LAWSON INC. ANNUAL REPORT 2010

LAWSON

ANNUAL REPORT 2010

Year ended February 28, 2010

The Japanese convenience store (CVS) industry is saturated with stores of the same type, leading people to question the industry's growth potential. But LAWSON believes that it still has room to grow by expanding customer bases and developing overseas. We will pursue our true potential through innovation to achieve this growth.

WE ASPIRE FOR MORE . . .

LAWSON'S CORPORATE PHILOSOPHY AND CODE OF CONDUCT

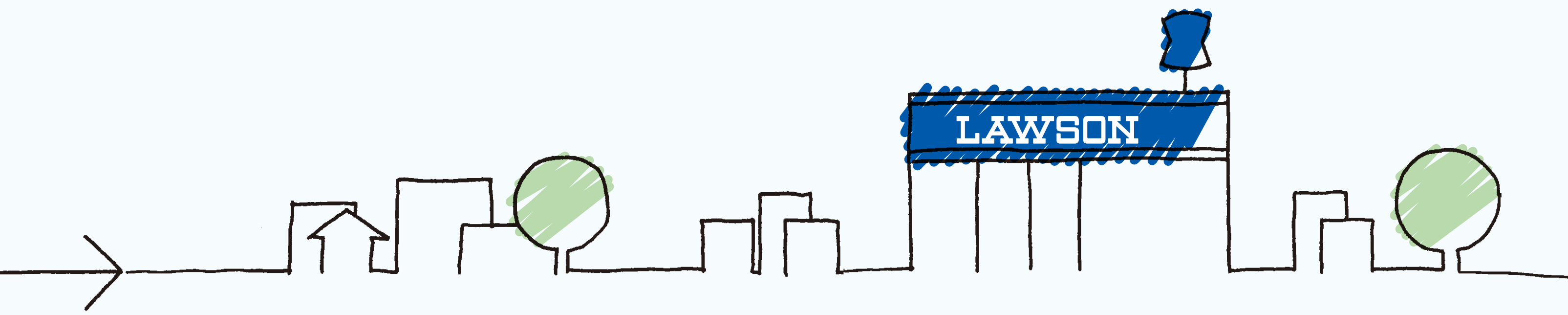
LAWSON assures that all corporate activities conform to its Corporate Philosophy, and that the Company's management and employees work together as a team to realize its goals. To this end, we ensure that all of our actions are grounded in our shared values, no matter what changes may take place in the operating environment. Our Code of Conduct requires employees to be responsible 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



FORWARD-LOOKING STATEMENTS REGARDING FORECASTS AND FIGURES

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of the LAWSON Group. 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.

In September 2008, LAWSON made Ninety-nine Plus Inc. and its subsidiaries consolidated subsidiaries. Accordingly, LAWSON booked equity-method earnings in this company in the fiscal year ended February 28, 2009 for the six months through the end of the company's second quarter because Ninety-nine Plus has a March 31 fiscal year-end. Ninety-nine Plus's earnings were completely consolidated for its third quarter. Moreover, Ninety-nine Plus changed its fiscal year-end from March 31 to February 28 at its ordinary general meeting of shareholders in June 2009. The fourth-quarter of fiscal 2008 and fiscal 2009 results (11-month fiscal year due to a fiscal year-end change) of the Ninety-nine Plus Group have been consolidated in LAWSON's fiscal 2009 results.

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

LAWSON's fiscal year-end is the end of February. Due to the discovery of misconduct by two former directors at LAWSON consolidated subsidiary LAWSON ENTERMEDIA, INC. (LEM), LAWSON has retrospectively amended consolidated operating results for the fiscal year ended February 2009, taking into consideration minority interests in net income of consolidated subsidiaries.

CONTENTS

IN PURSUIT OF INNOVATION

The feature section of this year's annual report explains LAWSON's growth scenarios in the form of answers to questions we often receive from investors. We explain trends in the CVS industry, our performance, our distinctive strategies, and the fields we are focusing on to realize our aspirations for LAWSON and raise its corporate value.

CONSOLIDATED FINANCIAL HIGHLIGHTS

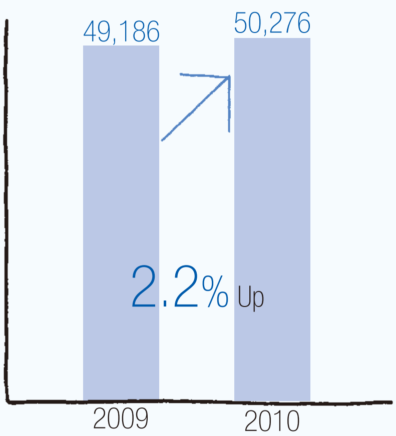
LAWSON, INC. and Subsidiaries
Years Ended February 28, 2010, 2009 and February 29, 2008

