LAWSON

Our Overriding Goal

Annual Report 2008

Year ended February 29, 2008

Contents

Forward-looking Statements Regarding Forecasts and Figures

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.

Figures in this annual report are rounded to the nearest unit.

The Chain of Choice

LAWSON, INC. aims to be the preferred convenience store (CVS) chain. Our goal is to create a chain that franchise owners want to be part of. In the near future, the CVS industry is expected to face the issue of franchise owners switching their allegiance if existing store earnings stagnate amid intensifying competition. LAWSON believes that the creation of merchandise assortments that match local catchment areas will be driven forward by the independent business owner mindset of franchise owners to make their stores better. We are convinced that such assortments will attract the support of locals and that this strong support will then elevate LAWSON to the number-one standing in the CVS industry in terms of quality. That's why in the fiscal year ending March 31, 2009 we will redouble past efforts to further motivate franchise owners to create a chain they find attractive. This should also translate into higher corporate value.

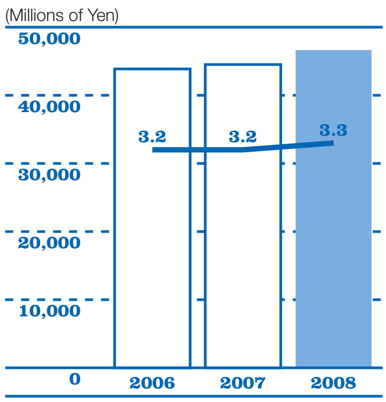
Consolidated Financial Highlights

LAWSON, INC. and Subsidiaries
Years Ended February 29, 2008, and February 28, 2007 and 2006

	Millions of Yen			Percent Change	Thousands of U.S. Dollars*
	2008	2007	2006	2008/2007	**2008**
For the Year:					
Net sales of all stores	**¥1,415,106**	¥1,386,630	¥1,361,731	2.1%	**$13,505,497**
Total operating revenues	**301,177**	283,053	268,058	6.4%	**2,874,374**
Operating income	**46,610**	44,513	43,867	4.7%	**444,837**
Income before income taxes and minority interests	**38,135**	36,848	38,723	3.5%	**363,953**
Net income	**22,119**	20,983	22,025	5.4%	**211,099**
Per Share Data (yen and dollars)**:**					
Net income	**¥ 215**	¥ 202	¥ 216	6.4%	**$ 2.05**
Cash dividends	**110**	100	90	10.0%	**1.05**
At Year-end:					
Total assets	**¥ 397,108**	¥ 398,258	¥ 375,107	–0.3%	**$ 3,789,922**
Total equity	**188,574**	199,493	175,184	–5.5%	**1,799,714**
Financial Data:					
Return on equity (ROE)	**11.6%**	11.3%	13.1%	0.3% point	
Payout ratio	**51.2%**	49.6%	41.8%	1.6% point	
Store Network:					
Total number of stores in Japan	**8,587**	8,564	8,366	0.3%	
Franchised stores	**8,148**	8,093	7,958	0.7%	
Company-owned stores	**439**	471	408	–6.8%	

** The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 29, 2008, of ¥104.78=$1.*

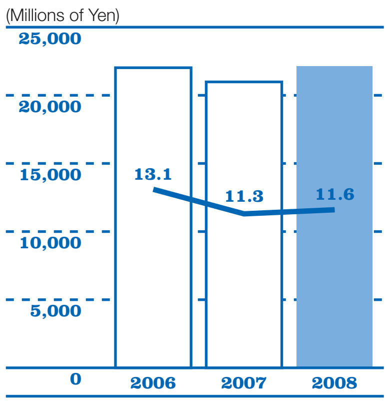
Operating income and Operating income ratio



Operating income
Operating income ratio (%)

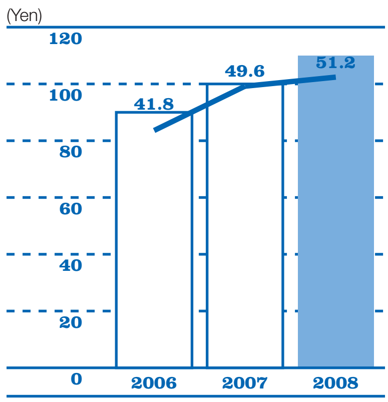
* Operating income ratio = Operating income / Net sales of all stores

Net income and ROE



Net income
ROE (%)

Cash dividends per share and Payout ratio



Cash dividends per share
Payout ratio (%)

Topics

Initiatives to Expand the Customer Base

LAWSON developed health-oriented products made using ingredients such as okra, *nameko* mushrooms, *mekabu* seaweed, glutinous yam and *natto* (fermented soybeans) and conducted promotional campaigns for these products to support their introduction. We also worked to expand the customer base such as by conducting a campaign featuring the Miffy character, which is popular with women. This campaign involved the collection of labels printed with promotional points by purchasing designated products and exchanging them for promotional goods.

The Introduction of Multimedia Terminals and Acceptance of New Forms of Electronic Money (QUICPay™ and Edy)

LAWSON has installed at most LAWSON and NATURAL LAWSON stores nationwide multimedia terminals that accommodate a number of major electronic payment systems. This has made it possible for customers to make payments using three types of e-money from a single electronic payment terminal: iD™[1], QUICPay™[2], and Edy[3]; customers have previously only been able to use iD™ at LAWSON stores.

[1] *iD™ is a postpaid e-money service provided by NTT DoCoMo, Inc. and a trademark of that company.*
[2] *QUICPay™ is a non-contact smart card postpaid payment service promoted by the Mobile Payment Promotion Association (MOPPA).*
[3] *Edy is a prepaid electronic money service managed by bitWallet, Inc.*

Introduction of the Chief Operating Officer System

In the second half of fiscal 2007, LAWSON established the position of Chief Operating Officer (COO), an executive who is responsible for store operation, store development and product development as well as the seven regional headquarters. The COO oversees the implementation of cross-organizational operational measures involving stores.

Promoting the Use of Reusable Shopping Bags and Chopsticks —"Bring Your Own" Initiative

LAWSON distributes self-developed *Konbini* Eco-Bags to customers to reduce the use of disposable plastic shopping bags. We are also promoting the use of "Bring Your Own" reusable chopsticks in order to reduce the use of disposable chopsticks.

Full-Scale Rollout of LAWSON PLUS

In addition to the conventional LAWSON store format, we are implementing a full-scale rollout of the LAWSON PLUS format, stores designed to expand the customer base by introducing product and merchandise assortment expertise gained from the NATURAL LAWSON and LAWSON STORE100 formats.

LAWSON Becomes the Largest Shareholder of Ninety-nine Plus Inc.

In January 2008, LAWSON subscribed to a capital increase through private placement by Ninety-nine Plus Inc., which operates the SHOP99 chain and other stores. This increased LAWSON's equity stake in Ninety-nine Plus to 34.2%, making us the largest shareholder.

Promotion of a Comprehensive Business Alliance Agreement With Japan Post

In February 2008, LAWSON agreed to a comprehensive business alliance with Japan Post Holdings Co., Ltd. The aim of the agreement is to accelerate cooperation in areas such as the full-scale opening of joint stores. Since the announcement of a business alliance with the former Postal Services Agency in December 2002, we have established mailboxes within LAWSON stores, opened LAWSON stores within post offices, and offered the You-Pack parcel service.


The Chain of

LAWSON aspires to be the chain of choice for stakeholders.

May 2008 marked the start of my seventh year at the helm of LAWSON. Over the past six years, I have consistently asserted that the core competence of convenience store operators in Japan is the franchise business and have therefore made the pillar of my management strategy the belief that the power of franchise owners is the source of corporate value. Accordingly, we have taken steps geared toward increasing the profits of franchise owners as we worked to enhance LAWSON's corporate value.

LAWSON Challenge 2004

Choice

During my first three years as CEO (fiscal 2002 to 2004), we implemented the LAWSON Challenge 2004 medium-term management plan. Under this plan, we undertook Head Office-driven reform of the business structure. This included strengthening product appeal and raising gross profit margin through restructuring of the ready-made meal vendor network, striving for greater asset efficiency through the restructuring of unprofitable stores, and developing and reinforcing human resources through the opening of training centers. We also focused on back-to-basics store operations in terms of quality, service, and cleanliness for franchise owners on the basis of the "Three Challenge Practices[1]."

[1] The Three Challenge Practices are points that franchised store owners, employees, and store crew (part-time workers) must pay particular attention to in the operation of LAWSON stores. They are (1) ensuring merchandise assortments are matched to individual locations, (2) serving customers courteously, and (3) keeping stores and surrounding areas clean.

LAWSON Challenge 2007

During the three-year LAWSON Challenge 2004 period, we were able to dispose of negative legacies of the past and lay the foundation for better guiding franchise owners in operational terms. During the three-year period from fiscal 2005 to fiscal 2007, we implemented LAWSON Challenge 2007, under which we carried out management policies to achieve profit improvement for franchise owners. The watchword for this medium-term management plan was "Store formats and merchandise assortments matched to individual store locations[2]."

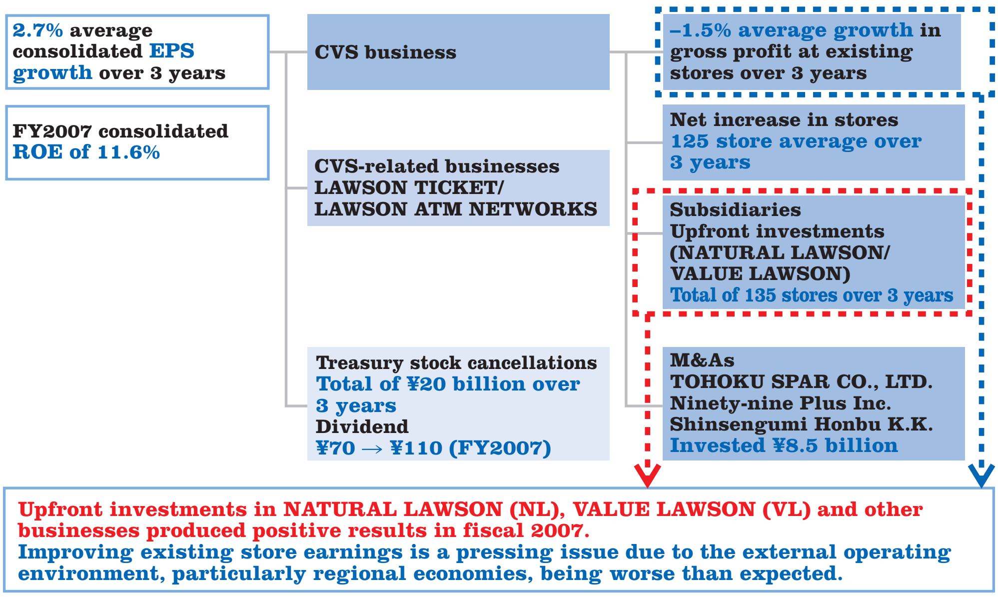
Specific management policies in LAWSON Challenge 2007 were as follows.

(1) We promoted the introduction and utilization at all stores of "store charts[3]," customer analysis for the catchment areas of individual stores, which are researched and prepared jointly by franchise owners and LAWSON supervisors (management guidance staff). We also implemented on a full-scale basis the "Mystery Shopper[4]" program for developing franchise owners.

(2) As an initiative to provide impetus for increasing the number of customers through customer segment expansion, we developed and rolled out several new store formats: NATURAL LAWSON targeting women and highly health-oriented customers; LAWSON STORE100 aimed at housewives and the middle-aged and seniors; and LAWSON PLUS, which incorporates into the conventional LAWSON format elements to expand customer segments (products and store configuration). In this way, we have accumulated the product development and store planning and design expertise required for expanding the customer base.

[2] *"Location" is the geographical area (catchment area) occupied by an individual LAWSON store, defined as the area of residence of customers who may visit a particular store due to the presence of a LAWSON store in the community.*
[3] *A "store chart" is an important tool for franchised store owners to make decisions as it includes analysis of marketing and management on an individual store basis. Through the use of these "store charts," each store is able to promote merchandise assortments and ordering that is matched to the individual characteristics of each store location.*
[4] *The "Mystery Shopper" program is a system where an "undercover" researcher who is a company employee with a thorough knowledge of convenience store operations and merchandise assortments, objectively and quantitatively evaluates LAWSON stores from a customer's perspective. The results are fed back to LAWSON's Head Office and franchise owners. In fiscal 2004, LAWSON established subsidiary BestPractice Inc. and commissioned it to carry out these surveys.*

LAWSON CHALLENGE 2007: FINAL YEAR RESULTS

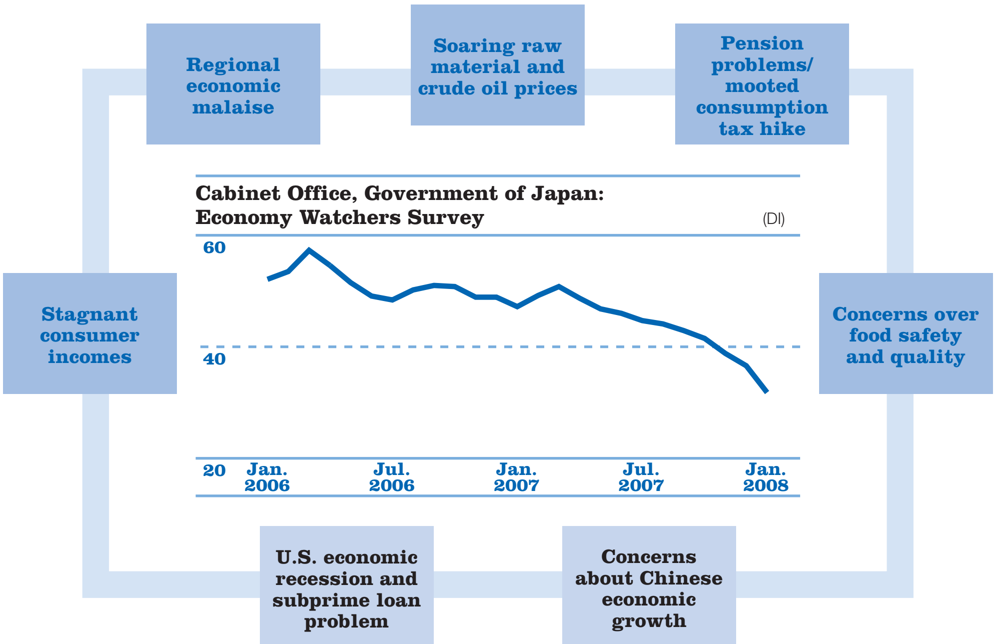


The management policies and measures we have implemented during the past six years in the areas of reinforcing the appeal of private brand products, primarily ready-made meals, and improving management capabilities of franchise owners have yielded major results. Meanwhile, with regards to our store format strategy—which we have positioned as an important means of expanding customer segments as the source of medium- to long-term growth—we have developed the NATURAL LAWSON, LAWSON STORE100, and LAWSON PLUS formats. Having these formats enables us to better provide products and services to meet the varied needs of customers in different age groups and geographical areas. As we move forward, we will continue to focus efforts on expanding our merchandise assortment and promoting our store format strategy.

Worsening Business Environment in the CVS Industry

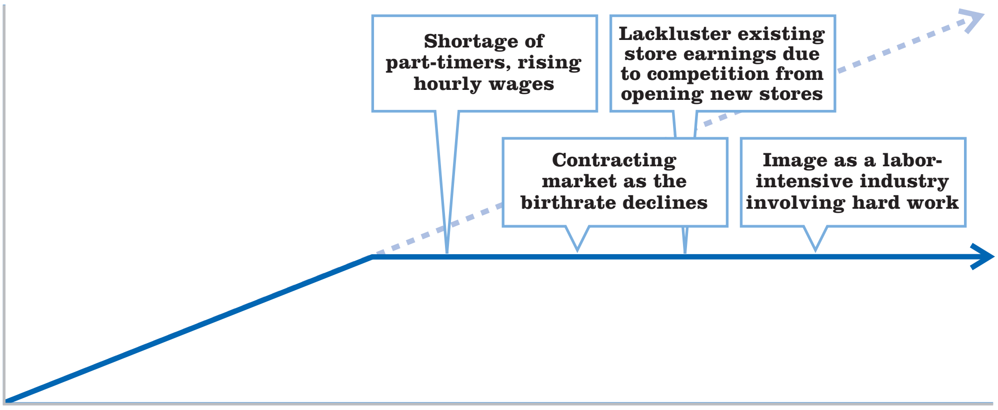
In recent years, the business environment facing the CVS industry in Japan has been more adverse than LAWSON anticipated. Various factors have had a negative impact on the profitability not only of the CVS industry, but of the entire retail industry in Japan. Some of those factors are the growing economic disparity between major cities and regional areas due to government policy changes and population dynamics, increases in consumer prices due to soaring prices of raw materials and crude oil, unease about the future due to the pension problem and other social issues, and declining consumer confidence due to these factors.

CVS INDUSTRY OPERATING ENVIRONMENT



The adverse external environment facing Japan's CVS industry notwithstanding, major CVS operators show no sign of curbing the practice of opening and closing stores in large numbers. Stiff competition among homogenized convenience stores is a factor behind sluggish earnings for existing franchise owners and this has affected their level of motivation. Moreover, in recent years, the CVS industry as a whole has found it difficult to attract new franchise owners, and there is an increasing risk of a fall in the contract renewal rate of franchise owners. In cases where a new franchise owner cannot be found, Head Office has no choice but to close stores or to continue operating franchised stores itself, which entails the inherent risk of fixed cost increases. I believe that the high ROE generated by the CVS business in Japan stems from the consulting provided to franchise owners who have a highly developed independent business owner mindset. For this reason, an increase in the number of Company-owned stores, other than experimental or training stores, could lead to the downfall of the highly profitable business that is Japan's CVS industry. Accordingly, we are striving to hold down the number of Company-operated stores.

THE JAPANESE CVS INDUSTRY TODAY



At LAWSON, we use return on investment (ROI) as the basis for deciding on whether to open stores or start a new business. We have also established improving return on equity (ROE) as an important management performance indicator. In LAWSON Challenge 2007, we set our ROE target at 15%.

Our view is that large-scale store opening programs in the sole pursuit of network scale lowers the quality of new stores. This in turn can have negative consequences for corporate profit and for recruiting franchise owners. For these reasons, we have decided to focus on store quality and not become embroiled in competition to open stores.

TRENDS IN THE NO. OF DOMESTIC STORES (Incl. Directly Operated Stores) AND STORE OPENINGS AND CLOSURES AT LAWSON

Years Ending February 28 or 29

	2005	2006	2007	2008	2009 Plan
No. of stores in Japan	8,077	8,366	8,564	8,587	**8,687**
No. of directly operated stores	346	408	471	439	
(No. of directly operated regular LAWSON stores)	318	323	296	290	
(No. of directly operated NATURAL LAWSON stores)	28	50	95	77	
(No. of directly operated VALUE LAWSON stores)	–	35	80	72	
Store openings	711	717	700	452	**530**
Store closures	455	428	502	429	**430**

LAWSON believes that if the trend toward increased emphasis on capital efficiency continues in the medium to long term and ROI-driven management decision-making becomes prevalent among Japanese retail companies, the current CVS industry problem of an excessive number of homogenized stores competing for the same core target customers may abate. Also, we expect that capital efficiency-oriented management will become mainstream in the CVS industry in Japan and that increasing the attractiveness of the industry will facilitate the recruitment of excellent franchise owner candidates.

Aspiring to Be the Chain of Choice for Franchise Owners

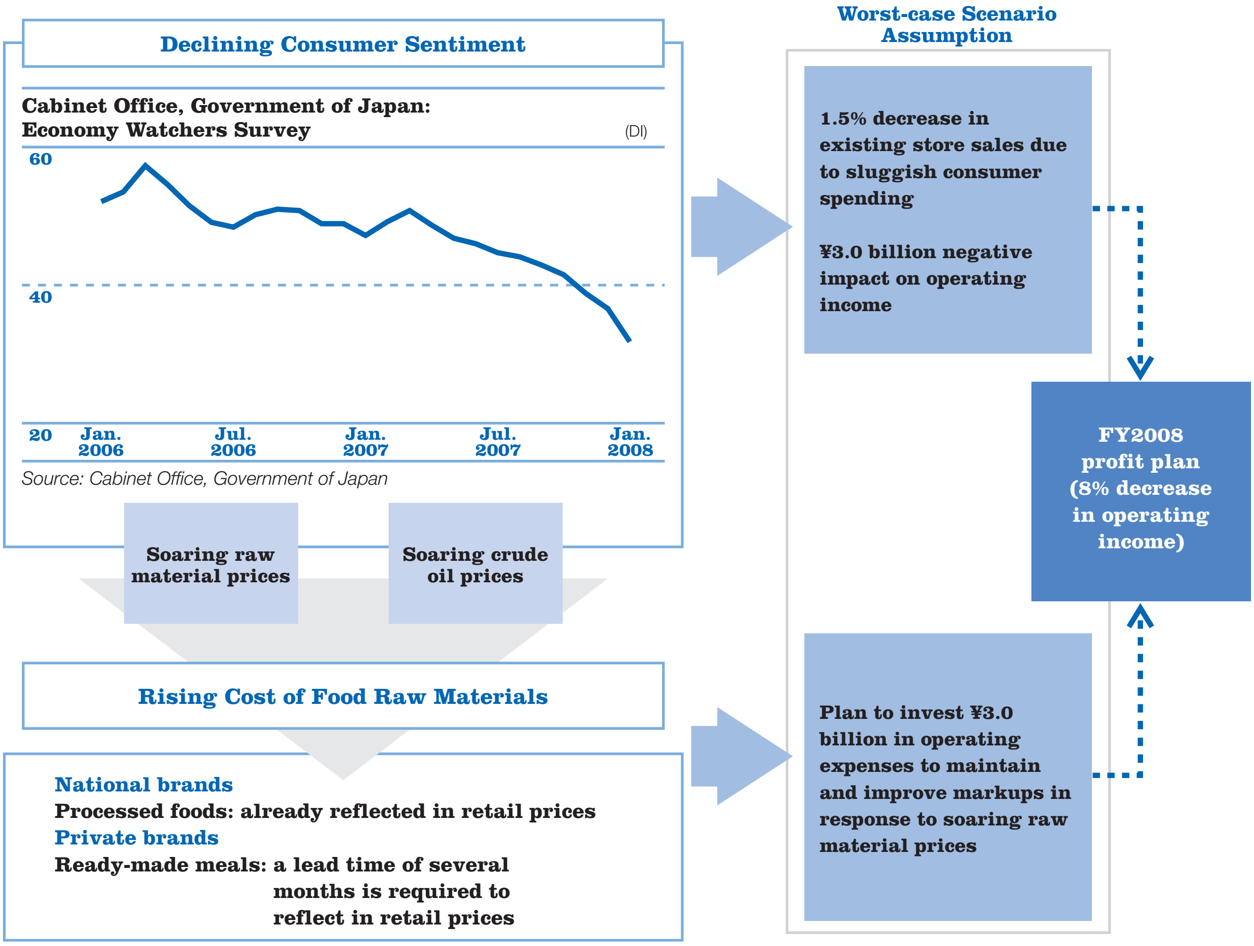
We believe that the power of the CVS industry lies in the sense of ownership and passion franchise owners have for their stores. This motivation of independent business operators is the driving force that creates merchandise assortments matched to individual store locations and gives rise to powerful loyalty among customers who live in the communities where stores are located. We are convinced that the accumulation of customer loyalty in these communities will propel LAWSON ahead of competitors to the position of No. 1 convenience store operator in Japan.

As I mentioned previously, the CVS industry faces an adverse external environment. The industry is on the threshold of an era in which franchise owners with highly developed management capabilities will pick the CVS chain, not the other way around. Our aim is to be the CVS chain of choice when this era arrives. To that end, we must directly and indirectly support franchise owners to help them cope with deterioration in the external environment. It is important in this context that we create store formats and merchandise assortments suited to the needs of customers in individual store catchment areas by utilizing the LAWSON PLUS, NATURAL LAWSON, LAWSON STORE100, and SHOP99 formats as a means to expand customer segments—which we see as crucial for sustained growth.

Fiscal 2008 Investments Will Lay the Foundation for Medium- to Long-term Growth

When drafting our fiscal 2008 business plan, we assumed that certain factors will have a negative impact on our business performance in the short term. These assumptions include deterioration in consumer sentiment caused by low business confidence and anxiety about the public pension problem, and sharp increases worldwide in prices of raw materials, notably grains, fish, meat, and crude oil.

FY2008 BUSINESS ENVIRONMENT OUTLOOK



In our fiscal 2008 business plan, we have provided for aggressive sales promotion expenditure to stimulate demand by publicizing the powerful appeal of our merchandise. Furthermore, as time is required to increase sales prices to directly reflect higher raw material costs, we plan to provide support to ready-made meal vendors to strengthen products to help them cope with soaring raw material prices. This support will focus on ready-made meals, namely boxed lunches, rice balls, bread, cooked noodles, and fast food bought at the cash register such as *Karaage-kun* crispy Japanese-style fried chicken. Through these measures, we intend to maintain and increase quality and satisfy needs specific to customer age segments and regions. Should the sharp worldwide increases in raw material prices, in large measure attributable to speculative factors, abate and the risk of stagflation decrease, we expect the need for indirect support to franchised stores in fiscal 2009 and subsequent years to decrease.

