407) | 2,323 | 236 | (1) |
| Net income | | | | 8,861 | | | | |
| Annual cash dividends, ¥21 per share | | | | (2,260) | | | | |
| Interim cash dividends, ¥20 per share | | | | (2,152) | | | | |
| Reversal of land revaluation difference | | | | (1,490) | 1,490 | | | |
| Net decrease in unrealized gain on available-for-sale securities | | | | | | (2,325) | | |
| Net decrease in foreign currency translation adjustments | | | | | | | (86) | |
| Increase in treasury stock (394 shares) | | | | | | | | (1) |
| BALANCE, FEBRUARY 28, 2003 | **107,600** | **¥58,507** | **¥41,520** | **¥58,608** | **¥ (6,917)** | **¥ (2)** | **¥150** | **¥ (2)** |

| | Thousands of U.S. Dollars (Note 1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Land Revaluation Difference | Unrealized Gain (Loss) on Available-for-sale Securities | Net Foreign Currency Translation Adjustments | Treasury Stock |
| BALANCE, FEBRUARY 28, 2002 | $496,875 | $352,611 | $472,602 | $(71,398) | $19,728 | $2,004 | $ (8) |
| Net income | | | 75,253 | | | | |
| Annual cash dividends, $0.18 per share | | | (19,193) | | | | |
| Interim cash dividends, $0.17 per share | | | (18,276) | | | | |
| Reversal of land revaluation difference | | | (12,654) | 12,654 | | | |
| Net decrease in unrealized gain on available-for-sale securities | | | | | (19,745) | | |
| Net decrease in foreign currency translation adjustments | | | | | | (730) | |
| Increase in treasury stock (394 shares) | | | | | | | (8) |
| BALANCE, FEBRUARY 28, 2003 | **$496,875** | **$352,611** | **$497,732** | **$(58,744)** | **$ (17)** | **$1,274** | **$(16)** |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2003 and 2002

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **OPERATING ACTIVITIES:** | | | |
| Income before income taxes and minority interests | **¥ 17,603** | ¥ 29,028 | **$ 149,495** |
| Adjustments for: | | | |
| Income taxes paid | **(10,782)** | (8,500) | **(91,567)** |
| Depreciation and amortization | **16,071** | 16,328 | **136,484** |
| Gain on securities contributed to an employees' retirement benefit trust | | (3,857) | |
| Provision for allowance for doubtful accounts | **508** | 567 | **4,314** |
| Loss on disposal of property and store equipment | **7,842** | 4,571 | **66,599** |
| Loss on sales of property and store equipment | **58** | 1,140 | **493** |
| Gain on sales of investments securities | **(5,778)** | | **(49,070)** |
| Equity in losses of associated companies | **2,134** | 142 | **18,123** |
| Other—net | **3,839** | 1,267 | **32,603** |
| Changes in assets and liabilities: | | | |
| Increase in accounts receivable | **(3,065)** | (631) | **(26,030)** |
| Decrease in inventories | **596** | 491 | **5,062** |
| Decrease in prepaid expenses and other current assets | **753** | 408 | **6,395** |
| (Decrease) increase in accounts payable | **(493)** | 5,823 | **(4,187)** |
| Increase in money held as agent | **5,164** | 3,035 | **43,856** |
| Increase in accrued expenses and other liabilities | **373** | 326 | **3,167** |
| Increase (decrease) in employees' and directors' and corporate auditors' retirement benefits | **703** | (6,099) | **5,970** |
| (Decrease) increase in guarantee deposits received from franchised stores | **(1,599)** | 786 | **(13,580)** |
| Decrease in lease deposits from lessees | **(67)** | (21) | **(569)** |
| Total adjustments | **16,257** | 15,776 | **138,063** |
| Net cash provided by operating activities | **33,860** | 44,804 | **287,558** |
| **INVESTING ACTIVITIES:** | | | |
| Purchases of marketable securities | **(25,532)** | (44,957) | **(216,832)** |
| Proceeds from redemption of marketable securities | **50,425** | 34,072 | **428,238** |
| Proceeds from sale of investments securities | **8,300** | 2,433 | **70,488** |
| Purchases of property and store equipment | **(22,543)** | (22,249) | **(191,448)** |
| Increase in lease deposits | **(1,382)** | (2,947) | **(11,737)** |
| Other | **(13,055)** | (10,383) | **(110,870)** |
| Net cash used in investing activities | **(3,787)** | (44,031) | **(32,161)** |
| **FINANCING ACTIVITIES:** | | | |
| Repayment of long-term debt | **(3,140)** | (20,390) | **(26,667)** |
| Cash dividends paid | **(4,412)** | (4,220) | **(37,469)** |
| New shares issued to minority shareholders | **306** | 1,050 | **2,598** |
| Purchase of treasury stock for cancellation | | (34,675) | |
| Treasury stock—at cost | **(1)** | (1) | **(8)** |
| Net cash used in financing activities | **(7,247)** | (58,236) | **(61,546)** |
| **FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | **(101)** | 77 | **(857)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **22,725** | (57,386) | **192,994** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **71,269** | 128,655 | **605,257** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **¥ 93,994** | ¥ 71,269 | **$ 798,251** |