As Japan's society ages, we think it will be increasingly important to expand our customer base to ensure future growth. I believe that the efforts we have made to develop the NATURAL LAWSON, LAWSON STORE100 and LAWSON PLUS formats position us to do just that. We are now in a position to provide products adapted to diverse customer needs at regular LAWSON stores.

The main thrust of our fiscal 2008 business plan is to increase franchise owner motivation. I am convinced that this will set the stage for LAWSON's medium- to long-term growth as a franchise owner-oriented company.

LAWSON Emphasizes Corporate Governance and Seeks to Actively Return Profits to Shareholders

LAWSON receives equity investment from Japanese and foreign investors. An increase in the foreign stockholding ratios of listed companies in Japan reveals that investor globalization is advancing. As a result of this trend, we believe that the management of listed companies in Japan will increasingly be judged and evaluated against global standards.

LAWSON considers management that reflects awareness of the cost of capital to be the foundation of global management. We place the utmost importance on the efficient use of capital, and, in view of global standards, we aim to deliver ROE of 15% as soon as possible. Our most important management priority is to increase ROE by securing sustainable business growth through gross profit improvement at existing stores. With the external environment remaining challenging, we plan to curb reinvestment. We aim to increase capital efficiency by implementing active shareholder return measures, including purchasing our own shares and cancelling treasury stock, and increasing dividends. As a general rule, LAWSON promptly cancels treasury stock after share buybacks.

Corporate governance is another area LAWSON treats seriously. The seven-member Board of Directors seeks to make quick decisions and increase the sense of management responsibility on the part of each director. LAWSON strives to fulfill its social responsibility by incorporating objective outside perspectives into management by maintaining a high outside director ratio; three of LAWSON's seven directors come from outside the Company.

Although the number of Japanese companies that have adopted takeover defense measures is increasing, LAWSON has not introduced such measures. This is because we see the best takeover defense measures as enhancing corporate value and maintaining active dialog with shareholders and information disclosure.

OUTSIDE CORPORATE OFFICERS AT MAJOR CONVENIENCE STORE COMPANIES

	Directors					Corporate Auditors				
	Inside	%	Outside	**%**	Total	Inside	%	Outside	**%**	Total
LAWSON	4	57	3	**43**	7	1	25	3	**75**	4
Seven & i Holdings	10	77	3	**23**	13	2	40	3	**60**	5
FamilyMart	11	100	0	**0**	11	2	50	2	**50**	4
Circle K Sunkus	6	86	1	**14**	7	2	50	2	**50**	4

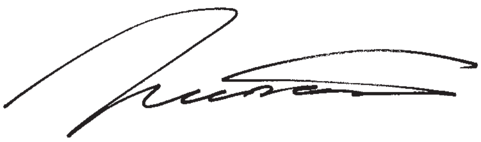
Source: Annual securities reports of the respective companies (submitted May 2008)

INTRODUCTION OF TAKEOVER DEFENSE MEASURES

LAWSON	No
Seven & i Holdings	No
FamilyMart	Yes (Advance warning-type takeover defense)
Circle K Sunkus	No

We take pride in the fact that our corporate governance measures are highly advanced for Japan's CVS industry and retail industry as a whole. We will continue to reinforce corporate governance measures and press ahead with business development with the aim of delivering ROE of 15% at an early date. Along with this, we will work to actively return profits to shareholders to reward them for their support.

August 2008



Takeshi Niinami

President and Chief Executive Officer

Being the Chain of Choice for Franchise Owners

Question

Your stated policy is to focus on franchised stores and hold down the number of Company-operated stores. Why is an increase in Company-operated stores a cause for concern in terms of CVS business profitability?

Answer

LAWSON believes that the fundamental nature of a headquarters-run CVS franchise chain is that of a management consulting business in which we provide guidance to independent business owners. This structure is one of the main reasons that the Japanese CVS industry boasts the high level of profitability that it has to date. LAWSON provides infrastructure, systems and the latest management know-how to motivated and knowledgeable franchise owners who typically have experience running liquor stores or other businesses by themselves before becoming franchisees. The LAWSON stores run by these experienced owners tend to be able to produce earnings faster after opening than ordinary retail businesses run by salaried employees who lack their experience. Now, the number of these experienced franchise owners has decreased in recent times, while the number of franchise owners with no experience in the retail industry has increased. But this isn't necessarily a bad thing as these inexperienced franchise owners can apply their experiences in different business settings to manage store crews (part-time and casual workers) and the stores themselves, often producing a high level of productivity in store operations. Regardless, it is certainly preferable to have franchised stores to Company-operated stores. An increasing number of employees of CVS companies join with the career aspiration of becoming a supervisor (management guidance staff) and providing management guidance to franchised stores. Consequently, an increase in Company-operated stores means that employees will then have to spend more time than they had hoped as store managers or store employees, and this runs the risk of undermining their motivation.

Competition is fierce in the Japanese CVS industry as all companies open the same type of stores. Because of this intense competition, one can't hope to increase existing store earnings without increasing market share in a store's catchment area. To grow existing store earnings by increasing market share, it is imperative to create stores and merchandise assortments matched to the needs of local customers. It is also becoming increasingly important to position the stores themselves as members of the local community. This in turn raises the necessity for franchise owners and store managers to become a part of the community they serve. Unlike franchise owners who operate stores under 10-year contracts, store managers who are Company employees are often rotated after a short time, making it difficult for them to establish themselves locally. We therefore believe that leveraging the business mindset of the typical business owner and helping them blend constructively into their local communities is one of the prerequisites for success in the face of an extremely competitive operating environment. It is on this point that LAWSON believes franchised stores are the lynchpin of the CVS business and this is why it aims to increase the motivation of franchisees while holding down the number of stores that LAWSON itself operates.

Question

What effect are soaring raw materials prices having on your earnings?

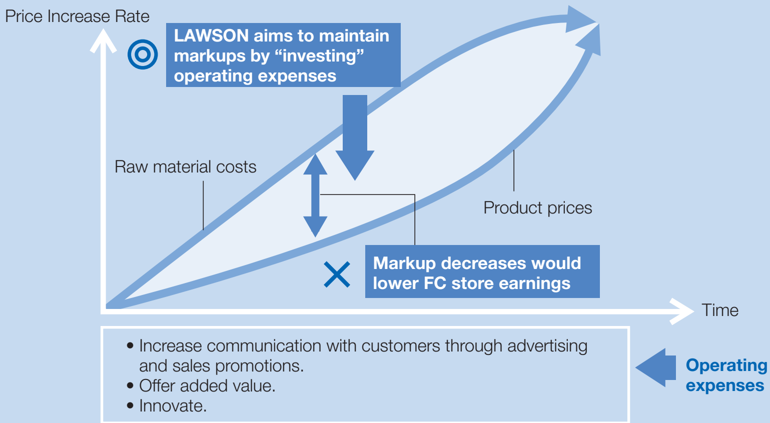
Answer

Crude oil prices have been rising steeply since the beginning of 2007 while grain, meat and other raw material prices have marched upward since summer last year. These increases have impacted our business in four ways.

First, in macroeconomic terms, the risk of stagflation[1] is increasing and with it the likelihood of soft consumer spending. With prices of raw materials soaring, gasoline prices rising and other changes occurring, consumer sentiment is likely to take a blow. This in turn could adversely affect consumption because consumers will tighten their belts. Because of this, companies cannot pass raw materials costs onto product prices, and this then negatively affects corporate profits. This ultimately leads to stagnation in personal incomes. The upshot is thus a negative cycle. Our fiscal 2008 earnings plan assumes that a stagflation-induced deterioration in the external operating environment will depress earnings.

The second point is that we believe national brands[2], centered on processed foods in the CVS business model, will continue to pass on higher raw material costs to product prices as long as there is no rapid cooling in consumption. Compared with supermarkets and general merchandisers, where price is a key factor in buying decisions, consumers generally purchase national brand products at convenience stores when an emergency need arises, or out of convenience, or as the result of an instantaneous decision. This means that the price elasticity of demand is low for these products. While we don't see a major impact at present, a further drop in economic activity precipitated by rising gasoline prices, may adversely affect our business results.

INVESTING TO MAINTAIN MARKUPS OF READY-MADE MEALS TO OVERCOME RISING RAW MATERIAL COSTS



Thirdly, LAWSON is looking cautiously at whether to reflect the effects of escalating raw materials costs in the prices of its private brand products, particularly ready-made meals such as boxed lunches, rice balls, prepared bread (including sandwiches) and counter fast foods such as *Karaage-kun* crispy Japanese-style fried chicken. Unlike the national brand products and processed foods mentioned earlier, ready-made meals are positioned as a CVS mainstay product. The weight of non-impulse buying is also high. Accordingly, we must also consider the effect of competition not only from other CVS chains but also the delicatessen sections of supermarkets, restaurants and so forth.

Finally, as you can see from the graph above, it takes some time for LAWSON to reflect higher raw material prices in product prices. So in order to maintain gross profit margin and the quality of ready-made meals, we are forecasting up to ¥3.0 billion in additional expenses to promote sales in our fiscal 2008 plan.

[1] Refers to phenomenon of rising prices amid a stagnating economy.
[2] Nationally recognized brands, or leading products manufactured by companies with a nationwide presence and their trademarks.

Question

LAWSON has developed several new store formats for expanding the customer base; NATURAL LAWSON, LAWSON STORE100 and LAWSON PLUS. Could you please tell us a little more about these formats?

Answer

Our conventional type of store is the LAWSON format, whose core customers are mainly young men in their 20s and 30s. We have developed the new formats so that we can expand our customer base beyond these traditional customers. NATURAL LAWSON targets health-conscious customers, particularly women, the middle-aged and seniors. Meanwhile, LAWSON STORE100 stores are designed as fresh food stores. LAWSON PLUS stores, for their part, have been created by converting and enhancing the conventional LAWSON format.

NATURAL LAWSON stores adopted an entirely new concept from the beginning from that used to develop products for existing convenience stores. This format focuses on the development and sale of health-conscious private brand products that are supported by women. It has built up considerable expertise in this regards. In the first phase of developing this format, our goal was to increase scale and we grew the number of stores to around 100, a figure that we believe is the threshold level for facilitating the development of private brand products by a chain. We have now moved onto the second phase, during which we will strengthen existing NATURAL LAWSON stores and make progress introducing health-conscious private brand products into conventional LAWSON stores.

LAWSON STORE100 stores are pushing ahead with enhancing their merchandise assortments of perishable foods such as fruit and vegetables and daily delivered foods such as *natto*, tofu and delicatessen items. We have also developed and are selling a private brand called *Value Line*; the concept of this brand is to provide products in appropriately sized small quantities.

Regarding LAWSON PLUS, there were 652 of these stores as of February 29, 2008. Looking ahead, we also intend to introduce perishable food and daily delivered foods originally developed for LAWSON STORE100 into LAWSON PLUS stores to expand the customer base. This will better enable these stores to cater to the needs of new customer segments, namely women, the middle-aged and seniors.

LAWSON STORE FORMATS

	Conventional LAWSON	NATURAL LAWSON	LAWSON STORE100	LAWSON PLUS
Launch of format	April 1975	July 2001	May 2005	Fiscal 2007
Target customers	Mainly young men in their 20s and 30s	Enhanced merchandise assortments for working women in their 20s and 30s and health-conscious customers	Enhanced product lineup (perishable foods and daily delivered foods) for housewives, middle-aged and senior customers	Introduction of products to expand the customer base matched to the main customer segments and distinctive features of the catchment area
Percentage of female customers (estimate)	Approx. 30%	Approx. 45%	Approx. 40%	–
Area targeted for store openings	Nationwide	Office and residential districts in major metropolitan areas	Residential districts and areas in front of stations in metropolitan areas	Large cities as well as urban and residential districts in regional areas
Number of items handled	Approx. 2,800	Approx. 2,500	Approx. 4,500	–
Ratio of common products with regular LAWSON	–	Approx. 60%	Approx. 10%	–
Total number of stores (February 29, 2008)	7,772	91	72	652

Question

You obviously have high expectations for the fresh food convenience store format?

Answer

Fresh food convenience stores are retail businesses with small catchment areas that offer a larger lineup of perishable products, particularly vegetables and fruit, at uniform prices. They offer affordable products in appropriately sized small quantities that are in step with the smaller size of the average household in Japan these days, the result of the country's declining birthrate. Ninety-nine Plus Inc., which pioneered the fresh food convenience store format, has grown quickly, expanding its network of SHOP99 stores to 800 in a short period of time. Meanwhile, existing store sales at our LAWSON STORE100 stores have grown steadily every year. We have also seen the introduction of the perishable foods category at LAWSON PLUS stores produce results. Looking at these positive results and the evident strong support for convenience stores with enhanced perishable foods lineups in small business-catchment areas, we think there is further room to grow this format.

Question

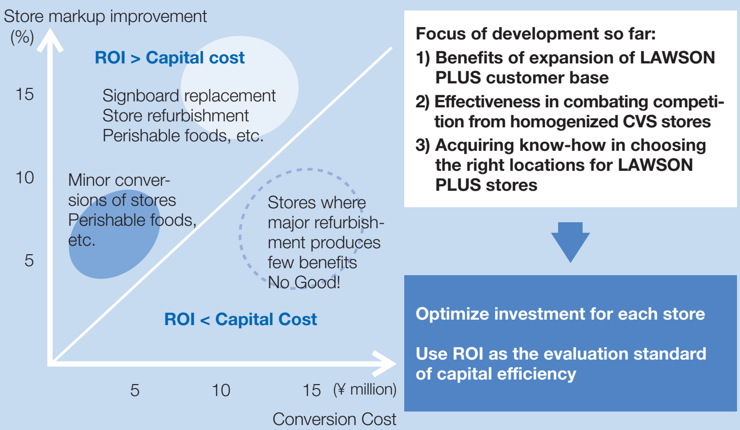
What is the current situation with LAWSON PLUS?

Answer

We moved into full swing converting stores to the LAWSON PLUS format at the beginning of fiscal 2007. We have steadily accumulated expertise in selecting the right locations for converting stores and have seen an increase in the customers we were targeting in these areas, namely, the middle-aged, seniors and housewives. Something that has also become clear to us is that existing LAWSON stores that already have a good base of middle-aged and senior customers can increase sales simply by stocking fresh foods without the need for a full conversion. Fully converting stores into the LAWSON PLUS format, including changing signboards, costs at least ¥10 million per store. For this reason, rather than blindly seeking to expand the network of these stores, we will proceed with conversion efforts using capital efficiency as our benchmark. As per the diagram to the left, this will involve determining whether ROI will exceed the capital cost, in other words, strictly evaluating the profitability of each store.

From fiscal 2008 onwards, we will continue our efforts to perfect LAWSON PLUS stores by increasing the accuracy of selecting locations for conversion and enhancing operational expertise in perishable foods, while examining the benefits of fully converting stores, including signboards. We still believe there is potential to generate more improvements in sales out of existing stores through our conversion program in this way.

LAWSON PLUS CONVERSION WILL PROCEED USING CAPITAL EFFICIENCY STANDARDS



Question

What impact are the formats designed to expand the customer base having on the earnings of existing franchise owners?

Answer

As I have mentioned, the CVS market is saturated with conventional stores targeting young men in their 20s and 30s as core customers. In order to increase the earnings of existing franchise owners, and LAWSON for that matter, in this sort of market, we believe we must capture a greater share of customers in existing store catchment areas. For this, we must create stores that match the customers in their locations. Put another way, store formats need to be matched to the characteristics of the catchment area of the existing store. This also entails getting the merchandise assortment right for the catchment area.

Obviously, it is important to understand the characteristics of each catchment area or location. In this regard, we conduct local area surveys, which we use as the basis for developing "store charts[1]" for all of our stores. Based on these store charts and information gleaned from point card use, we conduct customer relationship management (CRM)[2] that sets out to assemble optimal merchandise assortments. Developing products for the middle-aged, seniors and women is an important part of getting the product mix right. Through our store formats designed to expand the customer base, NATURAL LAWSON and LAWSON STORE100, we have been able to do just that. This means that we are now better positioned to develop products for expanding our customer base.

Furthermore, in locations where customer characteristics are much clearer, such as major metropolitan areas, we are now able to open new format stores that mesh with these locations.

These efforts should differentiate us from rival stores, due to customer base expansion in small catchment areas. They are expected to result in growth at existing stores and to enable us to present a growth scenario of higher earnings over the medium- and long-term to franchise owners.

We present this growth scenario for the future to motivate franchise owners to renew their franchise agreements and to motivate prospective franchise owners with outstanding operational capabilities to join our franchise.

[1] An important tool for franchised store owners to make decisions, "store charts" include analysis of marketing and management on an individual store basis. Through the use of these "store charts," each store is able to promote merchandise assortments and ordering that is matched to the individual characteristics of each store location.

[2] CRM, or customer relationship management, involves using a customer database to conduct detailed analysis of customer needs. The results of this analysis are used to build long-term relationships with customers.

Question

Please tell us about the next-generation IT system you are introducing?

Answer

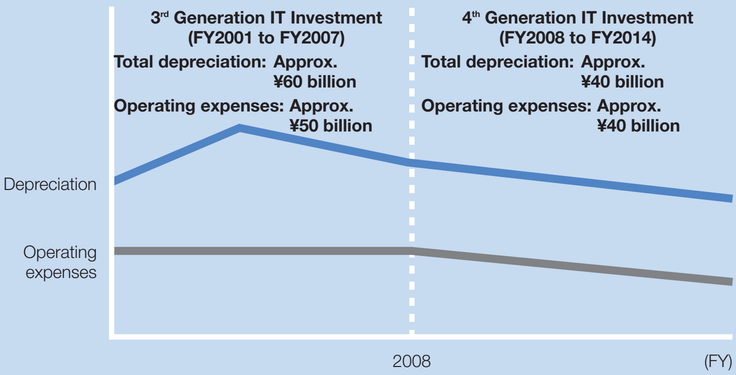
The major CVS chains, LAWSON included, have introduced large-scale IT systems to support value chains comprising several thousand stores. These systems are upgraded and/or replaced once every few years—in our case, around every seven years. As key infrastructure of CVS chains, IT systems are instrumental in increasing ordering accuracy and individual store productivity. They are thus important for providing robust support to franchise owners. The next-generation IT system we plan to introduce in fiscal 2008 will see a complete revamp, extending from system structure and procurement methods through operations. This complete overhaul is expected to yield much greater cost savings than the last time we changed our system. Please see the diagram.

The new system is premised on the development of all stores with always-on connectivity and is expected to yield four key benefits.

1. Next-generation *Loppi* multimedia terminals will provide an intuitive, easy-to-use interface that will enhance services for all customers, including seniors. These new terminals should enable us to set ourselves apart from other companies.
2. The revamp of POS registers and store computers will produce improvements in productivity in store operations.
3. Revamped communication tools will dramatically improve the speed and quality with which information can be shared throughout the Company, resulting in labor productivity improvements.
4. Enhanced point card-based CRM will lead to better merchandise assortments for individual locations and an even higher level of customer satisfaction.

We plan to start introducing the next-generation IT system in the latter half of fiscal 2008.

IT INVESTMENT



Question

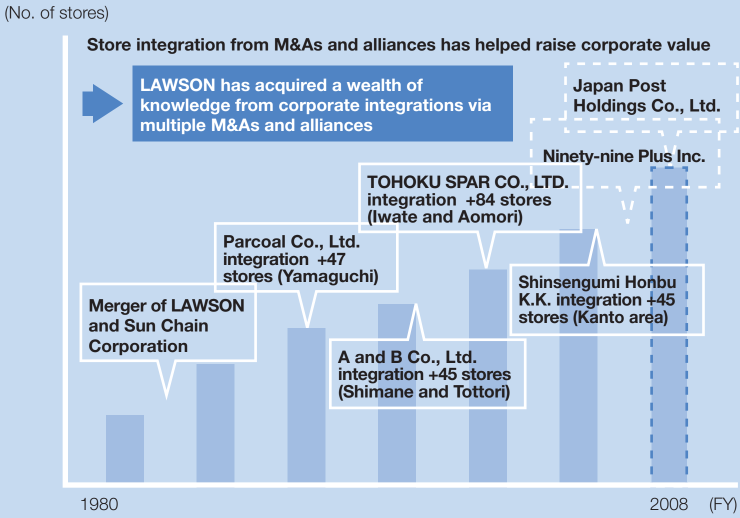
What is your approach to M&As and alliances?

Answer

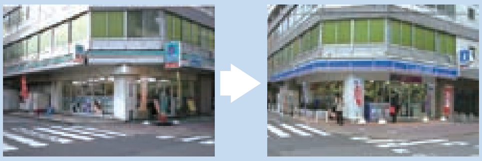
As I've said, the CVS market is saturated with conventional stores and domestic consumption is languishing as the Japanese population declines due to low birthrates. In order to sustain growth over the medium and long term, in addition to our fundamental strategy of growing existing stores, we must also use M&As and alliances in Japan and overseas.

Historically, LAWSON has had successful experiences with M&As. The merger of LAWSON with another major chain, Sun Chain Corporation, years ago was a success. And we have acquired small chains with between 50 and 100 stores on a number of occasions. These mergers and acquisitions have enabled us to build up expertise as well as to benefit from other companies' corporate philosophies. The same approach underpinned the friendly alliance we concluded recently with fresh food convenience store pioneer Ninety-nine Plus Inc. In addition, we recently announced a post-privatization comprehensive alliance with Japan Post Holdings Co., Ltd. We continue to be one of the most active players in terms of M&As in the Japanese CVS industry.

FUSION OF CORPORATE DNA FROM REPEATED SUCCESSFUL M&As AN "ASSET" TO LAWSON



Overseas, we have operated a joint business with a leading local retailing group in Shanghai. Looking ahead, we will develop an alliance strategy centered on emerging economies such as China and Southeast Asian countries. This strategy is premised on forming alliances with leading local partners and leveraging the outstanding CVS system perfected in Japan.



Refurbishment of Shinsengumi Honbu

Question

Please summarize your medium-term plan.

Answer

As I've said, raw material prices have risen to levels not seen in the past decade. There are two possible outcomes from this in the course of fiscal 2008. One is a positive scenario of healthy inflation accompanying rising consumer income levels. However, the run-up in prices could end up producing stagflation, where wages stagnate but prices rise. How things will turn out is anybody's guess. It is against this backdrop of uncertainty and unease about the underlying economy that we devised our fiscal 2008 plan and put off announcing a medium-term plan with clear earnings growth targets. Our fiscal 2008 plan is conservatively premised on this sort of external operating environment. As regards longer-term plans, we will look at how things go in fiscal 2008 and based on that decide on a management plan for the medium and long terms, including numerical targets.

We will push ahead with efforts to increase ROE over the next 3 years through to March 2011 in line with the model below for creating corporate value over the medium term.

MODEL FOR CREATING CORPORATE VALUE OVER MEDIUM TERM (FY2008-FY2010)

Consolidated EPS growth

ROE target
→ 15% (medium to long term)

CVS business
- Increase gross profit at existing stores
  → +0.5% or more growth per year
  * Excludes cigarette ID card impact in FY2008
- Net increase in stores
  → 100 to 200 stores per year
  Regular LAWSON/LAWSON PLUS
  VALUE LAWSON SHOP 99 | NATURAL LAWSON
  Overseas
  Alliances | M&As
  * Incl. Japan and overseas

CVS-related businesses
- LAWSON TICKET | LAWSON ATM Networks
- Alliances

Higher shareholder returns
→ Higher dividend
Share buybacks and cancellations

Question

Please explain your capital strategy for the next three years (fiscal 2008 to fiscal 2010).

Answer

In light of the considerable uncertainty regarding the external environment that I have just alluded to, we intend to curb the net increase in stores, as we are conscious of there being too many convenience stores of essentially the same type. Our focus in this age of uncertainty is on opening quality stores in terms of ROI. While we are forecasting a drop in earnings in fiscal 2008, we want to surpass our fiscal 2007 consolidated operating income by fiscal 2010.

Management plans to appropriate for dividends the lion's share of free cash flows we expect to generate over the next 3 years from fiscal 2008 through the end of fiscal 2010 (between ¥40 billion and ¥50 billion). Specifically, we plan to raise the dividend per share applicable to fiscal 2008 by ¥50 from the ¥110 in fiscal 2007 to ¥160 in fiscal 2008, and to maintain this level through fiscal 2010, assuming there is no dramatic change in our operating environment. Our medium- to long-term target is 15% ROE, and to achieve this we will grow our core businesses and at the same time buy back our own shares with some of our surplus cash. Our basic stance is to cancel treasury stock as we work to increase capital efficiency.

Corporate Governance

LAWSON's Corporate Philosophy and Code of Conduct

LAWSON assures that all corporate activities conform to its corporate philosophy, and that the Company's management and employees work together as a team to realize its goals. In seeking to live up to our corporate philosophy, we ensure that all of our actions are grounded in our shared values, no matter what changes may take place in the operating environment. Our code of conduct requires employees to accept responsibility for reflecting our values and standards through their actions.

CORPORATE PHILOSOPHY

Happiness and Harmony in Our Community

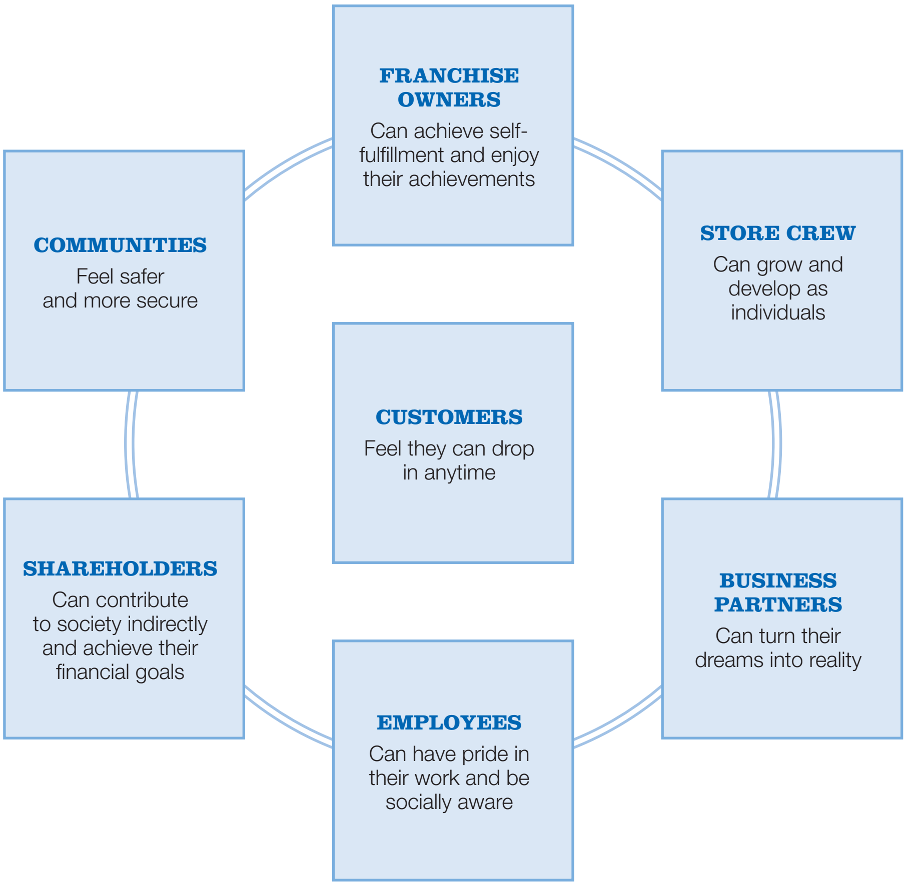
CODE OF CONDUCT

Acting with utmost consideration for others

Challenging with innovative ideas and actions

Having a strong will to attain the objectives

We promise to make LAWSON a place where:



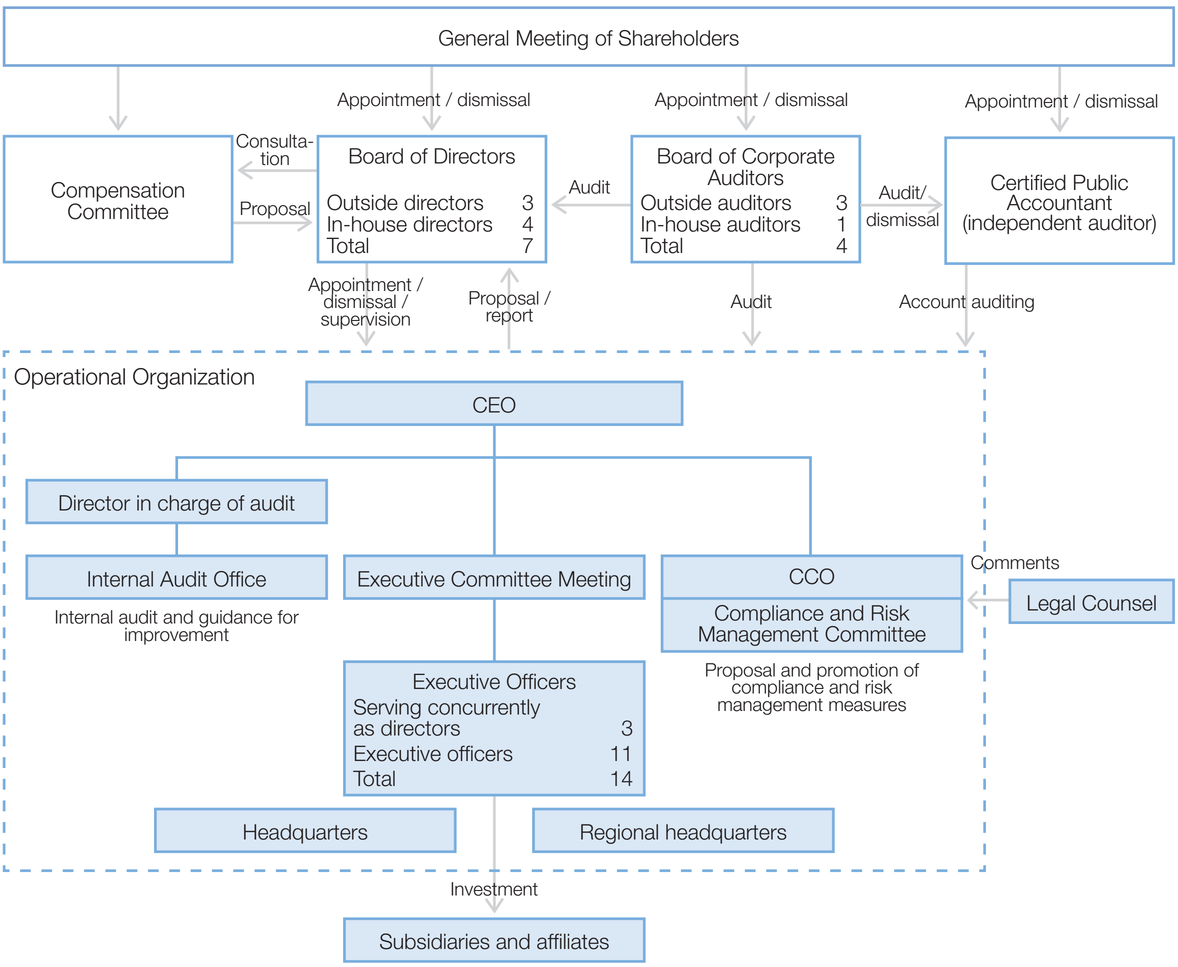
LAWSON believes that honoring these commitments to its stakeholders will translate into higher corporate value.

Basic Policy on Corporate Governance

In order to be recognized as a company that has meaning for each of our seven stakeholder groups—namely, customers, franchise owners, store crew (part-time and casual workers), business partners, employees, shareholders and society—we engage in business activities that maximize our corporate value. For this, besides promoting Directors' and employees' compliance with laws, regulations, the Articles of Incorporation and the like, we believe that it is essential to strengthen corporate governance by enhancing the soundness and transparency of our management processes. This is done through action with consideration for others, based on our Corporate Philosophy, LAWSON Corporate Conduct Charter, and the Lawson Code of Ethics, as well as via the active disclosure of information.

A diagram of our operational organization, management supervision systems and internal control system is presented below.

Corporate Governance System (As of May 23, 2008)



Corporate Governance System (As of May 23, 2008)

Item	Description
Corporate organization:	Company with a Board of Corporate Auditors
Chairman of the Board of Directors:	Outside Director
Number of Directors:	7 (including 3 Outside Directors)
Number of Board of Directors' meetings in FY07:	15 (including 3 extraordinary meetings)
Outside Directors' attendance rate at Board of Directors' meetings in FY07:	Approximately 82% (including extraordinary meetings)
Number of Corporate Auditors:	4 (including 3 Outside Corporate Auditors)
Outside Corporate Auditors' attendance rate at Board of Directors' meetings in FY07:	Approximately 96% (including extraordinary meetings)
Major committee meetings attended by Corporate Auditors:	Board of Directors' meetings, Executive Committee meetings, Compliance and Risk Management Committee meetings, Asset Management Committee meetings, other meetings
Number of Board of Corporate Auditors' meetings in FY07:	14 (including 2 extraordinary meetings)
Attendance rate at Board of Corporate Auditors' meetings in FY07:	100% (including extraordinary meetings)
Average age of Directors and Corporate Auditors:	55
Independent Auditor:	Deloitte Touche Tohmatsu
Internal Audit Division:	Internal Audit Office
Overview of the internal control system:	■ We are focusing on the following five areas, in accordance with the Fiscal 2008 Basic Policy on Development and Operation of Internal Control System, as revised in February 2008: **1]** Corporate governance and control supervised by the Board of Directors and Board of Corporate Auditors **2]** Internal audits by the Internal Audit Office **3]** Outside audits and legal advice by the independent auditor and law office, respectively **4]** Compliance and risk management via a dedicated compliance system **5]** The establishment of an internal system to eliminate anti-social forces
Compliance system:	■ Appointment of an executive responsible for compliance and risk management (Chief Compliance Officer (CCO)) ■ Appointment of compliance officers at all headquarters departments and seven regional headquarters ■ Monthly meeting of Compliance and Risk Management Committee, chaired by the CCO, to identify compliance issues and assess risk exposure and to deliberate on ways to prevent illegal or improper actions.
Support system provided for Outside Directors and Corporate Auditors:	■ As a rule, the secretariat of the Board of Directors distributes the agenda one week in advance of Board meetings, and is also responsible for other support measures. ■ The same secretariat reports, as necessary, important events or incidents.
Compensation for Directors:	■ The Compensation Committee, which is made up entirely of Outside Directors and Outside Corporate Auditors, determines compensation for Directors and presents its recommendations to the Board of Directors for final approval. ■ Approximately 30% of annual compensation is linked to business results. ■ Compensation paid to all Directors is reported in the annual securities report and Business Report. ■ Other compensation includes stock-compensation-type stock options that can be exercised (exercise price: ¥1) after a Director retires.
Special factors with an important bearing on corporate governance:	■ Mitsubishi Corporation holds 32.7% of the Company's voting rights, including indirectly held rights. LAWSON is treated as an equity-method affiliate by Mitsubishi Corporation. (As of February 29, 2008) ■ Our consolidated subsidiary LAWSON TICKET INC. is listed on the JASDAQ market. While respecting LAWSON TICKET's independence as a publicly listed company, LAWSON maintains a close working relationship with this subsidiary in order to increase the corporate value of the entire Group by capturing business synergies.
Disclosure policy:	■ Basic Principles for Information Disclosure are presented on our IR site: http://www.lawson.co.jp/company/e/corporate/disclose.html ■ The Company discloses material information, including presentation materials used in meetings to announce business results, in both Japanese and English, on the IR site, without delay.
Risk management system:	■ The Company identifies risks that could have a material impact on management with relation to business objectives and analyzes the possibility of particular risk factors occurring and the extent of the potential impact. ■ Regulations concerning risk management have been established, thus putting in place a system for ordinarily preventing risks from materializing and for quickly dealing with them if they do. ■ A dedicated committee, the Compliance and Risk Management Committee, meets once a month.

Note: Some of the information in the above table is based on LAWSON's corporate governance report.

Compliance and Risk Management System

■ LAWSON's compliance and risk management system is grounded on the Company's view that compliance not only entails the observance of laws, regulations and social standards but also the practice of acting with consideration for others based on the LAWSON Code of Ethics.

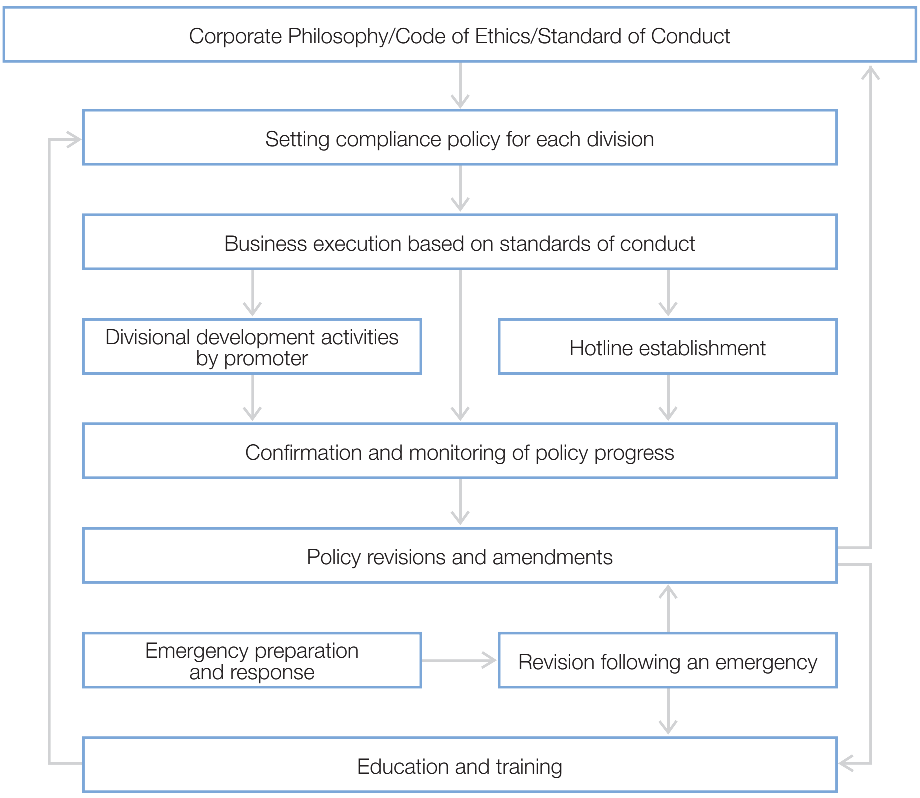
■ LAWSON aims to be a "good corporate citizen" by acting with high ethical values, sincerity and consideration for others, and organically linking education and training, communication functions and monitoring activities based on the standards of conduct for all employees.

■ The Corporate Philosophy, the Code of Conduct, the LAWSON vision, the LAWSON Code of Ethics and the LAWSON Corporate Conduct Charter are contained in the LAWSON Group C&R Handbook, which is distributed to all LAWSON Group employees.

■ LAWSON also encourages franchised stores to operate with a compliance mindset by providing information on relevant laws and ordinances and frequently asked questions in an in-house newsletter for franchised stores. In these and other ways, LAWSON is working on activities that raise the level of compliance awareness across the entire LAWSON chain.

LAWSON Group C&R Handbook: Contains standards of conduct so as to ensure that the Company's Corporate Philosophy and Code of Conduct are practiced in the ordinary course of business on a daily basis.

LAWSON Compliance and Risk Management System



Directors' Profiles and Messages From Outside Directors and Corporate Auditors

(As of May 23, 2008)

TAKESHI NIINAMI
President and CEO

Takeshi Niinami became President of LAWSON in May 2002. Before coming to LAWSON, Mr. Niinami was involved with restaurant businesses and has been a representative director of SODEX CORPORATION (currently LEOC Japan Co., Ltd.), a company specializing in the foodservice business, and an outside director of Kentucky Fried Chicken Japan Ltd.

TORU MORIYAMA
Member of the Board and Senior Executive Vice President

Toru Moriyama was appointed General Manager, Merchandizing & Logistics Division, Senior Executive Vice President and Member of the Board in May 2006. In this capacity, he is the executive in charge of merchandizing and logistics, and core operations of the Company. Prior to joining LAWSON, Mr. Moriyama had a long career centered on the marine products business.

YOSHIYUKI YAHAGI
Member of the Board and Executive Vice President, Chief Financial Officer (CFO)

After a career mainly in business administration, investments and loans management and risk management elsewhere, Mr. Yahagi was appointed a Member of the Board, Executive Vice President and Chief Financial Officer (CFO), as well as put in charge of the Corporate Planning Office and Human Resources Office at LAWSON in May 2007. As CFO, he is responsible for LAWSON's capital and financial policy. He is also in charge of management planning, business administration and human resources.

MANABU ASANO
Member of the Board and Executive Vice President, Chief Compliance Officer (CCO)

After joining LAWSON, Mr. Asano worked as General Manager, Store Development Department; General Manager, Chubu LAWSON Branch; and as assistant Chief Risk Management Officer (CRO). He was subsequently appointed a Member of the Board, Senior Vice President and Chief Compliance Officer (CCO) in May 2006, and is also in charge of General Affairs and Internal Audit. As the executive responsible for compliance and risk management and for audit operations, Mr. Asano supervises the Company's internal control systems.

MUNEHIKO NAKANO
Standing Corporate Auditor (Outside)

In my position as a standing outside corporate auditor for the past two years, I have carried out audits principally focused on the status of the Company's internal control systems. Through my activities, I feel that LAWSON is beginning to see the PDCA (Plan-Do-Check-Action) cycle steadily produce results. Looking ahead, I will work to conduct preventative audits close to the front lines of the Company's operations and in this way contribute to LAWSON's sound sustained growth.

KENJI YAMAKAWA
Standing Corporate Auditor

LAWSON has four corporate auditors, three of whom come from outside the Company. Corporate auditors conduct audits with a focus on LAWSON's "Basic Policy on Development and Operation of Internal Control System" so as to ensure the Company continues to develop in a sound manner while earning the public's trust.

TETSUO OZAWA
Corporate Auditor (Outside)

LAWSON's Board of Directors' meetings are always very animated; outside directors actively offer their opinions and I also make my views known from my perspectives both as a lawyer and as an ordinary consumer. I do this because the President and directors with operational responsibilities are prepared to listen seriously to these opinions and translate them into action. I am determined to continue helping LAWSON develop and increase its corporate value.

HIROSHI TASAKA
Member of the Board (Outside Director)

I'm currently lecturing in "social entrepreneurship theory" at a graduate school and I'm active as a representative of Japan Social Entrepreneur Forum. I have also been involved in educational activities concerning corporate social responsibility through a number of newspapers, magazines and books. Accordingly, I feel that it is my responsibility as an outside director of LAWSON to candidly advise management from this perspective. Fortunately, it is my considered opinion that LAWSON's current activities in respect of CSR, including environmental protection and product safety, are among the best in the Japanese corporate sector.

REIKO OKUTANI
Member of the Board (Outside Director)

I manage a human resources development company and from this standpoint my focus is on LAWSON's approach to customer satisfaction, and also how LAWSON trains and develops its people, which is fundamental to ensuring customer satisfaction. Furthermore, from a consumer's perspective, I'm interested in the roundness of the Company's merchandise assortment, its product displays, the manner in which employees serve customers, store operations and other matters. LAWSON ordinarily stresses the importance of relationships with customers and society, as evidenced by the specific actions it is taking to address environmental problems. I think one can determine a senior management team's level of awareness by how active their stance is with regards to CSR.

TAKEHIKO KAKIUCHI
Member of the Board (Outside Director)

Companies are being called upon these days to redouble efforts relating to food safety and quality. Drawing on my years of experience in the consumer goods business, I offer my opinion as an outside director so as to ensure that LAWSON is able to maintain the confidence and support of consumers.

I will also do as much as I can to support the Company's proactive efforts in relation to environmental protection and social contribution activities. This includes the Company's equally proactive efforts to support areas affected by disaster, afforestation activities, and energy and resource conservation measures.

HIROSHI KUWATA
Corporate Auditor (Outside)

Legal compliance is a vital part of earning the trust of various stakeholders. Besides that, proper corporate activities that respond to the public's demands and needs are also important. By ensuring legal compliance and proper corporate activities, LAWSON will always live up to its corporate philosophy—realizing "Happiness and Harmony in Our Community." I want to play my part as an outside corporate auditor in making this happen.

Corporate Social Responsibility (CSR)

LAWSON aims to operate stores that are friendly to people and the environment. To ensure we pass on a healthy natural environment to future generations, we constantly incorporate environmental considerations in our business activities. We seek to operate in harmony with the natural environment and participate actively in social contribution activities, thereby helping develop a sustainable society.

Major Initiatives in Fiscal 2007

Greenification Activities

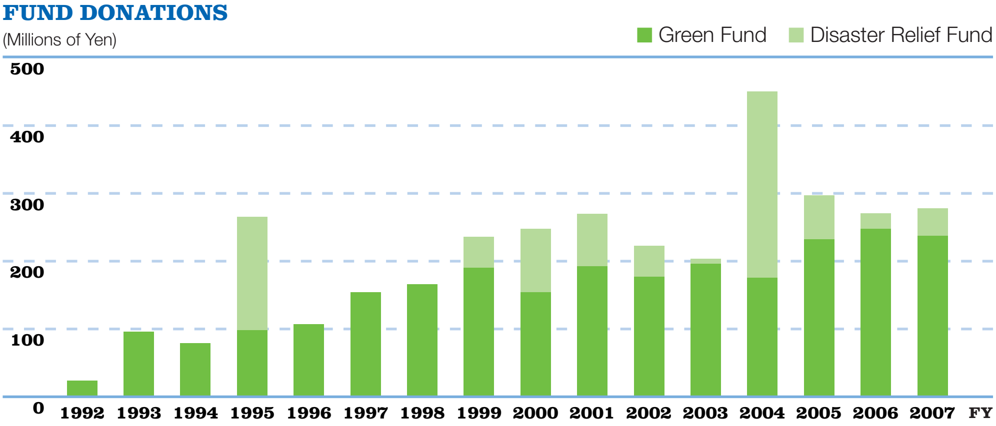
LAWSON has been conducting LAWSON Green Fund activities since 1992, with the goal of supporting greenification activities. Donations to the LAWSON Green Fund, the total of customer donations and contributions from LAWSON headquarters, totaled ¥2.52 billion as of the end of February 2008. Funds donated at our stores throughout Japan are provided to the National Land Afforestation Promotion Organization, which promotes tree planting, thinning, undergrowth clearance and other forestry activities. In fiscal 2007, franchise owners, store managers, crews and LAWSON headquarter staff participated in over 460 events. Our afforestation activities, including planting, arboriculture and donations, in 1,763 locations in Japan and overseas, covering 4,984 hectares, have involved more than 12.46 million trees.*

** The figures for the area covered and number of trees are estimates based on total LAWSON Green Fund activities.*

LAWSON Green Fund collection boxes can be found in all LAWSON stores.

A total of 83 people helped clean-up the Arakawa Riverside in Edogawa-ku, Tokyo, on November 11, 2007.

FUND DONATIONS



** LAWSON replaces its LAWSON Green Fund collection boxes with a special disaster fund appeal when a large-scale disaster occurs.*

"Bring Your Own" Initiative

LAWSON has set the target of reducing its plastic shopping bag use by 20% from fiscal 2005 levels by fiscal 2008. Toward achievement of this target, LAWSON asks customers when they pay for purchases whether they need a plastic shopping bag. In fiscal 2007, we handed out LAWSON-developed *Konbini* Eco-Bags to customers to bring with them when they shop at our stores. A total of 540,000 of these bags were given to customers. In a trial designed to further reduce the use of plastic shopping bags, in fiscal 2008 LAWSON will give LAWSON PASS and MY LAWSON POINT points to customers who decline plastic shopping bags in certain areas.

One LAWSON store on average currently hands out approximately 60,000 sets of chopsticks annually with purchases of boxed lunches, side dishes and other food items, which equates to around 500 million sets across the chain every year. With the goal of helping preserve forests, LAWSON is trying to reduce the use of disposable chopsticks. As a new initiative launched in fiscal 2007, in conjunction with MIZUNO TECHNICS CORPORATION and OAK VILLAGE Co., Ltd., we are working to promote the use of "Bring Your Own" reusable chopsticks.

The HAPPY LAWSON Yamashita Koen store sells original eco-bags.

LAWSON has turned wood of the domestic ash tree that fails to pass muster for use in baseball bats into reusable chopsticks.

The LAWSON NLS Kyoto University store only hands out plastic shopping bags to those who request them and also rents out shopping bags.

Cutting CO_2 Emissions

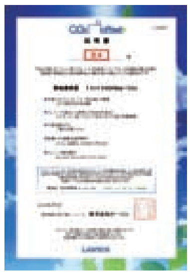
LAWSON has set a voluntary target of reducing CO_2 emissions per store by 10% from 2006 levels by 2012. The total targeted reduction from 2006 levels will equate to approximately 60,000 tons of CO_2 on an annual basis. Furthermore, LAWSON's target would equate to a 30% reduction from 1990 levels (calculated by total floor area times store operating hours), the base year for the Japanese convenience store industry's voluntary CO_2 reduction plan for meeting Japan's Kyoto Protocol targets. By way of reference, the Japanese convenience store industry has set a 23% reduction target from 1990 levels.

LAWSON has already taken steps to meet its voluntary target. These ongoing steps include installing various energy-saving equipment and improving fuel consumption for delivery trucks and Company-owned cars.

In another initiative themed on carbon offsetting, LAWSON customers can contribute to CO_2 reductions by exchanging points accumulated in the LAWSON PASS and MY LAWSON POINT programs for carbon offsets, or simply via purchases of eligible products through *Loppi* terminals and in other ways. LAWSON intends to continue involving customers in environmental protection activities, in addition to its existing LAWSON Green Fund activities.