*See notes to consolidated financial statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2003 and 2002

## 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 Financial Reporting 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.

Certain reclassifications have been made in the 2002 financial statements to conform to the 2003 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which LAWSON, INC. (the "company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.75 to $1, the approximate rate of exchange at February 28, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Mitsubishi Corporation ("Mitsubishi") indirectly owned 32,389 thousand shares of common stock of the Company as of February 28, 2003 which represented 30.1% of the Company's shares. Accordingly, Mitsubishi is a principal shareholder.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies over the fair value of 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 twice of 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 usually provides that the franchised store shall make a cash payment to the Company in the amount of ¥3 million upon commencement. Upon receipt of such payment, ¥1.5 million is credited to income of the Company as "Operating revenues—franchise commission from franchised stores" for services related to the opening of the Lawson store. The remaining amount received by the Company is credited to "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures and equipment designed for the Lawson stores. In some cases, franchisees may also be provided with the land or buildings 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***—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value based on market quotation. Unrealized gains and losses with net of applicable taxes are reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

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

***f. Property and Store Equipment***—Property and store equipment are stated at cost except for land (see Note 6). Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures and equipment.

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

***h. Employees' Retirement Benefits***—The Companies participate in a group employees' welfare pension fund plan and also have unfunded retirement benefit plans for employees, both of which are defined benefit plans. The Companies accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

In March and May 2001, the Company contributed certain cash and available-for-sale securities to the trusts for employees' retirement benefit plans, and recognized a non-cash gain of ¥3,857 million for the year ended February 28, 2002.

***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 the notes to the consolidated financial statements.

***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 are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiary are translated into yen at the current exchange rate.

***n. Per Share Information*****—**Effective March 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted average number of common shares outstanding for the period. There was no material impact. The average number of common shares used in the computation were 107,600 thousand shares for 2003 and 110,780 thousand shares for 2002.

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.

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.

## 3. ACCOUNTS RECEIVABLE—DUE FROM FRANCHISED STORES

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

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

The "Accounts receivable—due from franchised stores" account represents net amounts recoverable from the franchised stores.

## 4. PROPERTY AND STORE EQUIPMENT

Property and store equipment as of February 28, 2003 and 2002 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2003 | 2002 | 2003 |
| Used by franchised stores: | | | |
| Land | ¥ 938 | ¥ 893 | $ 7,966 |
| Buildings | 79,358 | 70,049 | 673,953 |
| Furniture, fixture and equipment | 44,531 | 64,729 | 378,183 |
| Total | 124,827 | 135,671 | 1,060,102 |
| Accumulated depreciation | 60,061 | 74,600 | 510,072 |
| Net | 64,766 | 61,071 | 550,030 |
| Used by Company-operated stores and other: | | | |
| Land | 5,240 | 5,643 | 44,501 |
| Buildings | 9,358 | 12,218 | 79,473 |
| Furniture, fixture and equipment | 10,134 | 14,307 | 86,064 |
| Total | 24,732 | 32,168 | 210,038 |
| Accumulated depreciation | 11,925 | 16,803 | 101,274 |
| Net | 12,807 | 15,365 | 108,764 |
| Net property and store equipment—total | ¥ 77,573 | ¥ 76,436 | $ 658,794 |