The introduction of Eco-Pack automatic control systems is expected to cut CO_2 emissions by 11%. LAWSON had installed these "packs" in 1,605 stores by the end of fiscal 2007.

LAWSON is using joint distribution and delivery as well as introducing a new operational management system.



LAWSON is encouraging customers to participate in a carbon offset program by exchanging points accumulated as members of the LAWSON PASS and MY LAWSON POINT programs or by making purchases of eligible products via *Loppi* terminals.

Initiatives to Develop Quality Products That Are Safe, Healthy and Delicious

LAWSON believes that one of its key responsibilities to customers is to respond to the need for healthy and delicious products that are safe and of a high quality.

- Providing safe products: With private brand products, LAWSON does not use preservatives or artificial colorings and is working to reduce food additives. The Company has also established an in-house ingredient procurement section, which implements raw material procurement-related safety measures.

- Measures to ensure quality: With private brand products, we strictly manage the stages from procurement of raw materials through to production as well as provide guidance to contract manufacturers. Our rigorous approach to quality management extends to the handling and hygiene management of products overall at stores. We also voluntarily provide information such as calorie content and nutritional value, in addition to mandatory information on labels affixed to private brand products.

- Measures in regard to health: With customers increasingly demanding healthy products, LAWSON makes new food proposals at its convenience stores by paying careful attention to ingredients, considering the nutritional balance in its product menus, and including often-neglected vegetables. NATURAL LAWSON, in particular, is strengthening its merchandise assortment of health-conscious products and has won strong support from customers for its efforts. Some of the products that were only available at NATURAL LAWSON stores are now also sold at normal LAWSON stores.

** Private brand products: Products planned, developed and manufactured by LAWSON centered on ready-made meals such as boxed lunches, rice balls, bread and fast foods.*

Approach to private brand products

Healthy products

- Pay careful attention to ingredients
- Consider nutritional balance in menus
- Include often-neglected vegetable content

Safe and reliable products

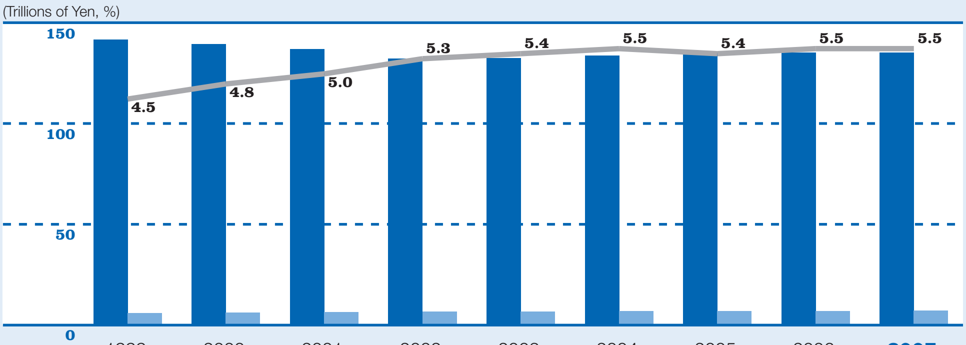
- Eliminate artificial colorings and preservatives
- Control freshness, temperature and hygiene levels



Financial Section

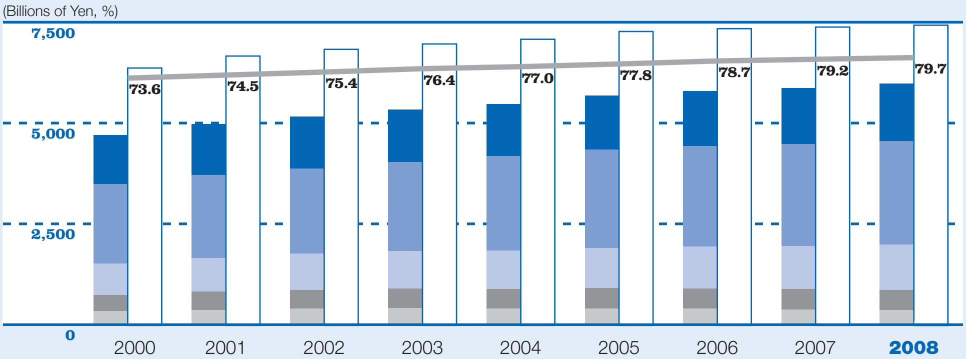
Overview of the CVS Sector and Selected Financial Data

CVS Share of the Total Retail Market



Years ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	**2007**
■ Total retail industry annual sales	¥142	¥139	¥137	¥132	¥132	¥134	¥135	¥135	**¥135**
■ CVS sector annual sales	6.4	6.7	6.8	7.0	7.1	7.3	7.4	7.4	**7.5**
— CVS share	4.5%	4.8%	5.0%	5.3%	5.4%	5.5%	5.4%	5.5%	**5.5%**

Share of CVS Market Held by Top Four* Chains (Net sales at all stores)

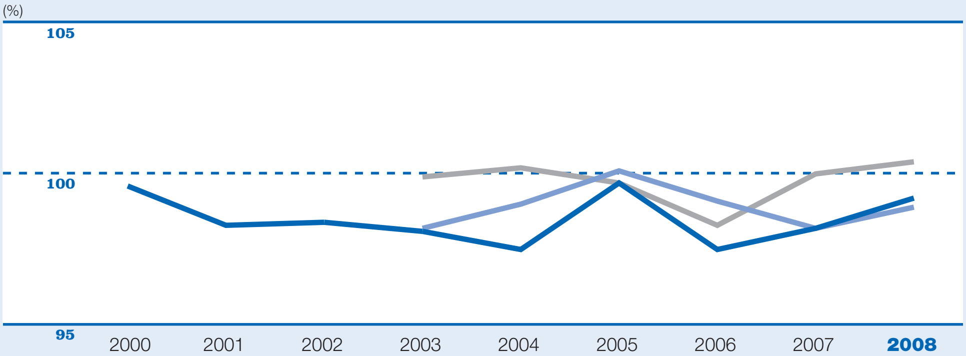


February 28 and 29	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
■ LAWSON	¥1,221	¥1,275	¥1,286	¥1,294	¥1,288	¥1,329	¥1,362	¥1,387	**¥1,415**
■ Seven-Eleven Japan	1,964	2,047	2,114	2,213	2,343	2,441	2,499	2,534	**2,574**
■ FamilyMart	783	843	899	932	954	998	1,032	1,069	**1,122**
■ Circle K	391	447	467	485	480	503	505	497	**495**
■ Sunkus	342	366	393	406	403	403	394	376	**365**
Total	4,701	4,978	5,159	5,330	5,468	5,674	5,792	5,863	**5,971**
— (Estimated market share of top 4 chains)	73.6%	74.5%	75.4%	76.4%	77.0%	77.8%	78.7%	79.2%	**79.7%**
□ CVS industry	¥6,383	¥6,680	¥6,846	¥6,980	¥7,096	¥7,289	¥7,360	¥7,399	**¥7,490**

Note: CVS industry figures are for previous calendar years ended December 31.

** Circle K and Sunkus are regarded as being in the same chain.*

YoY Rate on Existing Store Sales, Average Number of Customers and Average Purchase Value per Customer in Existing Stores (LAWSON)

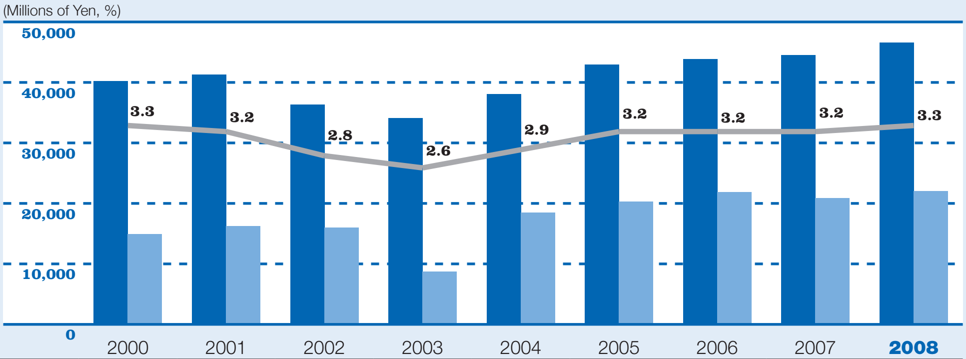


	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
— YoY rate on existing store sales	99.6	98.3	98.4	98.1	97.5[1]	99.7	97.5	98.2	**99.2**
Average number of customers and average purchase value per customer in existing stores[2]									
— Number of customers	–	–	–	98.2	99.0	100.1	99.1	98.2	**98.9**
— Average purchase value per customer	–	–	–	99.9	100.2	99.7	98.3	100.0	**100.4**

[1] *Excluding the effect of terminating Highway Card sales, sales were down 0.8%.*

[2] *Average number of customers and average purchase value per customer in existing stores are non-consolidated figures.*

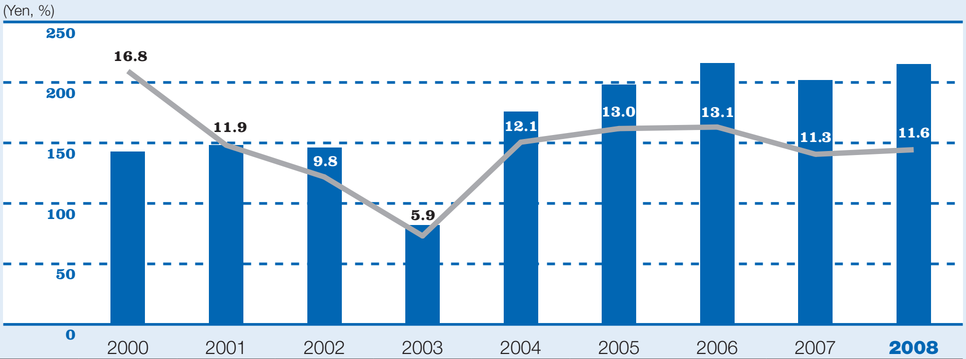
Operating Income, Operating Income Ratio and Net Income (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
■ Operating Income	¥40,185	¥41,279	¥36,363	¥34,107	¥38,087	¥42,941	¥43,867	¥44,513	**¥46,610**
— Operating Income Ratio*	3.3%	3.2%	2.8%	2.6%	2.9%	3.2%	3.2%	3.2%	**3.3%**
■ Net Income	¥15,011	¥16,368	¥16,123	¥8,861	¥18,571	¥20,435	¥22,025	¥20,983	**¥22,119**

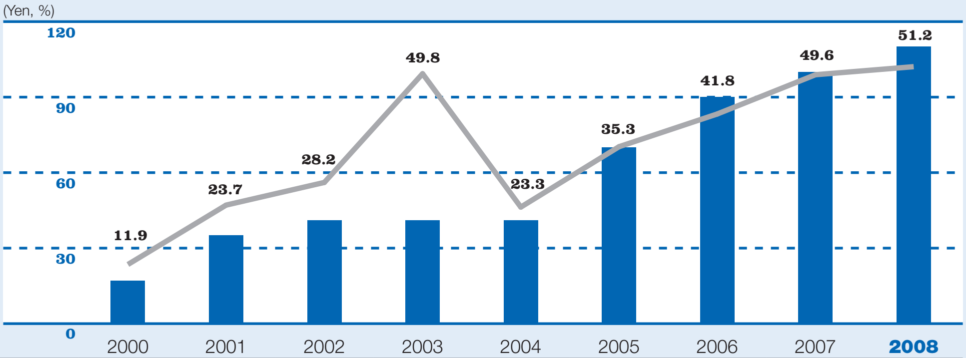
** Operating income ratio = Operating income / Net sales of all stores*

Net Income per Share and ROE (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
■ Net Income per Share	¥143	¥148	¥146	¥82	¥176	¥198	¥216	¥202	**¥215**
— ROE	16.8%	11.9%	9.8%	5.9%	12.1%	13.0%	13.1%	11.3%	**11.6%**

Cash Dividends per Share and Payout Ratio (LAWSON)



	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
■ Cash Dividends per Share	¥17	¥35	¥41	¥41	¥41	¥70	¥90	¥100	**¥110**
— Payout Ratio	11.9%	23.7%	28.2%	49.8%	23.3%	35.3%	41.8%	49.6%	**51.2%**

Consolidated Nine-Year Summary

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28 and 29

	2008	2007	2006
For the year:			
Operating revenues			
Franchise commission from franchised stores	¥ 177,443	¥ 174,325	¥ 170,785
Net sales from Company-operated stores	83,321	75,151	66,027
Other	40,413	33,577	31,246
Total operating revenues	301,177	283,053	268,058
Operating income	46,610	44,513	43,867
Net income	22,119	20,983	22,025
Cash flows from operating activities	55,774	47,596	46,933
Cash flows from investing activities	(36,525)	(31,754)	(55,282)
Cash flows from financing activities	(31,973)	(736)	(7,795)
Capital expenditure[2]	64,413	49,822	54,417
Depreciation and amortization[3]	21,469	21,352	20,896
At year-end:			
Total assets	¥ 397,108	¥ 398,258	¥ 375,107
Total equity	188,574	199,493	175,184
Equity ratio	46.6%	49.0%	46.7%
Interest-bearing debt	–	–	–
Ratio of interest-bearing debt	–	–	–
Cash and cash equivalents	62,823	75,547	60,441
Total number of stores[4]	8,587	8,564	8,366
Number of employees (full-time)	3,316	3,614	3,585

Per share data:			
Net income	¥ 215	¥ 202	¥ 216
Cash dividends	110	100	90
Payout ratio	51.2%	49.6%	41.8%
Financial data:			
ROE	11.6%	11.3%	13.1%
ROA	5.6%	5.4%	6.0%
Net sales of all stores:			
Net sales by store category			
Franchised stores[5]	¥1,331,785	¥1,311,479	¥1,295,704
Company-operated stores	83,321	75,151	66,027
Net sales by product category[5]			
Processed foods	¥ 726,750	¥ 705,155	¥ 682,006
Fast foods	327,501	324,993	312,289
Daily delivered foods	162,625	155,575	150,917
Non-food products	198,230	200,907	216,519
Net sales of all stores	¥1,415,106	¥1,386,630	¥1,361,731

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 29, 2008, of ¥104.78=$1.
2. Effective from annual report 2006, the composition of capital expenditure has changed to also include leases, investments and advances, and construction assistance guarantees. Please refer to page 44 for details.
3. Including depreciation and amortization of intangible fixed assets.
4. Shanghai stores are not included because SHANGHAI HUALIAN LAWSON CO., LTD. was excluded from the scope of consolidation from April 2005.
5. These figures, as reported by franchised stores, are unaudited.

					Millions of Yen	Thousands of U.S. Dollars[1]
2005	2004	2003	2002	2001	2000	**2008**
¥ 162,963	¥ 153,910	¥ 149,032	¥ 141,621	¥ 135,237	¥ 124,587	**$ 1,693,482**
63,802	67,479	80,954	101,353	132,921	149,458	**795,199**
27,630	24,212	20,348	13,142	12,061	17,808	**385,693**
254,395	245,601	250,334	256,116	280,218	291,853	**2,874,374**
42,941	38,087	34,107	36,363	41,279	40,185	**444,837**
20,435	18,571	8,861	16,123	16,368	15,011	**211,099**
47,329	37,424	33,860	44,804	52,793	67,790	**532,296**
(33,297)	(40,621)	(3,787)	(44,031)	(54,696)	121,758	**(348,588)**
(13,836)	(14,364)	(7,247)	(58,236)	18,707	(92,521)	**(305,144)**
46,873	48,303	75,828	59,810	32,651	30,703	**614,745**
19,641	18,499	16,071	16,328	16,021	15,017	**204,896**
¥ 356,310	¥ 354,831	¥ 342,599	¥ 342,934	¥ 387,236	¥ 339,413	**$ 3,789,922**
160,282	154,317	151,864	149,827	178,448	95,932	**1,799,714**
45.0%	43.5%	44.3%	43.7%	46.1%	28.3%	
–	–	–	3,140	23,530	71,817	**–**
–	–	–	0.9%	6.1%	21.1%	**–**
76,585	76,389	93,994	71,269	128,655	111,753	**599,571**
8,077	7,967	7,721	7,824	7,749	7,432	
3,391	3,402	3,462	3,817	4,170	4,234	
					Yen	U.S. Dollars[1]
¥ 198	¥ 176	¥ 82	¥ 146	¥ 148	¥ 143	**$ 2.05**
70	41	41	41	35	17	**1.05**
35.3%	23.3%	49.8%	28.2%	23.7%	11.9%	
13.0%	12.1%	5.9%	9.8%	11.9%	16.8%	
5.7%	5.3%	2.6%	4.4%	4.5%	4.0%	
¥1,265,275	¥1,220,819	¥1,213,088	¥1,184,204	¥1,144,717	¥1,073,422	**$12,710,298**
63,802	67,479	80,954	101,353	132,921	149,458	**795,199**
¥ 665,687	¥ 625,031	¥ 600,508	¥ 583,712	¥ 562,777	¥ 528,188	**$ 6,935,961**
297,369	302,568	303,098	297,030	362,979	350,702	**3,125,606**
148,134	139,506	138,353	150,862	90,569	89,248	**1,552,061**
217,887	221,192	252,083	253,953	261,313	254,742	**1,891,869**
¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	¥1,277,638	¥1,222,880	**$13,505,497**

Management's Discussion and Analysis

■ Industry Overview

The Japanese retail industry was characterized by increasing uncertainty during the past fiscal year (fiscal 2007). There were a number of alliances as well as mergers and acquisitions in the industry. At the same time, escalating raw material prices brought an end to deflation, increasing interest in food safety led to cost increases, and competition to open stores escalated.

The 2000 abolition of the Large-Scale Retail Store Law and enforcement of the Large-Scale Retail Store Location Law, both of which made it easier for companies to set up large-scale retail stores in suburban areas, triggered a rush to construct large-scale shopping centers in Japan. This trend led to growing concerns about hollowing out of central city areas, particularly in regional areas. These concerns prompted a governmental review of commerce and distribution policy, which culminated in the legislature passing and enacting revisions in May 2006 to the Three New Acts about Harmonization of City Planning and Commercial Policy (City Planning Law, Central City Revitalization Law and Large-store Establishment Law). This signaled a move to curb the excessive opening of major retail properties in suburban areas, which has proven to be effective in restraining the proliferation of these types of properties.

Meanwhile, in 2007, the Japanese department store industry entered a period of major restructuring. This has seen an alliance involving AEON Co., Ltd. and The Daiei, Inc. and The Maruetsu Inc., and another centered on Seven & i Holdings Co., Ltd. creating two major retailing "groups". These two retailing "groups" are pursuing a private brand (PB) strategy based on strengthening their buying power. On the other hand, the PB strategy faces issues associated with the diverse and regional preferences of Japanese consumers and the strongly rooted trust consumers have in national brands. In this context, LAWSON regards 2008 as an extremely important year for food retailers in terms of how well retail chains can pinpoint consumer needs and to what extent the private brands of retail chains take hold with Japanese consumers.

In the midst of this retail industry upheaval, in the CVS sector, major chains continue to open stores in large numbers. This is increasing the saturation of conventional CVS formats targeting young men in their 20s and 30s as core customers. The CVS business of the sector's largest chain recorded a decrease in consolidated operating income for the second consecutive year in fiscal 2007 for the first time since going public. As suggested by this result, the slump in existing store earnings in the CVS sector caused by competition with stores being opened is beginning to have a negative impact on the earnings of franchised store owners as well as corporate earnings. If the trend of mass openings of conventional CVS stores continues despite this decline in earnings, the resulting increase in low-profit stores will increase the risk of a further decline in earnings of franchised store owners as well as of the capital efficiency of companies, and ultimately of lower ROE. LAWSON believes that we are no longer living in the time when we can make up for declines in existing store earnings by opening new stores as a means to drive corporate growth.

Retail Industry Market Size and CVS Share

(Billions of Yen)

Years ended December 31	**2007**	2006	2005	2004	2003
Total retail industry annual sales	**¥135,081**	¥135,257	¥135,055	¥133,712	¥132,446
CVS sector annual sales	**7,490**	7,399	7,360	7,289	7,096
CVS share	**5.5%**	5.5%	5.4%	5.5%	5.4%

Source: "Survey of Commerce," Ministry of Economy, Trade and Industry
Note: CVS industry figures are for previous calendar years ended December 31.

Share of CVS Market Held by Top Four* Chains (Net Sales at all Stores)

(Billions of Yen)

February 28 and 29	**2008**	2007	2006	2005	2004
LAWSON	**¥1,415**	¥1,387	¥1,362	¥1,329	¥1,288
Seven-Eleven Japan	**2,574**	2,534	2,499	2,441	2,343
FamilyMart	**1,122**	1,069	1,032	998	954
Circle K	**495**	497	505	503	480
Sunkus	**365**	376	394	403	403
Total	**5,971**	5,863	5,792	5,674	5,468
(Estimated market share of top 4 chains)	**79.7%**	79.2%	78.7%	77.8%	77.0%

Note: Total figures are for the years ended February 28 and 29.
** Circle K and Sunkus are regarded as being in the same chain.*

Management Measures in Fiscal 2007

LAWSON executed the following management initiatives in the year ended February 29, 2008 with the goal of strengthening existing stores.

1. To create merchandise assortments matched to individual store locations, we strengthened the development of people who are well-versed in using "store charts" and pushed ahead with developing products designed to broaden the customer base.

   In addition to increasing the number of LAWSON supervisors (management guidance staff), we developed products targeted at non-traditional customers, namely women and middle-aged and elderly customers. This involved developing "health-oriented products," "products in appropriately sized small quantities," and "perishable foods and daily delivered foods."[1]

   LAWSON is developing a perishable food convenience store format with the view to further expanding its customer base. To strengthen this business, we advanced our alliance with Ninety-nine Plus Inc.

2. We implemented measures to promote sales and bolster our merchandise assortment. This included utilizing our proprietary shopping point cards LAWSON PASS and MY LAWSON POINT.

   Continuing on from fiscal 2006, we stepped up sales promotions geared at increasing our customer base and ultimately the number of customers. In this vein, we ran such events as LAWSON Fair and a campaign allowing customers to exchange shopping points for Miffy-themed picture plates.

   Point cards are highly popular with women and enable us to develop stronger merchandise assortments at individual stores via customer relationship management (CRM). To this end, we worked to sign up more members to the LAWSON PASS credit card, which is also used as a shopping point card, and to MY LAWSON POINT, a shopping point card which was rolled out in January 2007 on a nationwide basis for those customers who dislike owning credit cards. These efforts saw the combined cardholder base for the 2 cards reach 6.22 million members at the end of February 2008.

3. As an initiative to strengthen existing LAWSON stores, we continued to convert stores into LAWSON PLUS format stores, which carry a wider range of perishable foods. LAWSON PLUS stores were first opened in fiscal 2006.

4. In an organizational move in the past fiscal year, we established the new senior management post of COO. As the executive that oversees the three organizational lines of merchandise, management and development, the COO is responsible for creating and executing organic operational initiatives in support of franchised stores.

   In September 2007, we divided the president's responsibilities between two separate positions with the creation of the new COO post. The CEO is responsible mainly for alliances, IT and R&D as well as communication with the "LAWSON family"[2]. The COO, meanwhile, coordinates the efforts of the seven regional headquarters nationwide and three organizational lines: merchandise, management and development. In this capacity, the COO promotes operational initiatives. At the same time as establishing the post of COO, we promoted people we view as future leaders of LAWSON to regional headquarter head and executive officer positions. This move should ensure we have a strong pool of managers in the future.

[1] *Includes tofu, natto (fermented soy beans) and other side dishes and delicatessen items as well as cooked noodles and other food products with a relatively short sales period after manufacture. Basically, products that are ordered and delivered every day.*

[2] *The LAWSON family comprises franchised store owners, crews (part-time and casual workers), and employees of LAWSON's Head Office (headquarters and regional headquarters) as well as of subsidiaries and affiliated companies. These people are at the heart of the LAWSON Group.*

The following sections explain details of the aforementioned initiatives by organizational line (merchandise, management and development).

Product Strategy

LAWSON's merchandise strategy centers on original ready-made meals. Aiming to expand our customer base, we pushed ahead with developing products targeted at new customers, namely middle-aged and elderly customers as well as women. At the same time, we supplied products for our core customers, young men, who tend to want substantial meals.

Sushi is popular with middle-aged, senior and health-conscious customers. In this area, we launched a new brand called *Norimakijiroshoten*, aiming to establish sushi as a product category commonly purchased at convenience stores. To this end, we actively developed a range of sushi products, including hand-rolled sushi and *irodori maki sushi*.

We also continued to promote products specially targeted at the health-conscious. One is *Neba-neba Menu* featuring cold noodles, salads and other offerings based on 11 types of highly nutritional food ingredients such as okra, *tororo* potato, glutinous yam, *natto* and *mekabu* seaweed.