## 5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2003 and 2002 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2003 | 2002 | 2003 |
| Current—Government and corporate bonds | ¥ 5,445 | ¥ 30,338 | $ 46,242 |
| Non-current—Marketable and oher equity securities | 975 | 8,112 | 8,280 |

The carrying amounts and aggregate fair values of marketable and investment securities at February 28, 2003 and 2002 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| February 28, 2003 | Cost | Unrealized Gains | Unrealized Losses | Fair Value (Carrying Amount) |
| Securities classified as: | | | | |
| Available-for-sale—equity securities | ¥ 936 | ¥1 | ¥3 | ¥ 934 |
| Held-to-maturity | 5,445 | 1 | 2 | 5,444 |

| February 28, 2002 | Millions of Yen<br>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 |

| February 28, 2003 | Thousands of U.S. Dollars<br>Cost | Unrealized Gains | Unrealized Losses | Fair Value (Carrying Amount) |
|---|---|---|---|---|
| Securities classified as: | | | | |
| Available-for-sale—equity securities | **$ 7,949** | **$ 8** | **$ 25** | **$ 7,932** |
| Held-to-maturity | **46,242** | **8** | **16** | **46,234** |

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of February 28, 2003 and 2002 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2003** | 2002 | **2003** |
| Available-for-sale—Equity securities | **¥41** | ¥59 | **$348** |

Proceeds from sales of available-for-sale securities for the years ended February 28, 2003 and 2002 were ¥8,300 million ($70,488 thousand) and ¥2,433 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥5,764 million ($48,951 thousand) and ¥51 million ($433 thousand), respectively for the year ended February 28, 2003, and ¥21 million and ¥105 million, respectively for the year ended February 28, 2002.

## 6. LAND REVALUATION

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

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 28, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥461 million ($3,915 thousand).

## 7. LEASE DEPOSITS

Under certain circumstances, the Company leases land and/or buildings, as a lessee, for its offices and company-operated stores or for franchisees to operate as franchised stores. The leases are based on long-term, cancelable lease agreements with owners. In connection with such agreements, the lessor requires 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, 2003 and 2002 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Lease deposits for franchised stores | **¥74,525** | ¥72,740 | **$632,909** |
| Lease deposits for Company-operated stores and other | **14,974** | 18,537 | **127,167** |
| Total | **¥89,499** | ¥91,277 | **$760,076** |

## 8. 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 3).

Accounts payable—trade for Company-operated and franchised stores and others as of February 28, 2003 and 2002 were summarized below:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Accounts payable—trade for franchised stores | **¥60,269** | ¥57,702 | **$511,838** |
| Accounts payable—trade for Company-operated stores and other | **18,939** | 21,928 | **160,841** |
| Total | **¥79,208** | ¥79,630 | **$672,679** |

## 9. ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to the franchised stores is recorded as "Accounts receivable—due from franchised stores" as described in Note 3.

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

## 10. EMPLOYEES' RETIREMENT BENEFITS

Most of the employees of the Companies are covered by two defined benefit plans, a group employees' pension plan and unfunded retirement benefit 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.

Funded status of these plans as of February 28, 2003 and 2002 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Projected benefit obligation | **¥ 23,535** | ¥ 21,720 | **$ 199,873** |
| Fair value of plan assets | **(14,111)** | (14,226) | **(119,838)** |
| Unrecognized prior service cost | **955** | 1,060 | **8,110** |
| Unrecognized actuarial loss | **(6,593)** | (5,548) | **(55,992)** |
| Net liability | **¥ 3,786** | ¥ 3,006 | **$ 32,153** |

The components of net periodic benefit costs for the years ended February 28, 2003 and 2002 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Service cost | **¥ 2,521** | ¥ 2,088 | **$ 21,410** |
| Interest cost | **502** | 548 | **4,263** |
| Expected return on plan assets | **(214)** | (213) | **(1,817)** |
| Amortization of prior service cost | **(106)** | | **(900)** |
| Recognized actuarial loss | **555** | | **4,713** |
| Amortization of transitional obligation | | 125 | |
| Premium severance benefit | **4,322** | 2,685 | **36,705** |
| Net periodic benefit costs | **¥ 7,580** | ¥ 5,233 | **$ 64,374** |

Assumptions used for the years ended February 28, 2003 and 2002 are set forth as follows:

| | **2003** | 2002 |
|---|---|---|
| Discount rate: | | |
| The unfunded retirement benefits plan | **2.0%** | 2.0% |
| The group employees' pension plan | **2.5%** | 2.5% |
| Expected rate of return on plan assets | **4.5%** | 4.5% |
| Amortization period of prior service cost | **10 years** | 10 years |
| Recognition period of actuarial gain/loss | **10 years** | 10 years |

## 11. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Commercial Code of Japan (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning March 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥54,107 million ($459,507 thousand) as of February 28, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

***Stock Option***

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 1,217 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 ($63.69).

At the general shareholders meeting held on May 29, 2002, the Company's shareholders approved a stock option plan for the Company's directors, executive officers and key employees, and the issuance of new shares for such stock options. The plan provides for granting options to purchase up to 303 thousand shares of the Company's common shares in the period from December 1, 2002 to May 31, 2007. The options will be granted at the price of ¥3,680 ($31.25).

## 12. 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, 2003 and 2002.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets as of February 28, 2003 and 2002 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Deferred tax assets: | | | |
| Marketable securities | **¥ 446** | ¥ 2,754 | **$ 3,788** |
| Land | | 1,168 | |
| Accrued enterprise tax | **734** | 1,224 | **6,234** |
| Accrued employees' bonuses | **928** | 437 | **7,881** |
| Excess of depreciation | **1,420** | 971 | **12,059** |
| Excess of amortization of software | **1,039** | 213 | **8,824** |
| Employees' retirement benefits | **5,752** | 5,466 | **48,849** |
| Tax loss carryforward | **1,211** | 734 | **10,285** |
| Other | **1,819** | 1,017 | **15,447** |
| Less valuation allowance | **(1,224)** | (740) | **(10,395)** |
| Total | **12,125** | 13,244 | **102,972** |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to employees' retirement benefit trusts | **749** | 1,620 | **6,361** |
| Unrealized gain on available-for-sale securities | | 1,681 | |
| Other | **13** | 2 | **110** |
| Total | **762** | 3,303 | **6,471** |
| Net deferred tax assets | **¥11,363** | ¥ 9,941 | **$ 96,501** |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates resulted in the following items being included in the accompanying consolidated statements of income for the years ended February 28, 2003 and 2002 is as follows:

| | **2003** | 2002 |
|---|---|---|
| Normal effective statutory tax rate | **42.0%** | 42.0% |
| Increase (decrease) in tax rate resulting from: | | |
| Permanently nondeductible expenses | **1.5** | 0.9 |
| Inhabitants taxes—per capita | **1.3** | 1.1 |
| Operating losses of certain subsidiaries | **3.1** | 1.4 |
| Equity in losses of associated companies | **4.7** | 0.2 |
| Other—net | **(0.4)** | 0.1 |
| Actual effective tax rates | **52.2%** | 45.7% |

As of February 28, 2003, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,787 million ($23,669 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year Ending February 28 or 29 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2004 | ¥ 239 | $ 2,030 |
| 2005 | 181 | 1,537 |
| 2006 | 234 | 1,987 |
| 2007 | 928 | 7,881 |
| 2008 and thereafter | 1,205 | 10,234 |
| Total | ¥2,787 | $23,669 |

On March 31, 2003, a new local tax law was enacted and became effective for fiscal years beginning on or after April 1, 2004. The new local tax law decreased the local tax rate and introduced a new tax levied based on paid-in capital. As a result, the statutory effective tax rate applied on the deferred income taxes and liabilities have been decreased from 42% to 40.5%. This reduction of the statutory effective tax rate will result in a decrease in deferred tax assets of ¥194 million ($1,648 thousand), decrease in deferred tax assets for revaluation of ¥180 million ($1,529 thousand), and a charge to income taxes of ¥194 million ($1,648 thousand) for the fiscal year ending February 29, 2004, respectively.