Various campaigns supported sales of these and other products. In June 2007, we ran LAWSON Fair, a major sales promotion campaign that had as its central planks limited-time products and on-the-spot prize draws for coupons when customers purchased products. In summer (June and July 2007) and winter (December 2007 and January 2008), we ran a shopping point collection campaign allowing customers to exchange their points for Miffy-themed picture plates. This campaign tied in with the Happy Child-Raising Project* and was designed to attract more customers to our stores during the key summer and winter sales periods.

Part of our product strategy also involves the provision of services. Our stores handled over 149 million bill settlement transactions, including public utility charges; the chain handled transactions amounting to ¥1,412.3 billion on behalf of third-party companies in this way. Furthermore, ATM machines were installed at stores in another 6 prefectures during the past fiscal year, bringing the number of prefectures (including Tokyo and Osaka) with LAWSON stores that have ATMs to 36.

Raising convenience for customers is at the heart of our corporate activities. During the year under review, we installed multifunctional terminals at cash registers in almost all of our stores that are capable of handling the major forms of e-money used in Japan. One terminal can handle "iD™," "QUICPay™" and "Edy."

** The Happy Child-Raising Project was launched in July 2006 and was inspired by the winning entry in an essay competition staged to mark LAWSON's 30th anniversary. Through this project, LAWSON has taken up the challenge presented in the essay of helping families to raise children.*

Store Operations

The Three Challenge Practices[1]—the enhancement of quality (Q), service (S), and cleanliness (C)—are the keystone for LAWSON store operations. We continued to promote these practices in fiscal 2007 with the aim of raising customer satisfaction. Furthermore, we made greater use of "store charts" (analysis of individual store information) that have been introduced nationwide. These charts underpinned ongoing efforts to assemble merchandise assortments and create store displays matched to regional preferences of customers of individual stores. Another current LAWSON store operational initiative is to foster management by individual stores[2]. Here we enhanced training and guidance for franchised store owners and crews (part-time and casual workers) and increased the number of LAWSON supervisors, at the same time as offering them more training.

[1] The Three Challenge Practices are points that franchised store owners, employees and store crews (part-time and casual workers) must pay particular attention to in running LAWSON stores. They are (1) ensuring merchandise assortments are matched to individual locations, (2) serving customers courteously, and (3) keeping stores and surrounding areas clean.

[2] To ensure that individual stores have a deep understanding of the customers in their areas, franchised store owners and LAWSON supervisors survey and analyze the local area and use the results as the basis for preparing store charts. These charts are in turn used to create portfolios of products that will satisfy each and every customer in the area. This approach should reduce lost sales opportunities from products being out of stock when needed by customers, and losses in terms of product waste which are borne by franchised store owners when they have to dispose of products that have passed their use-by date. Ultimately, the reduction of these two types of losses should improve the earnings of both franchised store owners and LAWSON.

Store Development and Store Formats

Development of LAWSON Stores

During the past fiscal year, LAWSON worked to develop stores that it expects to generate high earnings by rigorously adhering to its proprietary store opening standards, centered on return on investment (ROI), when opening stores mainly in and around large cities in the Kanto, Kinki and Chubu regions. Furthermore, we worked to secure quality franchised store owners and focused on gathering information on prime locations for new stores by fostering closer cooperation between store operation and development divisions and by working with leading companies in candidate areas.

LAWSON PLUS Stores

In fiscal 2006, aiming to develop existing LAWSON stores into a format that will better meet the needs of certain areas, we created a new format called LAWSON PLUS that is focused on sales spaces and product mixes, particularly for the newer customer types of the middle-aged, seniors and women. To ensure that the targeted customers recognized these new stores as different to conventional LAWSON stores, we changed the outside and inside appearance, including the color of the sign boards, as well as the store fixtures and fittings. Together with a stronger merchandise assortment for middle-aged, senior and women customers, these efforts were aimed at expanding the customer base. In fiscal 2007, we shifted into full gear in developing these stores across the country based on the results of trials conducted through the end of the previous fiscal year. As of February 29, 2008, there were 652 LAWSON PLUS stores.

NATURAL LAWSON

NATURAL LAWSON is a CVS format targeting mainly working women and very health-conscious customers, based on the key words of "beauty," "health" and "convenience." The first store opened in July 2001. In April 2004, one business division in Head Office was spun off as NATURAL LAWSON, Inc., a wholly owned subsidiary of LAWSON. As a subsidiary, NATURAL LAWSON succeeded in developing a product development concept and corporate culture that are separate from the Head Office. NATURAL LAWSON has been able to develop products that broke the conventional CVS mold. With NATURAL LAWSON having achieved its initial goal of establishing a new brand strongly supported by female customers, LAWSON in October 2007 decided to integrate this company back into the LAWSON Head Office. As the next stage of developing this format for women and health-conscious consumers, LAWSON intends to accelerate the franchising of stores, by improving the efficiency of operations and effectively utilizing human resources. As of February 29, 2008, there were 91 NATURAL LAWSON stores, including 14 franchised stores.

Initiatives in Fresh Food Convenience Stores (LAWSON STORE100 and SHOP99)

Subsidiary VALUE LAWSON, Inc. has been developing LAWSON STORE100 perishable food convenience stores in a bid to establish this sort of CVS format targeted at housewives, the middle-aged and elderly, customer segments whose needs weren't fully met by our core LAWSON format stores. We have found that this perishable food format has garnered the support of precisely these customers, with customer numbers around 30% higher on average than our LAWSON stores. It also became clear to us, however, that it would take some time to catch up to the industry leader in this type of CVS format, Ninety-nine Plus Inc. Considerable trial and error would be required before we established the necessary know-how about the perishable food format, and we would also incur costs for assembling a private brand merchandise assortment and quickly opening stores to secure markups.

LAWSON sees sufficient market and growth potential for the perishable foods format. Considering the time and cost required to develop this format by the LAWSON Group on its own, we decided to invest in and form a business alliance with industry leader Ninety-nine Plus. Our goal is to be the dominant number-one player in this industry sector ahead of other companies.

Please refer to profiles of VALUE LAWSON, Inc. and Ninety-nine Plus Inc. under "Scope of Consolidation" on page 37 of this report for details of specific activities.

Opening Stores in Special Locations

Part of LAWSON's strategy is to open stores in diverse locations. In October 2007, we opened a second LAWSON+toks store, a new type of convenience store for train stations. This format was developed in conjunction with Tokyu Corporation under a business alliance inked in the fiscal year ended February 28, 2006. These two stores are operated by wholly owned Tokyu subsidiary Tokyu Station Retail Service Co., Ltd. as a LAWSON franchisee.

Along the same lines, LAWSON has opened stores in special captive commercial spaces, namely hospitals. During the past fiscal year, LAWSON opened another 14 Hospital LAWSON stores, bringing the number of these stores to 33 at the end of the fiscal year. We intend to expand this business model as a format that we expect to grow in an aging society in Japan.

Alliance With Japan Post

We also made steady progress during the past year preparing to capitalize on business opportunities likely to occur from post office privatization with respect to Postal LAWSON stores, based on our alliance with Japan Post Holdings Co., Ltd. As of February 29, 2008, there were five of these stores inside post offices in Japan. In a new initiative, in October 2006 we began trialing joint delivery in Kochi Prefecture, thereby raising the possibility of opening stores in areas we had withdrawn from due to poor distribution efficiency. In related news, in February 2008, we inked an agreement for a comprehensive business alliance with Japan Post. The idea of this alliance is to develop initiatives that effectively leverage the business resources of both companies with the goals of raising convenience for customers across the country and contributing to local communities.

Corporate Franchising Agreement With Shinsengumi Honbu

In January 2008, LAWSON agreed to conclude a corporate franchising agreement by the end of February 2008 with Shinsengumi Honbu K.K. and signed a Memorandum of Understanding regarding a business alliance. Under this agreement, 45 convenience stores operated by Shinsengumi as either "Shinsengumi" or "Just Spot" stores will progressively take the LAWSON name by the end of February 2009. The stores will still be operated by Shinsengumi Honbu, with LAWSON providing operational guidance. One store had been rebranded under the LAWSON name as of February 29, 2008.

Future Store-Opening Strategy

LAWSON will continue to focus on picking the right format for the needs of the area from its three main formats: "LAWSON," "NATURAL LAWSON" and "LAWSON STORE100." In candidate locations where use of the conventional LAWSON format is highly likely to expose us to stiff competition from other major convenience store chains, we will open "NATURAL LAWSON" and "LAWSON STORE100" stores to differentiate ourselves from other chains.

Number of Stores in the LAWSON Network

Years ended February 28 and 29	2008	2007	2006	2005	2004
Number of stores	**8,587**	8,564	8,366	8,077	7,821
Openings	**452**	700	717	711	625
Closings	**429**	502	428	455	429
Net increase (decrease)	**23**	198	289	256	196

Number of Stores by FC Contract Type

February 28 and 29	2008	2007	2006	2005	2004
B	**1,369**	1,512	1,674	1,836	1,992
Share (%)	**15.9**	17.7	20.0	22.7	25.4
G	**2,123**	2,209	2,272	2,335	2,415
Share (%)	**24.7**	25.8	27.2	28.9	30.9
C[1]	**4,656**	4,372	4,012	3,560	3,065
Share (%)	**54.2**	51.1	48.0	44.1	39.2
Franchised stores	**8,148**	8,093	7,958	7,731	7,472
Share (%)	**94.9**	94.5	95.1	95.7	95.5
Company-operated stores[2]	**439**	471	408	346	349
Share (%)	**5.1**	5.5	4.9	4.3	4.5
Total	**8,587**	8,564	8,366	8,077	7,821
Share (%)	**100.0**	100.0	100.0	100.0	100.0

[1] *Includes NATURAL LAWSON franchised stores.*
[2] *Includes NATURAL LAWSON and LAWSON STORE100*

We believe that one of LAWSON's defining strengths lies in a flexible and dynamic store development system that makes possible alliances with diverse partners such as Japan Post and Shinsengumi. Moving forward, based on mold-breaking concepts, we will rise to the challenge of opening stores in various locations as we pursue the potential of new business opportunities.

As a result of the aforementioned measures, domestic store openings in fiscal 2007 numbered 452, while store closures were 429, including relocated stores. At February 29, 2008, LAWSON's domestic network comprised 8,587 stores, including 91 NATURAL LAWSON and 72 LAWSON STORE100 stores, a net increase of 23 stores from a year earlier.

The network of SHANGHAI HUALIAN LAWSON CO., LTD., an affiliate in the People's Republic of China accounted for by the equity method, declined by 4 stores year on year to 287 stores as of December 31, 2007.

Outline of Store Contracts

<table>
<tr><td colspan="2">Contract type</td><td>FC-C5</td><td>FC-G</td><td>FC-B4</td></tr>
<tr><td colspan="2">Contract term</td><td colspan="3">10 years from store opening day</td></tr>
<tr><td colspan="2">Owner conditions</td><td colspan="3">At least 20 years old, 2 full-time store workers</td></tr>
<tr><td colspan="2">Land and buildings</td><td colspan="2">Prepared by LAWSON</td><td>Prepared by franchisee</td></tr>
<tr><td colspan="2">Investment in store construction and interior decoration expenses</td><td colspan="2">Borne by LAWSON</td><td>Borne by franchisee</td></tr>
<tr><td colspan="2">Signage and business fixtures</td><td colspan="3">Prepared by LAWSON</td></tr>
<tr><td rowspan="2">Payment by franchisee at time of contract[1]</td><td>Franchise fee</td><td colspan="3">¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000)</td></tr>
<tr><td>Investment</td><td colspan="3">¥1.5 million (Including payment for some merchandise purchased on behalf of the store)</td></tr>
<tr><td colspan="2">Guarantee deposit provided by franchisee</td><td>Not required</td><td>Average monthly sales x 2 months</td><td>Not required</td></tr>
<tr><td colspan="2">Head Office income[2]</td><td>Gross profit x 50%</td><td>Gross profit x 45%</td><td>Gross profit x 34%</td></tr>
<tr><td colspan="2">Burden of utility expenses</td><td colspan="3">Franchisee</td></tr>
<tr><td colspan="2">Minimum guarantee (annual)[2] (thousands of yen)</td><td>21,000</td><td>22,200</td><td>22,200</td></tr>
</table>

[1] *The above amount is paid by franchisee to Head Office at the time of the franchising contract. In addition, the franchisee needs to separately prepare a total of ¥500,000, including cash register float at time of store opening.*
[2] *Head Office income and minimum guarantee are in the case of stores operating on a 24-hour basis.*

■ Scope of Consolidation

The consolidated results for fiscal 2007 include the performance of nine members of the LAWSON Group—five consolidated subsidiaries and four affiliates accounted for under the equity method—and the parent company. These subsidiaries and affiliates are broadly involved in five categories of business: CVS operations, financial services, other services, overseas services and restaurant services. The business operations and fiscal results of companies included within the scope of consolidation are presented below.

CVS Operations

The LAWSON Group is developing four CVS formats: LAWSON, INC. is developing the “LAWSON” and “NATURAL LAWSON” formats, VALUE LAWSON, Inc. is developing the “LAWSON STORE100” format, and some existing LAWSON stores are being converted into LAWSON PLUS stores.

NATURAL LAWSON, Inc. was developing the “NATURAL LAWSON” format, but as these operations were absorbed by the Head Office in the past fiscal year, this company was liquidated in February 2008.

VALUE LAWSON, Inc. (Consolidated Subsidiary)

This consolidated subsidiary operates “LAWSON STORE100” perishable food convenience stores, which wed the CVS and mini-supermarket formats. “LAWSON STORE100” stores target women, the middle-aged and seniors with the concept of “supporting time saving, simplicity, and convenience in everyday life.” These stores provide a wide range of products spanning processed foods and daily necessities at a uniform price of ¥100 (excluding consumption tax). The main products comprise high-quality, home-grown fruit and vegetables, and boxed lunches and side dishes based on the LAWSON Group’s know-how. VALUE LAWSON, Inc. was founded in April 2005 as a wholly owned subsidiary to establish the “LAWSON STORE100” business format, as well as to perform product planning and development for these stores. The company opened its first store in May 2005. As of February 29, 2008, there were 72 stores in this format.

(Millions of Yen)

	2008	2007	2006
Operating income (loss)	**¥(535)**	¥ (980)	¥(623)
Net income (loss)	**(688)**	(1,311)	(709)
No. of stores	**72**	80	35

Ninety-nine Plus Inc. (Equity-method Affiliate)

LAWSON concluded an equity-based alliance in February 2007 with Ninety-nine Plus Inc., which operates the “SHOP99” chain of convenience stores known for their fresh foods. Ninety-nine Plus was established in October 2000 and since then has grown rapidly as a pioneer in Japan of a new perishable foods store format that provides everything from daily food items, including perishable foods, to sundry goods at a single price—it created the concept of an everyday low price of ¥99 (excluding tax). As of March 31, 2008, the company had a network of 837 stores. SHOP99 stores have won strong acceptance from housewives and older shoppers for a fresh food CVS format strategy of strengthening the merchandise assortment of perishable and daily delivered foods at stores in residential areas. This is highlighted by a higher percentage of these sorts of customers in its customer mix than at conventional convenience stores.

Through this alliance with Ninety-nine Plus, LAWSON believes it can improve the quality of perishable and daily delivered foods sold in suitably sized small portions, by complementing each other’s know-how and strengths, including in the area of perishable foods. By doing so, LAWSON believes that it can broaden its customer base of housewives and seniors and attract more customers. Based on the agreement between the two companies, Ninety-nine Plus allotted 31,500 shares of common stock to LAWSON in March 2007 through an increase in capital by way of a private placement of shares.

In January 2008, Ninety-nine Plus made another third-party allotment of shares to strengthen its business alliance with LAWSON and to raise funds to open more stores. LAWSON subscribed to this increase in capital with the view to maximizing the benefits of its alliance with Ninety-nine Plus and as a result became the company’s leading shareholder with an equity interest of 34.2%. LAWSON has set the goal of being the dominant number-one in the fresh food convenience store sector and believes that this latest move will generate even more alliance benefits such as in the form of sharing expertise in the sale of perishable foods and daily delivered foods and the joint development of uniform private brand products in appropriately small quantities and conveniently sized packages for housewives, the middle-aged and elderly.

Ninety-nine Plus has a March fiscal year-end and LAWSON began applying the equity method of accounting to this company from the fiscal year ended February 29, 2008. Accordingly, LAWSON’s equity-method earnings in this company include earnings for the nine months through the end of the company’s third quarter.

(Millions of Yen)

	2008	2007
Operating income	**¥401**	¥955
Net income (loss)	**47**	(886)
No. of stores	**837**	780

Note: The above figures are Ninety-nine Plus’ results for the fiscal year ended March 31.

Financial Services

Two Group companies have in the past conducted financial-services-related businesses: consolidated subsidiary LAWSON ATM Networks, Inc. and equity-method affiliate LAWSON CS Card, INC. However, we decided to sell all our shares in the latter in April 2008.

LAWSON ATM Networks, Inc. (Consolidated Subsidiary)

This consolidated subsidiary was established in May 2001 with investments by LAWSON, Mitsubishi Corporation and several banks to run ATM operations for LAWSON stores. The company began installing ATMs and started ATM services at some LAWSON stores from October 2001.

The company's ATM business installs jointly operated ATMs on a leased basis in LAWSON stores in regions where agreement has been reached with partner banks. It has formed alliances with the major city bank groups and regional banks; partner banks currently number 24.

The company's main source of revenue is ATM commissions from banks. Its main expenses are operating center outsourcing fees, ATM line charges and ATM leasing charges.

As of February 29, 2008, the number of ATMs installed stood at 5,643 and the number of prefectures where ATMs are installed was 36. LAWSON held a 58.0% stake in this company as of February 29, 2008 having purchased shares held by Mitsubishi Corporation in the fiscal year under review.

(Millions of Yen)

	2008	2007	2006	2005	2004
Operating revenues	**¥14,900**	¥11,907	¥11,311	¥10,003	¥8,352
Operating income (loss)	**1,201**	866	654	144	(348)
Net income (loss)	**718**	509	675	266	(350)

Number of ATMs Installed

	2008	2007	2006	2005	2004
Number of ATMs Installed	**5,643**	4,245	3,812	3,570	3,127

LAWSON CS Card, INC. (Equity-method Affiliate)

This equity-method affiliate was established in February 2002 by Credit Saison Co., Ltd. (30% shareholding), Mitsubishi Corporation (20% shareholding), and LAWSON (50% shareholding). It issues the LAWSON PASS credit card, which is also used as a shopping point card by LAWSON customers, and provides services through *Loppi* multimedia terminals and other channels. As of February 29, 2008, LAWSON PASS, for which services began in August 2002, had a cardholder base exceeding 2.8 million members. Credit Saison undertakes card issuance and credit screening for LAWSON PASS on behalf of LAWSON CS Card.

The company's main revenues come from commissions from the use of shopping and cash advance services, while the main expenses are those related to the operation of the card.

In fiscal 2007, revenue growth was lackluster from cash advances, one of the company's key revenue streams, due to the impact of changes in the finance industry, including revisions to the Money-Lending Business Control and Regulation Law. Given the changes in the credit card industry business environment, the LAWSON Group decided to focus on CRM activities and in April 2008 sold its shareholding in LAWSON CS Card to Credit Saison. LAWSON and LAWSON CS Card will continue to offer services to cardholders and conduct other CRM activities as before, having reaffirmed their LAWSON PASS business alliance agreement.

(Millions of Yen)

	2008	2007	2006	2005	2004
Operating revenues	**¥8,646**	¥8,250	¥7,157	¥4,261	¥2,551
Operating income (loss)	**(30)**	189	270	(1,230)	(2,255)
Net income (loss)	**(194)**	200	568	(1,218)	(2,256)

Other Services

LAWSON TICKET INC. (Consolidated Subsidiary)

This consolidated subsidiary sells tickets to concerts, sporting events, the theater, movies and other attractions, primarily through *Loppi* multimedia terminals at LAWSON stores. It was established as a ticket sales company in 1992 and became a subsidiary of LAWSON in 1997. In October 2004, LAWSON TICKET listed on the JASDAQ market (stock code: 2416).

LAWSON TICKET ranks second in sales in the ticket sales industry behind PIA Corp. and is particularly strong in sales of tickets for J-POP (Japanese popular music generally popular among the relatively younger generation), sporting events and the theater. In January 2008, the company completely revamped its Internet and mobile phone websites with the introduction of a new system that dramatically increases the ability to process Internet reservations. This upgrade is designed to enhance user convenience and targets increased transaction volume.

In fiscal 2007, LAWSON TICKET's operating income declined ¥201 million year on year due to the impact of sales promotion expenses for expanding transaction volume and winning new customers.

LAWSON used the opportunity presented by the termination of a business alliance between LAWSON TICKET and Rakuten to conduct a tender offer for the shares of LAWSON TICKET between May and June 2007 to acquire Rakuten's shares in the company. The aim of this tender offer was to strengthen the LAWSON Group's entertainment business by reinforcing its partnership with one of the leaders in the ticket sales industry. As a result of this tender offer, LAWSON raised its shareholding in LAWSON TICKET from 50.8% to 75.1%.

(Millions of Yen)

	2008	2007	2006	2005	2004
Operating revenues	**¥6,960**	¥6,533	¥6,259	¥6,288	¥6,218
Operating income	**636**	836	821	719	644
Net income	**423**	507	487	412	387

i-Convenience, Inc. (Consolidated Subsidiary)

This subsidiary was established in October 2000 with the aim of expanding business in the e-commerce sector, based on joint investment by LAWSON (51% shareholding), Mitsubishi Corporation (18%), Matsushita Electric Industrial Co., Ltd. (18%), and NTT DoCoMo, Inc. (13%). It operates the official "LAWSON Mobile" Internet site for mobile phones, and in addition to providing online merchandise sales and related services and information, it manages the LAWSON website. During the fiscal year ended February 28, 2007, Mitsubishi Corporation purchased the shareholdings of Matsushita Electric Industrial and NTT DoCoMo, bringing its stake in i-Convenience to 49%.

(Millions of Yen)

	2008	2007	2006	2005	2004
Operating revenues	**¥711**	¥686	¥427	¥308	¥333
Operating income (loss)	**64**	46	(64)	(114)	(241)
Net income (loss)	**66**	43	(137)	(155)	(663)

BestPractice Inc. (Consolidated Subsidiary)

This company was established in March 2004 as a wholly owned subsidiary. BestPractice implements "Mystery Shopper" on-site inspections of convenience stores to determine the status of operations and offers advice and proposals to improve LAWSON stores at the operational level. Through this program, an undercover researcher who is an employee of BestPractice and has a thorough knowledge of convenience store operations and merchandise assortments, objectively and quantitatively evaluates LAWSON stores from a customer's perspective. The results are fed back to LAWSON's Head Office and franchise owners.

(Millions of Yen)

	2008	2007	2006	2005
Operating revenues	**¥919**	¥885	¥892	¥628
Operating income (loss)	**8**	82	62	(2)
Net income (loss)	**1**	45	34	(2)

Overseas Business

SHANGHAI HUALIAN LAWSON CO., LTD. (Equity-method Affiliate)

This company has been developing a chain of LAWSON stores in Shanghai, the People's Republic of China, since July 1996. In May 2004, LAWSON relinquished 21.0% of its 70.0% equity interest in the company to partner Hualian Group Corporation, leaving LAWSON with a current stake of 49.0%, to foster expansion through operation by local partners. At the end of December 2007, there were 287 stores in operation, of which 223 were franchised stores.

(Millions of Yen)

	2007	2006	2005	2004	2003
Operating income (loss)	**¥77**	¥ 20	¥(7)	¥(13)	¥(81)
Net income (loss)	**8**	8	3	0	(71)
No. of stores	**287**	291	283	210	146

**SHANGHAI HUALIAN LAWSON CO., LTD. closes its accounts in December. It also changed from a consolidated subsidiary to an equity-method affiliate in fiscal 2004.*

Restaurant Business

naturalBeat Co., Ltd. (Equity-method Affiliate)

This company was established in March 2004 by the Lotte Group and other companies. It is developing a chain of stores that provide natural food as part of daily life based on a concept of quickly serving customers. These include sandwiches, delicatessen items and other foods that are individually and carefully handmade from ingredients with an emphasis on natural taste and without using artificial additives as much as possible. In February 2007, LAWSON formed an equity-based business alliance with naturalBeat. LAWSON paid approximately ¥0.34 billion to acquire a 33.4% equity interest in naturalBeat. naturalBeat had a chain of 12 stores as of March 31, 2008.

■ Overview of Results

1. Sales Figures

Consolidated Total Net Sales

Aggregate net sales of LAWSON stores in fiscal 2007, ended February 29, 2008, rose 2.1% to ¥1,415,106 million. In the first half of fiscal 2007, sales were depressed by unseasonable weather, with fine days a rarity as a whole and a protracted end to the rainy season. From July, sales moved onto a recovery footing thanks to the success of a Miffy-themed shopping point campaign. This, however, fell short of compensating for lackluster growth in customer numbers up to July. In the second half, LAWSON ran the Miffy-themed campaign again in November and an on-the-spot prize campaign* in February 2008, which helped put sales on a firm recovery track. For the full year, sales were ¥38.9 billion less than initially planned, as we were unable to overcome the negative effects caused by a structural aspect of the CVS industry, namely competition to open stores of essentially the same type.