## 13. 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, 2003 and 2002 were ¥13,675 million ($116,136 thousand) and ¥6,996 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, 2003 and 2002 was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Leased to franchised stores: | | | |
| Furniture, fixtures and equipment: | | | |
| Acquisition cost | **¥63,303** | ¥39,575 | **$537,605** |
| Accumulated depreciation | **21,443** | 16,395 | **182,106** |
| Net leased property | **¥41,860** | ¥23,180 | **$355,499** |
| Obligations under finance leases: | | | |
| Due within one year | **¥10,401** | ¥ 6,462 | **$ 88,331** |
| Due after one year | **32,045** | 17,174 | **272,145** |
| Total | **¥42,446** | ¥23,636 | **$360,476** |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Used by Company-operated stores and other: | | | |
| Furniture, fixtures and equipment: | | | |
| Acquisition cost | **¥14,421** | ¥9,304 | **$122,471** |
| Accumulated depreciation | **3,225** | 1,996 | **27,388** |
| Net leased property | **¥11,196** | ¥7,308 | **$ 95,083** |
| Obligation under finance leases: | | | |
| Due within one year | **¥ 2,698** | ¥1,651 | **$ 22,913** |
| Due after one year | **8,570** | 5,686 | **72,781** |
| Total | **¥11,268** | ¥7,337 | **$ 95,694** |

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 ¥12,775 million ($108,493 thousand) and ¥6,433 million for the years ended February 28, 2003 and 2002, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥1,149 million ($9,758 thousand) and ¥516 million for the years ended February 28, 2003 and 2002, respectively.

The minimum rental commitments under noncancelable operating leases at February 28, 2003 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2003** | **2003** |
| Due within one year | **¥ 954** | **$ 8,102** |
| Due after one year | **6,850** | **58,174** |
| Total | **¥7,804** | **$66,276** |

## 14. RELATED PARTY TRANSACTIONS

Transactions with and balances to LAWSON CS Card, Inc. (an affiliated company) for the year ended February 28, 2003 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2003 | 2003 |
| Short-term loans receivable | **¥4,000** | **$33,970** |
| Interest received | **4** | **34** |

Transactions with and balances to Mistubishi for the year ended February 28, 2002 were as follows:

| | Millions of Yen |
|---|---|
| | 2002 |
| Accounts payable | ¥15,166 |
| Purchases | 46,543 |

The above transactions represent purchases of merchandise delivered on a daily basis, including those related to the franchised stores, for the period from December 1, 2001 (date of the initial transaction after Daiei Logistics Systems Inc. transferred its logistics business relating to the convenience store business to Mitsubishi) to February 28, 2002.

## 15. SUBSEQUENT EVENTS

a. The following appropriation of retained earnings as of February 28, 2003 was approved at the general shareholders meeting held on May 27, 2003:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Cash dividends, ¥21 ($0.18) per share | **¥2,260** | **$19,193** |

b. At the general shareholders meeting held on May 27, 2003, the Company's shareholders approved the following stock option plan for the Company's directors and executive officers, and the purchase of the Company's common stock:

(1) The plan provides for granting options to directors and executive officers to purchase up to 120 thousand shares of the Company's common stock in the period from June 1, 2005 to December 31, 2008.

(2) The Company is authorized to purchase up to 10 million shares of the Company's common stock (aggregate amount of ¥38 billion ($322,718 thousand)).

c. The Company voluntarily disaffiliated from the Daiei group employees' welfare pension fund plan on March 31, 2003. The possible effects of this event on the results of operations for the next fiscal year are not stated because the computation related to this disaffiliation has not been finalized.

# INDEPENDENT AUDITORS' REPORT

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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, 2003 and 2002, 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, 2003 and 2002, 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.