** A campaign where lucky customers won vouchers that they could exchange for products free of charge. We ran the campaign twice during fiscal 2007, in June 2007 and February 2008.*

Existing Store Sales

Existing store sales in fiscal 2007 were 0.8% lower year on year, falling for the 10th consecutive year since fiscal 1998. While there was a recovery in consumer sentiment in the major cities of Tokyo, Osaka and Nagoya, the absence of a firm economic recovery in other regions of Japan had a slight negative impact on a company like LAWSON with a nationwide chain. In addition to macroeconomic effects, existing store sales struggled for the following reasons. One was the ongoing effect of competition with peer companies due to the opening of large numbers of conventional convenience stores. Another factor was that we are still in the process of creating new store formats and sales areas matched to local customers based on store charts due to it taking time to respond to demographic changes in terms of products and store formats.

(%)

	2008	2007	2006	2005	2004
Existing store sales (year on year)	**99.2**	98.2	97.5	99.7	97.5*
No. of customers and amount spent per customer (year on year)					
No. of customers	**98.9**	98.2	99.1	100.1	99.0
Amount spent per customer	**100.4**	100.0	98.3	99.7	100.2

Excluding the effect of terminating Highway Card sales, Existing store sales were 99.2% YoY.

Sales by Product Category (consolidated, total net sales)

During the fiscal year under review, strong growth in sales of processed foods and daily delivered foods compensated for lower sales of non-food products.

In the processed foods category, net sales increased 3.1% year on year to ¥726,750 million. Cigarette sales rose 4.7% year on year on an all-store basis due in part to the effect on the first half of a tax hike from July 2006. Other main contributors to the higher sales in the processed foods category were new products belonging to national brands, and rice snacks and baked goods, as LAWSON offered a fuller lineup of products matched to regional preferences for middle-aged and senior customers.

In the fast foods category, sales edged up 0.8% to ¥327,501 million. Sales of rice dishes fell year on year, with strong sushi sales not enough to offset slightly weak performances from boxed lunches and rice balls. On the other hand, overall category sales were boosted by robust sales of delicatessen items due to the launch of health-conscious products such as salads.

In the daily delivered foods category, sales increased 4.5% to ¥162,625 million, lifted by buoyant sales of desserts and bakery items thanks to new product launches and a strong response to shopping point campaigns aimed at expanding the customer base.

The non-food products category, however, saw sales fall 1.3% year on year to ¥198,230 million despite firm sales of energy drinks, health care products, books and certain other products. The overall decline was primarily attributable to sluggish magazine sales and lower sales of sanitary goods following strong sales in fiscal 2006 of products for countering hay fever.

Net Sales by Product Segment* (consolidated, total net sales)

(Millions of Yen)

Years ended February 28 and 29	**2008**	2007	2006	2005	2004
Fast foods	**¥ 327,501**	¥ 324,993	¥ 312,289	¥ 297,369	¥ 302,568
Daily delivered foods	**162,625**	155,575	150,917	148,134	139,506
Processed foods	**726,750**	705,155	682,006	665,687	625,031
Cigarettes	**249,745**	238,406	221,957	208,258	187,084
Total food sales	**1,216,876**	1,185,724	1,145,212	1,111,190	1,067,105
Non-food products	**198,230**	200,907	216,519	217,887	221,192
Net sales of all stores	**¥1,415,106**	¥1,386,630	¥1,361,731	¥1,329,077	¥1,288,297

** Figures in the above table are for the fiscal year ended February in each year.*

Breakdown of Net Sales by Product Segment (consolidated, total net sales)

(%)

Years ended February 28 and 29	**2008**	2007	2006	2005	2004
Fast foods	**23.1%**	23.4%	22.9%	22.4%	23.5%
Daily delivered foods	**11.5**	11.2	11.1	11.1	10.8
Processed foods	**51.4**	50.9	50.1	50.1	48.5
Cigarettes	**17.6**	17.2	16.3	15.7	14.5
Total food sales	**86.0**	85.5	84.1	83.6	82.8
Non-food products	**14.0**	14.5	15.9	16.4	17.2

** Figures in the above table are for the fiscal year ended February in each year.*

Breakdown of Product Segment

Category	Products Included
Fast foods	Rice dishes, noodles, bread, delicatessen items, fast foods, etc.
Daily delivered foods	Daily foods, desserts, etc.
Processed foods	Soft drinks, alcoholic beverages, processed foods, confectionery, cigarettes, etc.
Non-food products	Daily necessities, books, magazines, online merchandise sales and services

Gross Profit Margin by Product Segment (parent company, total net sales)

The overall gross profit margin decreased by about 0.1 of a percentage point as a whole, but was roughly in line with our initial target. The main reason was the higher sales of low-margin cigarettes due to a tax hike.

In the fast foods category, lackluster sales of *oden* brought down high-margin counter products. In the processed foods category, improved markups for drinks largely offset the negative effect of a higher share of cigarette sales in the product mix, limiting the extent of the decline in gross profit margin. In the non-food products category, there was an improvement in the markup from the previous fiscal year. This was due to a lower share of sales of low markup products such as books and magazines in the sales mix, and increasing markups of daily necessities.

Gross Profit Margin by Product Segment[1] (parent company) (%)

Years ended February 28 and 29	2008	2007	2006	2005	2004
Fast foods	**36.3%**	36.5%	36.8%	36.4%	35.6%
Daily delivered foods	**33.6**	33.8	33.6	33.3	32.5
Processed foods[2]	**26.3**	26.4	26.7	26.7	26.9
Non-food products[3]	**38.5**	38.0	35.8	34.0	33.4
Gross profit margin	**31.2**	31.3	31.2	30.8	30.7

[1] Figures in the above table are for the fiscal year ended February in each year.
[2] The processed foods category includes cigarettes.
[3] Calculation of the gross profit margin for non-food products includes bill settlement and other commission income.

Bill Settlement Services[1] (parent company)

Years ended February 28 and 29	2008	2007	2006	2005	2004
Bill settlements (millions of yen)	**¥1,412,335**	¥1,294,004[2]	¥1,165,255	¥1,035,936	¥919,205
No. of transactions (millions)	**149.9**	140.9	130.6	118.9	108.4
Commission income (millions of yen)	**8,275**	8,141	7,507	6,768	6,368

[1] Figures in the above table are for the fiscal year ended February in each year.
[2] Bill settlements for the fiscal year ended February 28, 2007 have been corrected from the 2007 annual report where they were incorrectly reported as ¥1,204,004 million.

2. Consolidated Income Statement Items

Total Operating Revenues

Total operating revenues comprise net sales from Company-operated stores, franchise commission from franchised stores, and other operating revenues.

Total operating revenues increased ¥18,124 million, or 6.4%, to ¥301,177 million. The result mainly reflected higher franchise commission from an increase in franchised stores and higher ATM fee income at consolidated subsidiary LAWSON ATM Networks. Additionally, the rate of total operating revenue growth was higher than total net sales growth. This was because franchise commission from franchised stores has risen at a faster pace than growth in the number of stores, as the percentage of Company-operated stores has declined and the share of C-type stores (contract whereby LAWSON prepares the store), which pay a high rate of franchise commissions, was approximately 80%.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose ¥10,220 million, or 5.6%, to ¥193,390 million. This increase was mainly due to a ¥3,243 million, or 5.9%, rise in store rents associated with an increase in the opening of mainly C-type franchised stores; and a ¥2,039 million, or 5.4%, increase in personnel expenses stemming from an increase in employees to provide improved store operational guidance. Advertising and promotional expenses declined ¥307 million, or 3.2%, despite the Company running high-profile sales campaigns such as the one featuring Miffy. The decrease was due to the Company managing to curb point expenses thanks to cooperation from manufacturers with sales promotions.

Breakdown of Main SG&A Expenses (Millions of Yen)

	2008	2007	2006	2005	2004
Personnel expenses[1]	**¥ 39,927**	¥ 37,888	¥ 35,450	¥ 34,114	¥ 33,803
Advertising and promotional expenses	**9,385**	9,693	9,177	9,704	11,188
Store rents	**58,562**	55,318	51,236	46,785	42,679
Equipment leasing charges	**18,414**	17,475	16,734	16,263	15,726
Depreciation expenses	**16,630**	16,185	15,859	15,059	18,499
Amortization expenses	**4,815**	5,163	5,034	4,574	4,287
Other	**45,653**	41,446	42,402	38,136	31,274
Total	**¥193,389**	¥183,169	¥175,894	¥164,635	¥157,456

[1] Effective from the fiscal year ended February 28, 2007, expenses for temporary employees have been included in "Personnel expenses," whereas they were previously recorded under "Other." Expenses for temporary employees included in "Personnel expenses" in fiscal 2006 were ¥1,375 million, while expenses for temporary employees included in "Other" in fiscal 2005 were ¥750 million.

Composition of SG&A Expenses

(%)

	2008	2007	2006	2005	2004
Personnel expenses	**20.6%**	20.7%	20.2%	20.7%	21.5%
Advertising and promotional expenses	**4.9**	5.3	5.2	5.9	7.1
Store rents	**30.3**	30.2	29.1	28.4	27.1
Equipment leasing charges	**9.5**	9.5	9.5	9.9	10.0
Depreciation expenses	**8.6**	8.8	9.0	9.1	11.7
Amortization expenses	**2.5**	2.8	2.9	2.8	2.7
Other	**23.6**	22.6	24.1	23.2	19.9
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

Operating Income

Operating income rose ¥2,097 million, or 4.7%, to ¥46,610 million. Existing stores sales declined 0.8% and growth was 1.3 points below target. As a result, franchise commission from franchised stores, which accounts for the majority of total operating revenues, was below target, meaning that total revenues fell ¥7,824 million short of target. SG&A expenses were held slightly below target due to curbs on IT-related costs and sales promotion costs, which offset the shortfall in sales against plan. As a result, operating income was ¥710 million above plan.

Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests increased ¥1,286 million, or 3.5%, to ¥38,135 million due to the higher operating income. This increase came despite a ¥302 million decrease in equity in earnings (losses) of associated companies, the result of a year-on-year decline in earnings at equity-method affiliate LAWSON CS Card, INC. owing to lower operating revenues stemming from new regulations on interest rates and higher bad debt expenses associated with moves to eliminate “grey-zone” interest rates in Japan. There was also a ¥638 million increase in impairment loss due to stricter evaluation of Company-operated stores.

Net Income

Net income was ¥22,119 million, an increase of ¥1,136 million, or 5.4%. Net income per share increased 6.5% to ¥214.69.

■ Financial Position

1. Consolidated Balance Sheet Items

Current Assets

Total current assets decreased ¥10,772 million, or 7.2%, to ¥138,251 million. This mainly reflected a ¥24,820 million decrease in cash and cash equivalents, and marketable securities combined. The main reason for the decrease was an approximate ¥21.0 billion share buyback. There was an ¥11,150 million increase in the short-term loan to associated company, mainly relating to the Company taking over a bank guarantee for a loan to LAWSON CS Card.

Property and Store Equipment, Investments and Other Assets

Net property and store equipment rose ¥2,176 million, or 2.1%, year on year to ¥106,432 million, the result of a rise of ¥11,451 million in buildings, owing to an increase in the opening of C-type stores prepared by LAWSON among newly opened franchise stores.

Investments and other assets increased ¥7,444 million, or 5.1%, to ¥152,425 million. This reflected a ¥5,047 million increase in investment securities and investments in associated companies due to the purchase of equity-method affiliate Ninety-nine Plus shares and other factors, as well as a ¥2,156 million increase in software purchases due to increased upfront software development for the next-generation IT system.

Current Liabilities

Total current liabilities increased ¥12,465 million, or 8.7%, to ¥155,979 million. This increase was mainly on account of a ¥7,539 million increase in money held as agent such as in bill settlement services, and a ¥6,673 million increase in income taxes payable in line with higher taxable income.

Long-term Liabilities

Total long-term liabilities decreased ¥2,696 million, or 4.9%, to ¥52,555 million, the result mainly of a ¥3,497 million decrease in guarantee deposits received from franchised stores due to a decrease in the number of G-type franchised stores, which operate under franchise agreements requiring the payment of a guarantee deposit.

Total Equity

Total equity, including minority interests, amounted to ¥188,574 million at the end of February 2008. Retained earnings declined ¥7,953 million to ¥87,391 million despite net income of ¥22,119 million. This decrease reflected cash dividends paid of ¥10,964 million and the cancellation of 5 million shares of treasury stock. As a result, the equity ratio dropped 2.4 points to 46.6%.

2. Special Account Items on the Balance Sheet

The following items are special features of LAWSON's financial statements.

Due From Franchised Stores

LAWSON makes bulk purchases of products ordered by all franchised stores and calculates and pays amounts payable for such to the vendors on the stores' behalf. LAWSON records the cost of the merchandise in the "Accounts receivable—Due from franchised stores" account since such costs are recovered from franchised stores. "Due from franchised stores" represents mainly the obligations of franchised stores to Head Office for these amounts at the balance sheet date. As of February 29, 2008, this asset account was ¥11,950 million, ¥239 million higher than a year ago. There was thus no substantial change in this account.

Accounts Receivable—Other

Other accounts receivable such as income due from vendors is included in "Other" in "Accounts receivable" on the balance sheet. The constituent elements of this item stood at ¥26,984 million at February 29, 2008, an increase of ¥982 million.

Long-Term Loans Receivable

This account mainly represents money paid to landlords (owners of land and buildings for stores) to help with construction, and investments and finance from Head Office to franchised stores. As of February 29, 2008, this account was ¥1,267 million higher than a year ago at ¥25,647 million, due to an increase in money paid to landlords to help with construction for store openings.

Lease Deposits

This account represents leasehold deposits paid to landlords equivalent to several months' rent under lease agreements at LAWSON. As of February 29, 2008, this account was ¥82,755 million, a decrease of ¥5,149 million.

Due to Franchised Stores

This account represents Head Office obligations to franchised stores. All franchised stores make remittances of cash proceeds from daily sales to the Head Office. If franchised store remittances of cash proceeds from daily sales to the Company exceed the balance of "Accounts receivable—Due from franchised stores," the excess will be shown on the balance sheet as "Accounts payable—Due to franchised stores." As of February 29, 2008, this account was ¥2,202 million, down ¥556 million from a year ago.

Money Held as Agent

This account mainly comprises money held on behalf of third-party companies for which LAWSON provides bill settlement services, including public utility charges. There was an increase in money held as agent due to a rise in the number of transactions and the number of companies for which settlement services were provided. As a reflection of this, the balance of payments to third-party companies increased, leading to a rise of ¥7,539 million to ¥56,294 million in this account at February 29, 2008.

Guarantee Deposits Received From Franchised Stores

This represents guarantee deposits received by LAWSON from store owners operating under FC-G contracts. As of February 29, 2008, this account was ¥44,954 million, ¥3,497 million less than a year ago due to a decline in the number of FC-G contract stores.

■ Capital Expenditure, Etc.

In fiscal 2007, capital expenditure totaled ¥64,413 million, up ¥14,591 million year on year. New store investments declined ¥11,057 million to ¥12,387 million due to constraints on store openings compared to the previous fiscal year and an increase in the recovery of deposits accompanying the closure of stores that were leased. Existing store investments increased ¥1,606 million to ¥7,493 million due mainly to progress converting existing stores into LAWSON PLUS stores. Systems-related investments increased by ¥3,071 million to ¥7,733 million, principally due to upfront investments in a next-generation IT system. Leases increased ¥639 million to ¥14,850 million as LAWSON made greater use of lease contracts for sign boards and other improvements. A breakdown of capital expenditure is as follows.

■ Cash Flows

Operating activities provided net cash of ¥55,774 million, ¥8,178 million more than in the previous fiscal year. While other accounts payable to suppliers decreased, there was a decrease in income taxes paid and an increase in money held as agent for bill settlement services.

Investing activities used net cash of ¥36,525 million, ¥4,771 million more than in the previous fiscal year. While there was a decrease in purchases of marketable securities, the increased

Capital Expenditure (Millions of Yen)

	2008	2007	2006	2005	2004
New store investments	**¥12,387**	¥23,444	¥26,047	¥21,695	¥19,614
Existing store investments	**7,493**	5,887	6,592	8,175	10,432
Systems-related investments	**7,733**	4,662	9,084	2,765	2,191
Other	**2,260**	(1,395)	1,615	4,186	377
Investments and advances	**19,690**	3,013	1,250	(1,000)	6,250
Leases*	**14,850**	14,211	9,829	11,052	9,439
Total	**¥64,413**	¥49,822	¥54,417	¥46,873	¥48,303

** The amount equivalent to the acquisition cost of leased property acquired during each fiscal year.*

use of cash reflects the purchase of shares in Ninety-nine Plus and an increase in short-term loans to LAWSON CS Card.

As a result of changes in cash flows from operating and investing activities, free cash flow—the difference between the two figures—increased ¥3,406 million to ¥19,249 million.

Financing activities used net cash of ¥31,973 million, ¥31,237 million more than one year earlier. In addition to a ¥1,142 million increase in cash used for the payment of cash dividends, the Company used ¥21,001 million for the purchase of its own shares.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥62,823 million, ¥12,724 million less than a year earlier.

■ Capital Policy: Dividends and Purchase of Treasury Stock

LAWSON regards returning profits to shareholders as one of its most important management policies and properly acknowledges that the level of capital cost reflects the profit expectations of investors toward the Company. To select and develop businesses that achieve earnings above the cost of capital, LAWSON uses ROE, an indicator of capital efficiency, as its most important management indicator. Accordingly, we pursue optimal capital efficiency by looking at the appropriate balance between the distribution of profits through dividends and the purchase and cancellation of treasury stock, and securing the necessary level of internal reserves for investment aimed at achieving sustained corporate growth over the medium and long terms so as to maintain high profitability and secure our financial soundness. Our medium-term goal is ROE of 15%.

During the four-year period from fiscal 2001 to fiscal 2004, LAWSON cancelled approximately ¥43.0 billion of treasury stock. In fiscal 2007, the Company bought back more of its own shares, repurchasing approximately 5.3 million shares for approximately ¥21.0 billion from October 2007 to January 2008. It cancelled a total of 5 million shares of treasury stock in February 2008.

As regards cash dividends, in fiscal 2004, we increased the annual cash dividend per share by ¥29 to ¥70, and in fiscal 2005 we raised it by ¥20 to ¥90. In fiscal 2006, the dividend was increased by a further ¥10 to ¥100 per share, followed by another ¥10 increase to ¥110 for fiscal 2007, as we actively returned profits to shareholders. To further increase shareholder returns, we plan to increase the dividend by ¥50 to ¥160 per share for the fiscal year ended February 2009.

In principle, we are aiming for a dividend payout ratio of around 40%, a level which takes into account the global standard. However, we are projecting lower earnings in fiscal 2008 due to upfront investments for driving future growth and to support franchised store owners in a difficult and uncertain operating environment characterized by economic concerns and an excess number of stores. Because we don't expect to generate earnings above the ¥46.6 billion in consolidated operating income recorded in fiscal 2007 until the year ending February 2011, we plan to maintain the annual dividend per share at a minimum level of ¥160 over the next 3 years, which would exceed our dividend payout ratio basic rule. (Please refer to the feature section on page 17).

■ Business Cooperation and Alliances

The main business cooperation and alliances are as follows. Please refer to "Scope of Consolidation" on page 37 of this report for information concerning the equity-based alliance with Ninety-nine Plus Inc.

Mitsubishi Corporation

LAWSON formed a comprehensive tie-up, including a capital alliance, with Mitsubishi Corporation in February 2000. Mitsubishi Corporation is LAWSON's leading shareholder with an equity interest of 32.4% as of February 29, 2008. The two firms have built a cooperative relationship in the areas of personnel resources, store development, new businesses, product development and other areas.

Japan Post Holdings Co., Ltd.

LAWSON formed a business alliance in December 2002 with the Postal Services Agency (as it was at that time). After this announcement, the two worked on various initiatives, including installing mailboxes in LAWSON stores (January 2003), opening convenience stores inside post offices (the first store was opened inside the Yoyogi Post Office on August 1, 2003) and handling You-Pack parcels (November 2004). In February 2008, LAWSON signed an agreement for a comprehensive business alliance with Japan Post Holdings Co., Ltd. Moving forward, the two companies will develop initiatives that effectively utilize their respective business resources to jointly open stores and expand joint distribution and deliveries, for example. The goals are to improve the level of convenience for customers and contribute to regional communities across Japan.

NTT DoCoMo, Inc.

In March 2006, LAWSON signed a business alliance agreement, including capital alliance, with NTT DoCoMo, Inc. LAWSON sold 2,092,000 shares of treasury stock, representing 2.0% of total issued shares (at the time), to NTT DoCoMo for about ¥9.0 billion. By March 2007, this alliance had led to the introduction of iD™ electronic money services provided by NTT DoCoMo in all LAWSON stores. Furthermore, in March 2007, the LAWSON PASS iD™ service was launched. This service allows holders of the LAWSON PASS Visa credit card issued by LAWSON CS Card to use the iD™ service.

** iD™ is a mobile phone-based credit card payment service enabling shopping, etc., via NTT DoCoMo's Osaifu-Keitai® wallet services. iD™ is a trademark and registered trademark of NTT DoCoMo.*

■ Outlook

LAWSON believes that the Japanese economy will require more time until it sees a recovery in personal consumption, given consumer concerns about the future, arising from soaring raw material prices and pension problems. Moreover, competition transcending the boundaries of the retail industry is becoming increasingly fierce, and customer needs are becoming increasingly diverse.

With regard to the CVS sector, if LAWSON focuses only on opening a large number of conventional format stores, which predominantly provide merchandise assortments and services for the core target of young male customers, pursuing only the need to save time and convenience, it will be forced into a war of attrition with other homogenized CVS stores in a mature market. As a consequence it would risk a drop in existing store sales, undermining the motivation of existing franchised store owners. The CVS business is underpinned by the motivation of franchised store owners. But if the future expectations of franchised store owners don't improve, it will be increasingly difficult for a company operating in the industry to achieve stable, sustained growth.

To achieve stable, sustained growth over the medium to long term in such a changing operating environment, we believe LAWSON needs to become a more advanced company by pursuing innovation in all kinds of areas, without being bound by conventional ideas about the CVS sector. Based on this rationale, we initiated the medium-term management plan LAWSON Challenge 2007 in fiscal 2005. We implemented management initiatives based on this plan, which ended in fiscal 2007.

In qualitative terms, we have derived considerable benefits from developing new format stores such as NATURAL LAWSON and LAWSON STORE100, which have attracted customers beyond the reach of the conventional format, and LAWSON PLUS, which leverages the know-how garnered from the two new formats. In quantitative terms, however, as a result of excessive competition created by major rival chains opening conventional stores, we failed to achieve our medium-term management target for growth in existing store sales. Moreover, start-up and sales promotion costs for launching the new formats to break the conventional convenience store mold were higher than expected. For these and other reasons, we were unable to achieve the LAWSON Challenge 2007 final-year management targets in fiscal 2007 of an average growth in EPS of 10% over the 3 years of the plan, and ROE of 15%.

Based on the lessons learned from LAWSON Challenge 2007, we aim to increase the motivation of franchised store owners, who are key to powering the Company's growth, to confront a deteriorating external operating environment. To this end, the LAWSON Group has shifted the focal point of its management policy for fiscal 2008 from vitalizing existing stores to being the chain of choice for franchised store owners as it executes its strategy focused on existing stores. We will implement the following management initiatives based on this policy.

Increasing customer numbers via initiatives matched to stores

Our fundamental approach is based on creating merchandise assortments and store displays that match the needs of local customers. We plan to develop more attractive merchandise assortments better suited to the needs of each region by making greater use of "store charts."

In terms of products, we will work to improve our selection, particularly of mainstay rice dishes and the fast food range. Our efforts will also focus on developing merchandise that matches local preferences.

Sales promotions, meanwhile, will endeavor to effectively utilize LAWSON PASS and MY LAWSON POINT to vitalize existing stores. We will also run advertising campaigns to improve the LAWSON Group's brand image.

In areas where we expect to expand our customer base of women, the middle-aged and elderly, we will continue efforts from fiscal 2007 to actively convert existing stores into the LAWSON PLUS format.

We are determined to convert the expected increase in customer numbers through these initiatives into higher earnings. In turn, this should help increase franchised store owner satisfaction.

Improve asset efficiency by opening high-quality new stores and curbing store closures

The Group aims to improve asset efficiency as a whole by developing high-quality stores in accordance with proprietary store opening guidelines and reducing extraordinary losses from store closures by reducing store closures.

In particular, through the aforementioned measures to strengthen existing stores, we will enhance the motivation of franchised store owners, convert stores to the LAWSON PLUS format and actively propose initiatives designed to restore the sales capabilities of franchised owners. In this way, we aim to reduce store closures.

Strengthen the management base through personnel development, next-generation IT systems and internal controls

In accordance with our management policy and action guidelines, we are determined to nurture people who can think for themselves and not rely on direction from the top. In addition, through the regional headquarters management system, consisting of seven headquarters nationwide, we intend to promote detailed management suited to regional characteristics. Such management is necessary to foster management by individual store.