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

Deloitte Touche Tohmatsu

May 27, 2003

# DIRECTORS AND CORPORATE AUDITORS

| | | |
|---|---|---|
| **President and CEO** | **Takeshi Niinami** | |
| **Directors** | **Teruo Aoki** | Senior Executive Vice President (President, LAWSON CS Card, INC.) |
| | **Eiichi Tanabe** | Executive Vice President (Corporate Station Director and Chief Financial Officer (CFO)) |
| | **Katsuhiko Yamasaki** | Executive Vice President (General Manager, Line Support Division, Chief Risk Management Officer (CRO)) |
| | **Hiroshi Tasaka** | (President & CEO, Sophia Bank Limited; Professor, TAMA University Graduate School) |
| | **Reiko Okutani** | (Representative Director, President, The R Co., Ltd) |
| | **Muneaki Masuda** | (President and Chief Executive Officer, Culture Convenience Club Co., Ltd.) |
| | **Yorihiko Kojima** | (Senior Executive Vice President, Group CEO, New Business Initiative Group, Mitsubishi Corporation) |
| | **Yukio Ueno** | (Executive Vice President, General Manager, Corporate Planning Department, Mitsubishi Corporation) |
| **Standing Corporate Auditors** | **Masaaki Kojima** | |
| | **Sadao Suzuki** | |
| **Corporate Auditors** | **Yoshiyuki Sanada** | Controller, New Function Group, Mitsubishi Corporation |
| | **Tetsuo Ozawa** | |
| **Vice Chairman** | **Koji Wada** | In charge of overseas operations and store development |
| **Executive Vice President** | **Susumu Hasegawa** | General Manager, Information Systems Office (Chief Information Officer (CIO)) |
| **Senior Vice Presidents** | **Kenji Yamakawa** | General Manager, General Affairs Office |
| | **Shigeru Kiyota** | General Manager, Hokkaido & Tohoku Lawson Branches |
| | **Ichiro Okuda** | General Manager, Chugoku & Shikoku Lawson Branches |
| | **Isamu Ochiai** | Senior Accountant, Shanghai Hualian Lawson Co., Ltd. |
| | **Yoshio Shinozaki** | General Manager, Kinki Lawson Branch |
| | **Kiyoteru Suzuki** | General Manager, New Business Format Development Department, Deputy General Manager, Marketing Division |
| | **Sadayuki Nobayashi** | General Manager, Kyusyu Lawson Branch |
| | **Takatoshi Kawamura** | General Manager, Merchandizing & Logistics Division |
| | **Manabu Asano** | General Manager, Chubu Lawson Branch |
| | **Yoshimitsu Futai** | Deputy General Manager, Responsible for SCM, Quality Control, Raw Materials Purchasing and Logistics |
| | **Minoru Okada** | President, Lawson Tickets Co., Ltd. |
| | **Jyosuke Kishimoto** | President, LAWSON ATM Networks, Inc. |
| | **Shigeaki Kawahara** | Marketing Division |
| | **Tadanao Watanabe** | General Manager, Kanto Lawson Branch |
| | **Taketoshi Kunisaki** | Deputy General Manager, Line Support Division |
| | **Konoshin Deguchi** | Deputy General Manager, Line Support Division |

(As of May 27, 2003)

# CORPORATE DATA

### Company Name
LAWSON, INC.

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

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

### Employees
3,462 (Consolidated)

### Business Activities
Franchise chain development of
Lawson convenience stores

### Net Sales of All Stores
¥1,294.0 billion (Consolidated) (Fiscal 2002)

### Number of Stores
7,721 (Consolidated, as of February 28, 2003)

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

(As of February 28, 2003)

# INVESTOR INFORMATION

### Established
April 15, 1975

### Capital
¥58,506,644,000

### Authorized Shares
412,300,000

### Shares Issued
107,600,000

### Shareholders
53,091

### Major Shareholders

| Shareholder | Shareholdings (Shares) | Shareholdings (%) |
|---|---|---|
| M.C. Retail Investment Co., Ltd. | 32,089,300 | 29.82 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 8,618,000 | 8.01 |
| Marubeni Foods Investment Co., Ltd. | 5,939,500 | 5.52 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 4,755,300 | 4.42 |
| NOMURA SECURITIES CO., LTD. | 3,551,500 | 3.30 |
| 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 |
| Boston Safe Deposit BSDT Treaty Client Omnibus | 2,147,541 | 2.00 |
| The Sumitomo Trust & Banking Co., Ltd. (Trust account B) | 1,557,800 | 1.45 |
| Japan Trustee Services Bank, Ltd. (Retirement benefits trust account of The Daiei, Inc.) | 1,185,000 | 1.10 |

### Stock Exchange Lisitngs
Tokyo Stock Exchange (1st Section)
Osaka Securities Exchange (1st Section)

### Stock Transfer Agent
The Mitsubishi Trust and Banking Corporation*
1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan

*Since May 28, 2003, Mitsubishi Trust and Banking Corporation has been Lawson's stock transfer agent.

(As of February 28, 2003)

**LAWSON, INC.**
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