From fiscal 2008 to fiscal 2009, we plan to introduce a next-generation IT system. We will begin laying the foundations in the current fiscal year for the introduction of this system. The backbone for this new system will be an optical fiber network. The new system will involve both an upgrade and extension of our total company information system encompassing store-related systems such as *Loppi* multimedia terminals, POS systems, store computers and store operational equipment as well as systems for merchandise development, store development, financial accounting and integration master code systems, which manage products, business partners and other operational aspects. The new system is expected to lead to an improvement in productivity at stores and alleviate the shortage of store crew. It should also yield other benefits in terms of reducing lost sales opportunities at stores and losses from product disposals as well as improve ordering precision and enhance product development.

From the fiscal year beginning March 1, 2009, companies in Japan will be obliged to prepare internal control reports and submit audit reports on these in accordance with the Financial Instruments and Exchange Law regarding internal controls governing financial reporting. Accordingly, the Company will continue ongoing efforts to build and enhance its internal control systems. The Company will follow its "2008 Basic Policy for Maintaining Internal Control Systems" to implement the necessary frameworks for ensuring legal compliance, information storage and control and risk management.

We believe that steady implementation of these and other management initiatives will enhance customer satisfaction, and ultimately lead to improved corporate earnings from an increase in customers as well as higher profits for franchised owners and greater corporate value.

For fiscal 2008, we are forecasting consolidated operating income of ¥42.5 billion, down 8.8% year on year, and net income of ¥20.8 billion, down 6.0% year on year.

Business Risk Factors

The eight main risks that may impact on LAWSON's performance and financial position are described below. Sufficiently aware that these risks may occur, LAWSON conducts risk management and has also put in place an internal control system so as to respond in the best manner possible should a risk materialize. Nevertheless, these risks are only within the range of what can be forecast based on information currently available to the Company, and we do not believe that they cover all potential risks relating to LAWSON's business operations.

Risks relating to changes in the business environment

Because LAWSON's main business is the operation of convenience stores, changes in consumer expenditure produced by changes in the economic environment, business cycle trends, or the social structure in Japan and overseas countries where the Company operates, as well as changes in competition with other companies in the CVS sector or different retail sectors, may impact LAWSON's earnings and financial condition.

Risks relating to food safety and hygiene management

In the CVS business, LAWSON's main business, the Company sells food products to customers. From the manufacturing process to sales in stores, in cooperation with suppliers, LAWSON strictly observes quality standards by performing thorough management and also performs rigorous hygiene management within stores. However, loss of customer trust in the event of a serious incident such as food poisoning or contamination by foreign matter could have an impact on the Company's performance and financial position. Should such an incident occur, the Company intends to make the utmost effort to minimize the effect on customers by making a public announcement as quickly as possible through the mass media and other channels.

Risks relating to handling of personal information

In the process of business operations, LAWSON handles personal information of customers, shareholders, suppliers, franchise owners and other parties. The Company recognizes that the leakage of personal information or improper access to personal information are serious risks. Consequently, we have devised the best possible information security measures and formulated a policy to protect personal information. We have also ensured that personnel within the Company are thoroughly aware of these matters. However, should personal information be leaked or divulged outside the Company under whatever circumstances, LAWSON's performance or financial position may be affected.

Legal and regulatory risks

LAWSON operates numerous stores in various regions throughout Japan and in Shanghai, China, and the majority of stores operate 24 hours a day. Because of this, in operating its business, the Company must comply with various laws and regulations regarding store development, store operations, hygiene management, product transactions, environmental protection, and other matters in Japan and Shanghai, China, and must obtain various permits and licenses. Therefore, should events arise such as an unforeseen change in laws or regulations or a change in the enforcement methods of administrative authorities, new compliance costs could arise, which could have an impact on LAWSON's performance or financial position.

Risks relating to franchise operations

In the CVS business, LAWSON's main business, the Company has adopted the franchise system. Based on franchise agreements concluded with franchised stores, LAWSON operates a chain of stores via store brand names that are owned by LAWSON. Therefore, if the brand image of the overall chain is affected by illegal or improper actions at a franchised store, there may be an impact on LAWSON's performance or financial position.

Furthermore, the franchise system is designed to encourage improved business performance for both franchised stores and the Company, based on a relationship of mutual trust. If this relationship of trust between LAWSON and franchised stores is damaged for any reason, and, as a consequence, many franchise agreements are cancelled, there may be an impact on LAWSON's performance or financial position.

Risks relating to unseasonable weather or disasters

Substantial differences in climate and temperatures from the average year could have an impact on LAWSON's performance. Moreover, LAWSON is a national chain with stores located throughout Japan's 47 prefectures, as well as in Shanghai, China. Therefore, an earthquake could physically damage LAWSON stores or other facilities, hampering business operations. In addition, there is a risk that performance will fluctuate due to natural disasters in regions where snowfalls are heavy or typhoons often occur.

Risks involving damage to IT systems

There is a risk that operation of the Group's IT system might be impeded by a computer virus, or affected by natural disasters such as an earthquake, which could cause interference to the distribution network, creating delays in the delivery of products to stores and causing the suspension of store services. Such developments could impact on LAWSON's performance or financial position.

Risks involving soaring materials prices

LAWSON's performance or financial position could be materially affected by further increases in raw materials prices due to unpredictable developments, such as rising oil and other raw materials prices, an outbreak of avian influenza, or unusual weather.

Consolidated Balance Sheets

LAWSON, INC. and Subsidiaries
February 29, 2008 and February 28, 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 62,823	¥ 75,547	$ 599,571
Marketable securities (Note 5)	2,900	14,996	27,677
Accounts receivable:			
Due from franchised stores (Notes 3 and 10)	11,950	11,710	114,048
Other	26,984	26,002	257,530
Allowance for doubtful accounts	(103)	(115)	(983)
Inventories	1,724	1,789	16,454
Short-term loan to associated company (Note 17)	20,000	8,850	190,876
Deferred tax assets (Note 14)	3,633	2,795	34,673
Prepaid expenses and other current assets	8,340	7,448	79,595
Total current assets	138,251	149,022	1,319,441
PROPERTY AND STORE EQUIPMENT (Notes 4 and 6)**:**			
Land (Note 7)	5,845	4,709	55,784
Buildings	155,869	144,418	1,487,584
Furniture, fixtures and equipment	59,040	58,978	563,466
Total	220,754	208,105	2,106,834
Accumulated depreciation	(114,322)	(103,850)	(1,091,068)
Net property and store equipment	106,432	104,255	1,015,766
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	826	1,560	7,883
Investments in associated companies	7,334	1,553	69,994
Long-term loans receivable	25,647	24,380	244,770
Lease deposits (Note 8)	82,755	87,904	789,798
Deferred tax assets (Note 14)	12,809	11,551	122,247
Deferred tax assets for land revaluation (Note 7)	468	468	4,467
Software	16,942	14,786	161,691
Other assets	8,047	6,797	76,799
Allowance for doubtful accounts	(2,403)	(4,018)	(22,934)
Total investments and other assets	152,425	144,981	1,454,715
TOTAL	¥ 397,108	¥ 398,258	$ 3,789,922

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2008	2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 9 and 17)	¥ 65,587	¥ 65,000	$ 625,950
Due to franchised stores (Note 10)	2,202	2,757	21,015
Other	14,765	16,611	140,914
Income taxes payable (Note 14)	11,427	4,755	109,057
Money held as agent	56,294	48,755	537,259
Accrued expenses and other current liabilities	5,704	5,636	54,438
Total current liabilities	155,979	143,514	1,488,633
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 11)	4,175	3,527	39,845
Allowance for retirement benefits to executive officers and corporate auditors	183	249	1,747
Guarantee deposits received from franchised stores	44,954	48,451	429,032
Lease deposits from lessees	877	875	8,370
Allowance for impairment loss on leased property (Note 16)	314	95	2,997
Other	2,052	2,054	19,584
Total long-term liabilities	52,555	55,251	501,575
CONTINGENT LIABILITIES (Note 18)			
EQUITY (Notes 12 and 20)**:**			
Common stock—authorized, 409,300,000 shares in 2008 and 2007; issued, 99,600,000 shares in 2008 and 104,600,000 shares in 2007	58,507	58,507	558,379
Capital surplus	41,520	42,254	396,259
Stock acquisition rights	160	78	1,527
Retained earnings	87,391	95,344	834,043
Net unrealized gain on available-for-sale securities	135	320	1,288
Deferred gain (loss) on the derivatives under hedge accounting	(1)		(10)
Land revaluation difference (Note 7)	(682)	(682)	(6,509)
Foreign currency translation adjustments	140	135	1,338
Treasury stock—at cost, 463,629 shares in 2008 and 186,918 shares in 2007	(1,838)	(739)	(17,542)
Total	185,332	195,217	1,768,773
Minority interests	3,242	4,276	30,941
Total equity	188,574	199,493	1,799,714
TOTAL	¥397,108	¥398,258	$3,789,922

Consolidated Statements of Income

LAWSON, INC. and Subsidiaries
Years Ended February 29, 2008 and February 28, 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING REVENUES:			
Franchise commission from franchised stores	¥177,443	¥174,325	$1,693,482
Net sales from Company-operated stores	83,321	75,151	795,199
Other	40,413	33,577	385,693
Total	301,177	283,053	2,874,374
COST AND OPERATING EXPENSES:			
Cost of sales for Company-operated stores	61,177	55,371	583,861
Selling, general and administrative expenses (Notes 11 and 16)	193,390	183,169	1,845,676
Total	254,567	238,540	2,429,537
Operating income	46,610	44,513	444,837
OTHER INCOME (EXPENSES):			
Interest income—net	908	628	8,666
Equity in (losses) earnings of associated companies	(201)	102	(1,918)
Loss on disposal of property and store equipment	(5,011)	(4,638)	(47,824)
Impairment of long-lived assets (Note 6)	(2,450)	(1,811)	(23,382)
Loss on replacement of computer system (Note 15)		(2,202)	
Other—net	(1,721)	256	(16,426)
Other expenses—net	(8,475)	(7,665)	(80,884)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	38,135	36,848	363,953
INCOME TAXES (Note 14)**:**			
Current	17,494	12,378	166,959
Deferred	(1,971)	3,011	(18,811)
Total	15,523	15,389	148,148
MINORITY INTERESTS IN NET INCOME	(493)	(476)	(4,706)
NET INCOME	¥ 22,119	¥ 20,983	$ 211,099

	Yen		U.S. Dollars
	2008	2007	2008
PER SHARE OF COMMON STOCK (Notes 2.q and 19)**:**			
Net income—basic	¥214.69	¥201.50	$2.05
Net income—diluted	214.57	201.40	2.05
Cash dividends applicable to the year	110.00	100.00	1.05

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

LAWSON, INC. and Subsidiaries
Years Ended February 29, 2008 and February 28, 2007

Thousands of Shares/Millions of Yen

	Common Stock						
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE, MARCH 1, 2006	104,600	¥58,507	¥41,520		¥ 88,356	¥696	
Reclassified balance as of February 28, 2006 (Note 2.l)							
Net income					20,983		
Year end cash dividends, ¥45 per share					(4,603)		
Interim cash dividends, ¥50 per share					(5,219)		
Reversal of land revaluation difference					(4,173)		
Treasury stock—at cost:							
Purchase of treasury stock							
Sale of treasury stock			753				
Exercise of stock options			(19)				
Others—net				¥ 78		(376)	
BALANCE, FEBRUARY 28, 2007	104,600	58,507	42,254	78	95,344	320	
Net income					**22,119**		
Year end cash dividends, ¥50 per share					**(5,220)**		
Interim cash dividends, ¥55 per share					**(5,743)**		
Treasury stock—at cost:							
Purchase of treasury stock							
Retirement of treasury stock	**(5,000)**		**(710)**		**(19,109)**		
Exercise of stock options			**(24)**				
Others—net				**82**		**(185)**	**¥(1)**
BALANCE, FEBRUARY 29, 2008	**99,600**	**¥58,507**	**¥41,520**	**¥160**	**¥ 87,391**	**¥ 135**	**¥(1)**

Thousands of Shares/Millions of Yen

			Treasury Stock				
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Shares	Amount	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2006	¥(4,855)	¥105	(2,314)	¥ (9,145)	¥175,184		¥175,184
Reclassified balance as of February 28, 2006 (Note 2.l)						¥ 3,823	3,823
Net income					20,983		20,983
Year end cash dividends, ¥45 per share					(4,603)		(4,603)
Interim cash dividends, ¥50 per share					(5,219)		(5,219)
Reversal of land revaluation difference					(4,173)		(4,173)
Treasury stock—at cost:							
Purchase of treasury stock			(1)	(1)	(1)		(1)
Sale of treasury stock			2,093	8,268	9,021		9,021
Exercise of stock options			35	139	120		120
Others—net	4,173	30			3,905	453	4,358
BALANCE, FEBRUARY 28, 2007	(682)	135	(187)	(739)	195,217	4,276	199,493
Net income					**22,119**		**22,119**
Year end cash dividends, ¥50 per share					**(5,220)**		**(5,220)**
Interim cash dividends, ¥55 per share					**(5,743)**		**(5,743)**
Treasury stock—at cost:							
Purchase of treasury stock			**(5,298)**	**(21,001)**	**(21,001)**		**(21,001)**
Retirement of treasury stock			**5,000**	**19,819**			
Exercise of stock options			**21**	**83**	**59**		**59**
Others—net		**5**			**(99)**	**(1,034)**	**(1,133)**
BALANCE, FEBRUARY 29, 2008	**¥ (682)**	**¥140**	**(464)**	**¥ (1,838)**	**¥185,332**	**¥ 3,242**	**¥188,574**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE, FEBRUARY 28, 2007	$ 558,379	$ 403,264	$ 744	$ 909,945	$ 3,054	
Net income				**211,099**		
Year end cash dividends, $0.48 per share				**(49,819)**		
Interim cash dividends, $0.52 per share . . .				**(54,810)**		
Treasury stock—at cost:						
Purchase of treasury stock						
Retirement of treasury stock		**(6,776)**		**(182,372)**		
Exercise of stock options		**(229)**				
Others—net			**783**		**(1,766)**	**$(10)**
BALANCE, FEBRUARY 29, 2008	**$558,379**	**$396,259**	**$1,527**	**$ 834,043**	**$ 1,288**	**$(10)**

	Thousands of U.S. Dollars (Note 1)					
	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28, 2007	$(6,509)	$1,290	$ (7,053)	$ 1,863,114	$40,809	$1,903,923
Net income				**211,099**		**211,099**
Year end cash dividends, $0.48 per share				**(49,819)**		**(49,819)**
Interim cash dividends, $0.52 per share . . .				**(54,810)**		**(54,810)**
Treasury stock—at cost:						
Purchase of treasury stock			**(200,429)**	**(200,429)**		**(200,429)**
Retirement of treasury stock			**189,148**			
Exercise of stock options			**792**	**563**		**563**
Others—net		**48**		**(945)**	**(9,868)**	**(10,813)**
BALANCE, FEBRUARY 29, 2008	**$(6,509)**	**$1,338**	**$ (17,542)**	**$1,768,773**	**$30,941**	**$1,799,714**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

LAWSON, INC. and Subsidiaries
Years Ended February 29, 2008 and February 28, 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 38,135**	¥ 36,848	**$ 363,953**
Adjustments for:			
Income taxes paid	**(10,865)**	(17,947)	**(103,694)**
Depreciation and amortization	**21,469**	21,352	**204,896**
Impairment of long-lived assets	**2,450**	1,811	**23,382**
Loss on replacement of computer system		2,202	
Provision for (reversal of) allowance for doubtful accounts	**137**	(410)	**1,308**
Loss on disposal of property and store equipment	**2,383**	2,881	**22,743**
Equity in losses (earnings) of associated companies	**201**	(102)	**1,918**
Other—net	**2,266**	472	**21,626**
Changes in assets and liabilities:			
Increase in accounts receivable	**(1,224)**	(5,345)	**(11,682)**
Increase in prepaid expenses and other current assets	**(1,167)**	(283)	**(11,138)**
Decrease (increase) in inventories	**65**	(216)	**620**
(Decrease) increase in accounts payable	**(2,206)**	3,438	**(21,054)**
Increase in money held as agent	**7,539**	4,140	**71,951**
(Decrease) increase in accrued expenses and other liabilities	**(497)**	125	**(4,742)**
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	**582**	641	**5,554**
Decrease in guarantee deposits received from franchised stores	**(3,496)**	(2,016)	**(33,364)**
Increase in lease deposits from lessees	**2**	5	**19**
Total adjustments	**17,639**	10,748	**168,343**
Net cash provided by operating activities	**55,774**	47,596	**532,296**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(28,750)**	(57,193)	**(274,385)**
Proceeds from redemption of marketable securities	**40,893**	61,850	**390,274**
Purchases of property and store equipment	**(21,392)**	(28,760)	**(204,161)**
Decrease in lease deposits	**1,485**	2,024	**14,173**
Increase in short-term loan	**(11,150)**	(2,600)	**(106,413)**
Increase in long-term loan	**(1,267)**	(3,749)	**(12,092)**
Acquisition of associated companies	**(5,976)**	(335)	**(57,034)**
Additional investment in a subsidiary	**(2,131)**		**(20,338)**
Other	**(8,237)**	(2,991)	**(78,612)**
Net cash used in investing activities	**(36,525)**	(31,754)	**(348,588)**
FINANCING ACTIVITIES:			
Cash dividends paid	**(10,964)**	(9,822)	**(104,638)**
Proceeds from sales of treasury stock		9,021	
Proceeds from issuance of share upon exercise of stock option	**59**	120	**563**
Purchase of treasury stock	**(21,001)**	(1)	**(200,430)**
Cash dividends paid to minority shareholders	**(67)**	(54)	**(639)**
Net cash used in financing activities	**(31,973)**	(736)	**(305,144)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(12,724)**	15,106	**(121,436)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**75,547**	60,441	**721,007**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 62,823**	¥ 75,547	**$ 599,571**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

LAWSON, INC. and Subsidiaries
Years Ended February 29, 2008 and February 28, 2007

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 Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the 2008 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 ¥104.78 to $1, the approximate rate of exchange at February 29, 2008. 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”) owned 32,399 thousand shares of common stock of the Company (including indirect holdings) as of February 29, 2008 which represented 32.7% of the total voting rights of the Company. 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 not exceeding 20 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.

On February 21, 2008, NATURAL LAWSON, INC. was liquidated, which resulted in deconsolidation.

Ninety-nine Plus Inc. became an affiliate company of the Company and accounted for by the equity method after its capital increase through third party allocation on March 16, 2007.

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 equal to twice of the average monthly sales amounts of the respective store and pay a lower commission percentage.

The term of a franchise agreement is effective primarily 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 for 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 net of applicable taxes are reported in a separate component of 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 7). Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures and equipment.

g. Long-lived Assets—The Companies review its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group, mainly by each store, may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition.

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

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

The Companies account for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

In addition to the lump-sum severance indemnity plan, the Company has a defined contribution plan for severance payments. The Company recognizes expenses in the period when the contribution was called for.

j. Allowance for Retirement Benefits to Executive Officers and Corporate Auditors—The provisions are calculated to state the liability at 100% of the amount that would be required if all executive officers and corporate auditors resigned as of each balance sheet date.

k. Stock Options—On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The standard and guidance are applicable to stock options granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

l. Presentation of Equity—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of February 28, 2006 were reclassified as separate components of equity as of March 1, 2006 in the consolidated statement of changes in equity.

***m. 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. All other leases are accounted for as operating leases.

***n. 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.

***o. Appropriations of Retained Earnings*—**Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders’ approval.

***p. Foreign Currency Financial Statements*—**The balance sheet accounts of an associated company denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of equity. Revenue and expense accounts of an affiliated company denominated in foreign currencies are translated into yen at the current exchange rate.

***q. Per Share Information*—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The number of shares used in computing net income per share was 103,027 thousand shares for 2008 and 104,134 thousand shares for 2007.

Diluted net income per share for the years ended February 29, 2008 and February 28, 2007 is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

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 year.

r. New Accounting Pronouncement

***Lease Accounting*—**On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 29, 2008 and February 28, 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Used by franchised stores:			
Land	**¥ 3,382**	¥ 2,202	**$ 32,277**
Buildings	**140,484**	130,492	**1,340,753**
Furniture, fixture and equipment	**50,278**	50,701	**479,843**
Total	**194,144**	183,395	**1,852,873**
Accumulated depreciation	**102,115**	92,448	**974,566**
Net	**92,029**	90,947	**878,307**
Used by Company-operated stores and other:			
Land	**2,463**	2,507	**23,507**
Buildings	**15,385**	13,926	**146,831**
Furniture, fixture and equipment	**8,762**	8,277	**83,623**
Total	**26,610**	24,710	**253,961**
Accumulated depreciation	**12,207**	11,402	**116,502**
Net	**14,403**	13,308	**137,459**
Net property and store equipment—total	**¥106,432**	¥104,255	**$1,015,766**

5. Marketable and Investment Securities

Marketable and investment securities as of February 29, 2008 and February 28, 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current—Bonds	**¥2,900**	¥14,996	**$27,677**
Non-current—Marketable and other equity securities	**526**	763	**5,020**
Non-current—Bonds	**300**	797	**2,863**

The costs and aggregate fair values of marketable and investment securities at February 29, 2008 and February 28, 2007, were as follows:

	Millions of Yen			
February 29, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	**¥ 2,000**	**¥ 2**		**¥ 2,002**
Available-for-sale:				
Equity securities	**76**	**226**		**302**
Bonds	**1,199**	**1**		**1,200**
February 28, 2007				
Securities classified as:				
Held-to-maturity	¥13,997	¥ 3		¥14,000
Available-for-sale:				
Equity securities	77	540	¥1	616
Bonds	1,799		3	1,796

	Thousands of U.S. Dollars			
February 29, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	**$19,088**	**$ 19**		**$19,107**
Available-for-sale:				
Equity securities	**725**	**2,157**		**2,882**
Bonds	**11,443**	**9**		**11,452**

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2008 and February 28, 2007, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Available-for-sale—Equity securities	**¥224**	¥147	**$ 2,138**

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at February 29, 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	**¥ 900**	**¥2,000**	**$ 8,589**	**$19,088**
Due in one to five years	**300**		**2,863**	
Total	**¥1,200**	**¥2,000**	**$11,452**	**$19,088**

Proceeds from sales of available-for-sale securities for the years ended February 29, 2008 and February 28, 2007 were ¥0 million ($0 thousand) and ¥185 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥0 million ($0 thousand) for the year ended February 29, 2008, and ¥44 million for the year ended February 28, 2007.

6. Long-Lived Assets

The Companies mainly group each store as the smallest cash generating unit. The Companies recognized an impairment loss in the case where declined in value of long-lived assets due mainly to continuous operating losses. The carrying amount of those assets was written down to the recoverable amount and an impairment loss was recorded in other expenses in the consolidated statements of income.

The Companies recognized impairment loss on the following asset category for the years ended February 29, 2008 and February 28, 2007:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	**2008**	2007	**2008**
Stores	Buildings and furniture, fixtures and equipment	Tokyo	**¥ 131**	¥ 111	**$ 1,250**
		Osaka	**428**	303	**4,085**
		Others	**1,891**	1,397	**18,047**
Total			**¥2,450**	¥1,811	**$23,382**

The above assets, which incurred impairment losses for the years ended February 29, 2008 and February 28, 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Fixed assets and leased property:			
Building	**¥1,773**	¥1,475	**$16,921**
Leased property	**425**	58	**4,056**
Others	**252**	278	**2,405**
Total	**¥2,450**	¥1,811	**$23,382**

The recoverable amount of those assets were measured based on net selling price or value in use. The net selling price of land was calculated based on appraised value by real estate appraiser or expected contract price. The value in use was calculated by discounting estimated future cash flows to which the discount rate was applied. The discount rate used was 6.8% and 6.9% for the years ended February 29, 2008 and February 28, 2007, respectively.

7. Land Revaluation

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

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of 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 29, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥298 million ($2,844 thousand).

8. 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 to the Company 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 29, 2008 and February 28, 2007, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Lease deposits for franchised stores	**¥72,985**	¥72,870	**$696,555**
Lease deposits for Company-operated stores and other	**9,770**	15,034	**93,243**
Total	**¥82,755**	¥87,904	**$789,798**

9. Accounts Payable—Trade

The balances of "Accounts payable—trade" 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 as of February 29, 2008 and February 28, 2007, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Accounts payable—trade for franchised stores	**¥61,234**	¥60,817	**$584,406**
Accounts payable—trade for Company-operated stores	**4,353**	4,183	**41,544**
Total	**¥65,587**	¥65,000	**$625,950**

10. 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."

11. Employees' Retirement Benefits

The Company and a certain domestic subsidiary have each of defined benefit lump-sum severance indemnity plan.

Under the plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay, years of service and certain other factors at the time of termination. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from a certain subsidiary. 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.

The funded status of these plans as of February 29, 2008 and February 28, 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Projected benefit obligation	**¥11,223**	¥10,736	**$107,109**
Fair value of plan assets	**(5,567)**	(5,548)	**(53,130)**
Unrecognized prior service cost	**(1,054)**	(1,230)	**(10,059)**
Unrecognized actuarial loss	**(427)**	(431)	**(4,075)**
Net liability	**¥ 4,175**	¥ 3,527	**$ 39,845**

The costs of defined benefit pension plans are accrued based on amounts determined principally using actuarial method. The Company and a certain subsidiary also have each of defined contribution plan. The costs of defined contribution plans are charged to expense when incurred.

The components of net periodic benefit costs for the years ended February 29, 2008 and February 28, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Service cost	**¥1,137**	¥1,105	**$10,852**
Interest cost	**213**	213	**2,033**
Amortization of prior service cost	**176**	176	**1,680**
Recognized actuarial loss	**89**	128	**849**
Contribution to defined contribution plan	**249**	246	**2,376**
Net periodic benefit costs	**¥1,864**	¥1,868	**$17,790**

Assumptions used for the years ended February 29, 2008 and February 28, 2007, were as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**0%**	0%
Amortization period of prior service cost	**10 years**	10 years
Recognition period of actuarial gain/loss	**10 years**	10 years

12. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the “Corporate Law”), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. Stock Options

The Company has stock option plans as incentive for directors, executive officers and selected employees.

A summary of information for the Company's stock option plans is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
Stock subscription rights	18 directors and 574 employees	1,773,000 shares	2000.6.12	¥7,500 ($71.58)	From May 27, 2002 to May 25, 2007
1st Stock Option	8 directors, 14 executive officers and 561 employees	313,000 shares	2002.6.25	¥3,680 ($35.12)	From December 1, 2002 to May 31, 2007
2nd Stock Option	9 directors and 17 executive officers	92,000 shares	2003.7.3	¥3,517 ($33.57)	From July 3, 2005 to July 2, 2008
3rd Stock Option	9 directors and 20 executive officers	99,000 shares	2004.6.10	¥4,320 ($41.23)	From June 10, 2006 to June 9, 2009
4th Stock Option	9 directors and 24 executive officers	114,000 shares	2005.10.12	¥4,160 ($39.70)	From October 12, 2007 to December 31, 2010
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 ($0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 ($0.01)	From October 27, 2006 to May 26, 2026
6th (b) Stock Option	9 directors and 14 executive officers	83,000 shares	2006.10.26	¥4,053 ($38.68)	From October 28, 2008 to October 26, 2011
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 ($0.01)	From September 6, 2007 to August 20, 2027
7th (b) Stock Option	14 executive officers	45,000 shares	2007.9.5	¥3,949 ($37.69)	From September 7, 2009 to August 20, 2012

The stock option activity is as follows:

	Stock Subscription Rights	1st Stock Option	2nd Stock Option	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option	7th (b) Stock Option
										(Shares)
For the Year Ended February 28, 2007										
Non-vested:										
February 28, 2006—outstanding				99,000	114,000					
Granted							21,300	83,000		
Canceled										
Vested				(99,000)			(21,300)			
February 28, 2007—outstanding					114,000			83,000		
Vested:										
February 28, 2006—outstanding	1,017,000	124,300	48,200			22,400				
Vested				99,000			21,300			
Exercised		(28,200)	(4,600)			(2,400)				
Canceled	(169,000)	(8,400)								
February 28, 2007—outstanding	848,000	87,700	43,600	99,000		20,000	21,300			

	Stock Subscription Rights	1st Stock Option	2nd Stock Option	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option	7th (b) Stock Option
										(Shares)
For the Year Ended February 29, 2008										
Non-vested:										
February 28, 2007—outstanding					114,000			83,000		
Granted									**18,000**	45,000
Canceled										
Vested					**(114,000)**				**(18,000)**	
February 29, 2008—outstanding								**83,000**		**45,000**
Vested:										
February 28, 2007—outstanding	848,000	87,700	43,600	99,000		20,000	21,300			
Vested					**114,000**				**18,000**	
Exercised		**(16,100)**				**(5,000)**				
Canceled	**(848,000)**	**(71,600)**								
February 29, 2008—outstanding			**43,600**	**99,000**	**114,000**	**15,000**	**21,300**		**18,000**	
Exercise price	**¥7,500 ($71.58)**	**¥3,680 ($35.12)**	**¥3,517 ($33.57)**	**¥4,320 ($41.23)**	**¥4,160 ($39.70)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥4,053 ($38.68)**	**¥ 1 ($ 0.01)**	**¥3,949 ($37.69)**
Average stock price at exercise		**¥4,448 ($42.45)**				**¥3,890 ($37.13)**				
Fair value price at grant date							**¥3,178 ($30.33)**	**¥ 618 ($ 5.90)**	**¥2,852 ($27.22)**	**¥ 397 ($ 3.79)**

The assumptions used to measure fair value of Stock Option were as follows:

	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option	7th (b) Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	37.06%	25.80%	35.19%	21.82%
Estimated remaining outstanding period	9.8 years	3.5 years	10 years	3.5 years
Estimated dividend	¥95 per share	¥95 per share	¥100 per share	¥100 per share
Interest rate with risk free	1.74%	0.98%	1.58%	0.99%

14. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended February 29, 2008 and February 28, 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 29, 2008 and February 28, 2007, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued enterprise tax	**¥ 954**	¥ 498	**$ 9,105**
Accrued employees' bonuses	**1,084**	1,100	**10,345**
Excess of depreciation	**4,218**	3,445	**40,256**
Excess of amortization of software	**688**	648	**6,566**
Employees' retirement benefits	**3,964**	3,673	**37,832**
Allowance for doubtful accounts	**1,102**	1,671	**10,517**
Tax loss carryforward	**1,616**	1,758	**15,423**
Impairment loss	**1,618**	1,129	**15,442**
Loss on replacement of computer system	**896**	896	**8,551**
Other	**2,015**	1,575	**19,232**
Less valuation allowance	**(1,621)**	(1,827)	**(15,471)**
Total	**16,534**	14,566	**157,798**
Deferred tax liabilities—Unrealized gain on available-for-sale securities	**92**	220	**878**
Net deferred tax assets	**¥16,442**	¥14,346	**$156,920**

At February 29, 2008, certain subsidiaries have tax loss carryforwards aggregating approximately ¥3,971 million ($37,583 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
2010	¥ 484	$ 4,619
2011	415	3,961
2012	287	2,424
2013	920	8,780
2014	1,250	11,930
2015 and thereafter	615	5,869
Total	¥3,971	$37,583

15. Replacement of Computer System

The Company decided to replace its computer system and upgrade to the next generation, including core information systems, based on an optical fiber network in 2008 and 2009. The Company recognized loss on replacement of systems, as special depreciation of the related equipment and software and equivalent of those related to lease cancellation of existing system.

	Millions of Yen
	2007
Loss on replacement of computer system:	
Lease property (cancellation)	¥1,624
Equipment	542
Software	36
Total	¥2,202

The amount of the lease cancellation loss, equivalent to special depreciation, was included in other under long-term liabilities.

16. 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 29, 2008 and February 28, 2007, were ¥18,103 million ($172,772 thousand) and ¥17,485 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and impairment loss 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 29, 2008 and February 28, 2007 was as follows:

Leased property used by franchised stores:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Furniture, Fixtures and Equipment:			
Acquisition cost	**¥68,232**	¥65,163	**$651,193**
Accumulated depreciation	**47,407**	40,122	**452,443**
Accumulated impairment loss	**511**	204	**4,877**
Net leased property	**¥20,314**	¥24,837	**$193,873**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 7,702**	¥11,976	**$ 73,506**
Due after one year	**13,543**	13,607	**129,252**
Total	**¥21,245**	¥25,583	**$202,758**

An allowance for impairment loss on leased property of ¥283 million ($2,701 thousand) as of February 29, 2008 is included in obligations under finance leases.

Leased property used by Company-operated stores and other:

	Furniture, Fixtures and Equipment	Software	Total
	Millions of Yen		
	2008		
Acquisition cost	**¥19,114**	**¥734**	**¥19,848**
Accumulated depreciation	**9,480**	**489**	**9,969**
Accumulated impairment loss	**58**		**58**
Net leased property	**¥ 9,576**	**¥245**	**¥ 9,821**

	Furniture, Fixtures and Equipment	Software	Total
	Millions of Yen		
	2007		
Acquisition cost	¥18,848	¥734	¥19,582
Accumulated depreciation	11,310	342	11,652
Accumulated impairment loss	30		30
Net leased property	¥ 7,508	¥392	¥ 7,900

	Furniture, Fixtures and Equipment	Software	Total
	Thousands of U.S. Dollars		
	2008		
Acquisition cost	**$182,420**	**$7,005**	**$189,425**
Accumulated depreciation	**90,475**	**4,667**	**95,142**
Accumulated impairment loss	**554**		**554**
Net leased property	**$ 91,391**	**$2,338**	**$ 93,729**

Obligation under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 3,455**	¥3,432	**$ 32,974**
Due after one year	**7,213**	4,851	**68,839**
Total	**¥10,668**	¥8,283	**$101,813**

Allowance for impairment loss on leased property of ¥32 million ($305 thousand) as of February 29, 2008 is included in obligations under finance leases.

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

Depreciation expense, interest expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Depreciation expense	**¥16,785**	¥16,342	**$160,193**
Interest expense	**1,011**	1,004	**9,649**
Lease payments	**18,103**	17,485	**172,772**
Reversal of allowance for impairment loss on leased property	**207**	82	**1,976**
Impairment loss	**425**	58	**4,056**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at February 29, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	**2008**
Due within one year	**¥ 688**	**$ 6,566**
Due after one year	**841**	**8,026**
Total	**¥1,529**	**$14,592**

17. Related Party Transactions

Balances to LAWSON CS Card, INC. (an associated company) as of February 29, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	**2008**
Short-term loan receivable	**¥20,000**	**$190,876**
Guarantee for bank loans	**1,650**	**15,747**

Mitsubishi has been treated as an associated company of the Company as it owns, including indirect holding, 32.7% of the total voting rights of the Company. Therefore, the Company discloses transactions with subsidiaries of Mitsubishi, including those transactions related to the franchised stores.

Balances and transactions with subsidiaries of Mitsubishi as of and for the year ended February 29, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	**2008**
RYOSHOKU LIMITED:		
Accounts payable—trade	**¥ 6,283**	**$ 59,964**
Purchases	**90,279**	**861,605**
Food Service Network Co., Ltd.:		
Accounts payable—trade	**16,934**	**161,615**
Purchases	**224,366**	**2,141,306**
SAN-ESU INC.:		
Accounts payable—trade	**2,936**	**28,021**
Purchases	**32,001**	**305,411**

Purchase prices and other conditions are determined at arm’s length basis.

18. Contingent Liabilities

As of February 29, 2008, the Company guaranteed an associated company's bank loan in the amount of ¥1,650 million ($15,747 thousand).

19. Net Income Per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 29, 2008 and February 28, 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 29, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥22,119**	**103,027**	**¥214.69**	**$2.05**
Effect of dilutive securities—Stock options		**56**		
Diluted EPS—Net income for computation	**¥22,119**	**103,083**	**¥214.57**	**$2.05**
Year Ended February 28, 2007				
Basic EPS—Net income available to common shareholders	¥20,983	104,134	¥201.50	
Effect of dilutive securities—Stock options		52		
Diluted EPS—Net income for computation	¥20,983	104,186	¥201.40	

20. Subsequent Events

a. The following appropriation of retained earnings was approved at the general shareholders meeting held on May 23, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥55 ($0.52) per share	¥5,453	$52,042

b. Sales of shares of LAWSON CS Card, INC. ("LCS")

On April 18, 2008, the Board of Directors of the Company decided to sell all its holding shares of LCS to Credit Saison Co., Ltd. ("CSC"). The Company owned 80,000 shares, or 50% of LCS shares, and accounted for its investment by equity method. The sale contract with CSC was concluded on April 23, 2008 and the transaction was completed on April 30, 2008.

The Company sold the shares for ¥477 million and recognized a loss of ¥100 million on sales of the shares. The Company's short-term loan of ¥20,000 million to LCS was repaid in full and its guarantee of ¥1,650 million for LCS's bank borrowing was extinguished on April 30, 2008.

The Company and LCS completed a business alliance agreement with respect to services to LAWSON PASS cardholders, and will continue the similar services to its card holders.

The Company and other parties established LCS in 2002, and since then LCS has mainly issued the LAWSON PASS, a point card with a credit card function, to LAWSON customers. Thereafter, the Company began issuing MY LAWSON POINT standard point cards in January 2007. As of February 29, 2008, LAWSON PASS had approximately 2.84 million cardholders, while MY LAWSON POINT had approximately 3.39 million cardholders. The combined cardholder base of roughly 6.23 million members for these two cards constitutes one of the largest convenience store membership bases in Japan. The Company has decided to sell its entire shareholding in credit card provider LCS to CSC so that it can focus on customer relationship management (CRM) activities.

Independent Auditors' Report

Deloitte.

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Minato-ku, Tokyo 108-8530
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To the Board of Directors of
LAWSON, INC.:

We have audited the accompanying consolidated balance sheets of LAWSON, INC. (the "Company") and subsidiaries as of February 29, 2008 and February 28, 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LAWSON, INC. and subsidiaries as of February 29, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

May 23, 2008

Member of
Deloitte Touche Tohmatsu

Directors, Corporate Auditors and Executive Officers (As of May 23, 2008)

President and CEO	Takeshi Niinami	
Member of the Board and Senior Executive Vice President	Toru Moriyama	General Manager, Merchandizing & Logistics Division
Member of the Board and Executive Vice President	Yoshiyuki Yahagi	Chief Financial Officer (CFO); in charge of Corporate Planning Office; in charge of Human Resources Office; General Manager, Management Services Office; General Manager, Corporate Planning Office
Member of the Board and Executive Vice President	Manabu Asano	Chief Compliance Officer (CCO); in charge of General Affairs; in charge of Internal Audit
Members of the Board	Hiroshi Tasaka	Professor, Graduate School of Tama University
	Reiko Okutani	President, The R Co., Ltd.
	Takehiko Kakiuchi	Division COO, Foods (Commodity) Div., Mitsubishi Corporation
Standing Corporate Auditors	Munehiko Nakano	
	Kenji Yamakawa	
Corporate Auditors	Tetsuo Ozawa	Lawyer
	Hiroshi Kuwata	General Manager, Risk Management Department, Mitsubishi Corporation
Senior Executive Vice President	Takatoshi Kawamura	COO (In charge of Operating Division)
Executive Vice President	Yoichi Yokomizo	Chief Information Officer (CIO); General Manager, Information Systems Office
Senior Vice Presidents	Shigeru Niikura	Executive Assistant to CEO; In Charge of Store Operation Support Office
	Norikazu Nishiguchi	General Manager, Store Development Planning Division
	Shigeaki Kawahara	President and CEO, VALUE LAWSON, Inc.
	Takaki Mizuno	General Manager, Chubu LAWSON Branch
	Yoshio Shinozaki	General Manager, CSR Promotion Office
	Jyun Miyazaki	General Manager, PR, Corporate Communications Office
	Noriyuki Nobayashi	General Manager, Services Development Division; Assistant to General Manager, Merchandizing & Logistics Division
	Hajime Nakai	Deputy General Manager, Merchandizing & Logistics Division
	Atsushi Maeda	Executive Vice President VALUE LAWSON Inc.; Assistant to General Manager, Merchandizing & Logistics Division

Corporate Data (As of February 29, 2008)

Company Name
LAWSON, INC.

Address
Head Office:
East Tower, Gate City Ohsaki,
11-2, Osaki 1-chome, Shinagawa-ku,
Tokyo 141-8643, Japan

Number of Employees
3,735 (Consolidated)

Business Activities
Development of LAWSON convenience store franchise chain and NATURAL LAWSON stores

Net Sales of All Stores
¥1,415.1 billion (Consolidated)

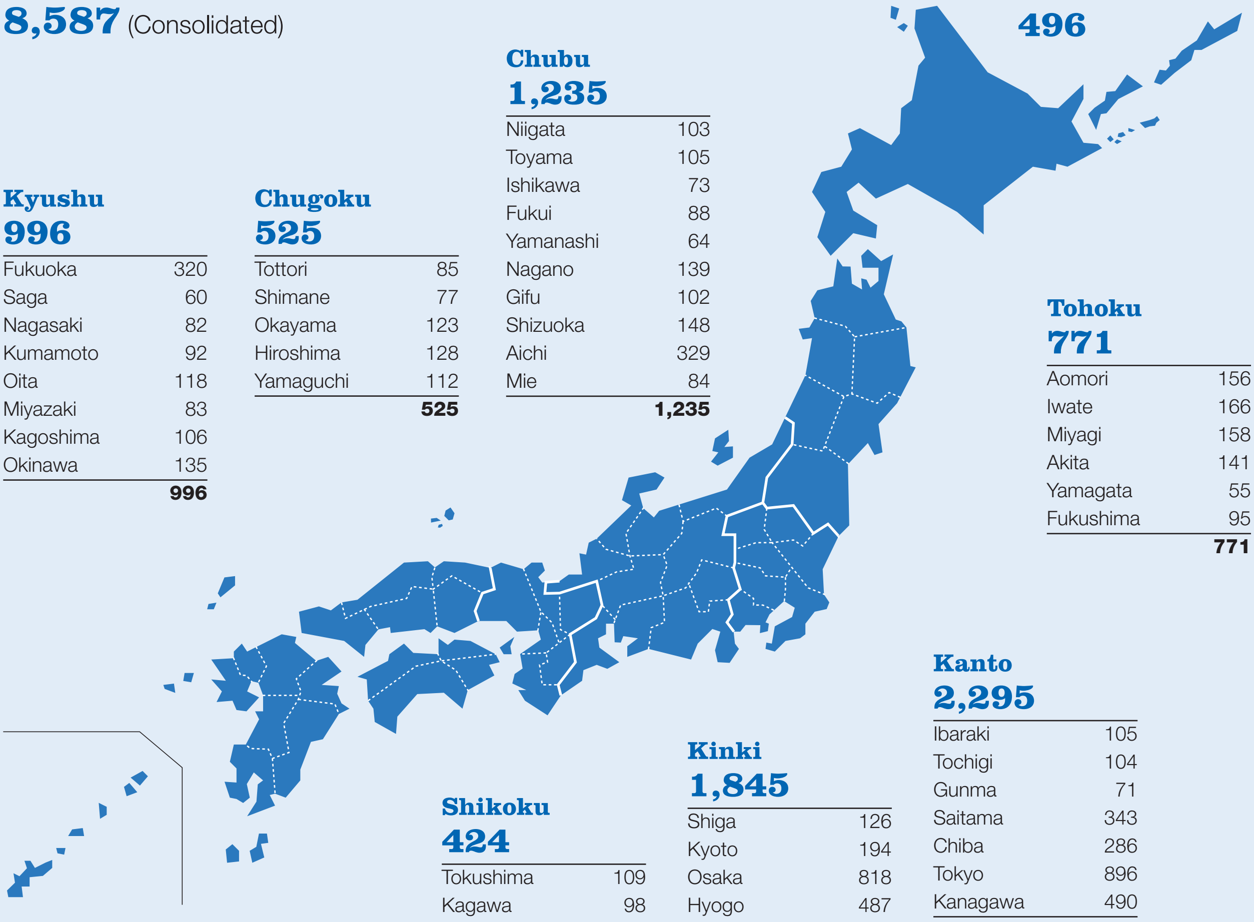
Operating Area
All 47 prefectures in Japan; Shanghai, PRC (Joint Venture)

Established
April 15, 1975

Capital
¥58,506,644,000

Number of Stores

8,587 (Consolidated)



Hokkaido
496

Chubu
1,235

Niigata	103
Toyama	105
Ishikawa	73
Fukui	88
Yamanashi	64
Nagano	139
Gifu	102
Shizuoka	148
Aichi	329
Mie	84
	1,235

Kyushu
996

Fukuoka	320
Saga	60
Nagasaki	82
Kumamoto	92
Oita	118
Miyazaki	83
Kagoshima	106
Okinawa	135
	996

Chugoku
525

Tottori	85
Shimane	77
Okayama	123
Hiroshima	128
Yamaguchi	112
	525

Tohoku
771

Aomori	156
Iwate	166
Miyagi	158
Akita	141
Yamagata	55
Fukushima	95
	771

Kanto
2,295

Ibaraki	105
Tochigi	104
Gunma	71
Saitama	343
Chiba	286
Tokyo	896
Kanagawa	490
	2,295

Kinki
1,845

Shiga	126
Kyoto	194
Osaka	818
Hyogo	487
Nara	105
Wakayama	115
	1,845

Shikoku
424

Tokushima	109
Kagawa	98
Ehime	155
Kouchi	62
	424

Store Opening Information
SHANGHAI HUALIAN LAWSON CO., LTD.: 287 (as of December 31, 2007)
Ninety-nine Plus Inc.: 837 (as of March 31, 2008)

Investor Information (As of February 29, 2008)

Authorized Shares
409,300,000

Shares Issued
99,600,000

Shareholders
39,944

Stock Exchange Listings
Tokyo Stock Exchange (1st Section)
Osaka Securities Exchange (1st Section)

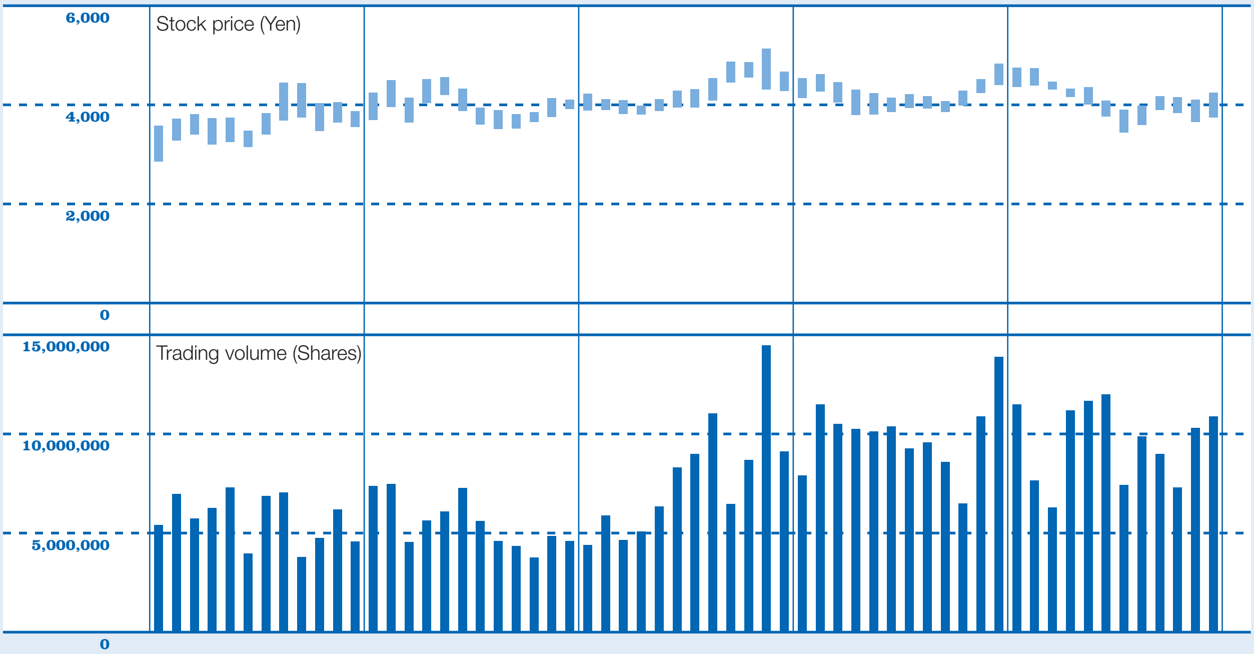
Stock Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

Major Shareholders

	Number of Shares Held	Percentage of Total Shares Held*
1. Mitsubishi Corporation	32,089	32.4
2. Japan Trustee Services Bank, Ltd. (Trust Account)	6,288	6.3
3. The Master Trust Bank of Japan, Ltd. (Trust Account)	6,012	6.1
4. Marubeni Foods Investment Co., Ltd.	5,939	6.0
5. NTT DoCoMo, Inc.	2,092	2.1
6. Trust & Custody Services Bank, Ltd. (Securities Investment Trust Company)	1,646	1.7
7. The Nomura Trust & Banking Co., Ltd. (Trust account)	1,152	1.2
8. STATE STREET BANK AND TRUST COMPANY	1,002	1.0
9. STATE STREET BANK AND TRUST COMPANY 505103	992	1.0
10. The Sumitomo Trust & Banking Co., Ltd. (Trust account B)	946	1.0

** The above shareholding ratios exclude treasury stock.*

Stock Price and Trading Volume on the Tokyo Stock Exchange



Years Ended February 28 and 29	2004	2005	2006	2007	2008
High	4,450	4,560	5,130	4,830	4,750
Low	2,860	3,510	3,800	3,800	3,440
At Year-End	3,780	3,980	4,350	4,540	4,000

LAWSON

LAWSON, INC.

Corporate Planning Office,
East Tower, Gate City Ohsaki,
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http://www.lawson.co.jp/
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