	Millions of Yen			Percent Change	Thousands of U.S. Dollars*
	2010	2009	2008	2010/2009	**2010**
For the year:					
Net sales of all stores	**¥1,666,136**	¥1,558,781	¥1,415,106	6.9%	**$18,630,616**
Total operating revenues	**467,192**	349,476	301,177	33.7%	**5,224,108**
Operating income	**50,276**	49,186	46,610	2.2%	**562,183**
Income before income taxes and minority interests	**29,875**	40,271	38,135	–25.8%	**334,060**
Net income	**12,562**	23,807	22,119	–47.2%	**140,467**
Per share data (yen and dollars)**:**					
Net income	**¥127**	¥ 240	¥ 215	–47.1%	**$ 1.42**
Cash dividends	**160**	160	110	–%	**1.79**
At year-end:					
Total assets	**¥ 448,132**	¥ 436,096	¥ 397,108	2.8%	**$ 5,010,981**
Total equity	**198,136**	201,167	188,574	–1.5%	**2,215,543**
Financial data:					
Return on equity (ROE)	**6.5%**	12.5%	11.6%	–6% points	
Payout ratio	**126.3%**	66.6%	51.2%	59.7% points	
Store network:					
Total number of stores in Japan	**9,625**	9,527	8,587	1.0%	
Franchised stores	**8,527**	8,362	8,148	2.0%	
Company-owned stores	**1,098**	1,165	439	–5.8%	

** The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2010, of ¥89.43=$1.*

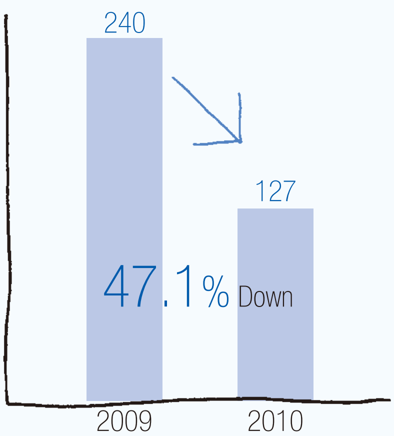
OPERATING INCOME

(Millions of Yen)



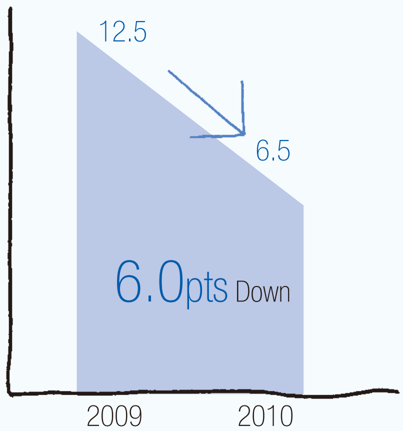
NET INCOME PER SHARE

(Yen)



RETURN ON EQUITY (ROE)

(%)



Consolidated operating income rose 2.2% year on year to ¥50.2 billion, with an improvement in gross profit margin from structural reforms and curbs on selling, general and administrative expenses countering sluggish existing store sales. However, net income per share and ROE dropped sharply due to extraordinary losses stemming from the alleged misappropriation of funds by former directors of subsidiary LAWSON ENTERMEDIA, INC. As a management goal, LAWSON aims to achieve 15–20% ROE by FY2020.

TOPICS

Launch of Surprise Product Development Project

LAWSON launched its Surprise Product Development Project in July 2009 for creating innovative new products in four areas: boxed lunches, rice balls, pastas, and desserts. The aim of the project is to surprise customers by elevating product value. Innovations used in the project to boost product value include purchasing ingredients in bulk to keep foreign exchange risks under control and using new technologies in the production process.

New *Uchi Café SWEETS* Brand a Major Hit

With our original *Uchi Café SWEETS* dessert brand created as part of the Surprise Product Development Project we set out to redefine conceptions of desserts sold at convenience stores. One of the brand's main products, *Premium Whipped Cream Roll*, won a gold award in the confectionery category at the 2010 Monde Selection competition held in Europe to recognize fine foods from around the world. This was the first original chilled convenience store dessert from Japan to receive a Monde Selection award.

Unveiling New *Pasta Ya* Brand

For *Pasta Ya*, our new pasta brand, we changed the way we source ingredients, introduced special pasta machines featuring a new production process at our processing plants throughout Japan, and adopted other innovations to give our ingredients and sauces more volume and allow us to use delicious fresh pasta. We are proud to offer our customers this product, confident that it meets the standards of restaurant pastas.

Card Memberships Top 11 Million

MY LAWSON POINT and LAWSON PASS card memberships passed 11 million by the end of February 2010, a testament to strong customer support for the programs. We aim to foster customer loyalty through sales promotions for card-holding customers and other strategies. In March 2010, we joined the *Ponta* multi-partner shopping points program in conjunction with other firms to offer even more convenient services to customers.

In Tune with Local Communities

LAWSON promotes initiatives that are in tune with the needs of local communities. We select merchandise that suits the tastes of each region, and develop products that use locally procured ingredients. Some stores are set up as special "Antenna Shops" that feature assortments of well-known regional products from their local prefectures as a way of expanding sales channels and disseminating information. We had reached comprehensive agreements to offer products from 31 prefectures and 2 cities in these stores by the end of April 2010.

Further Steps to Protect the Environment

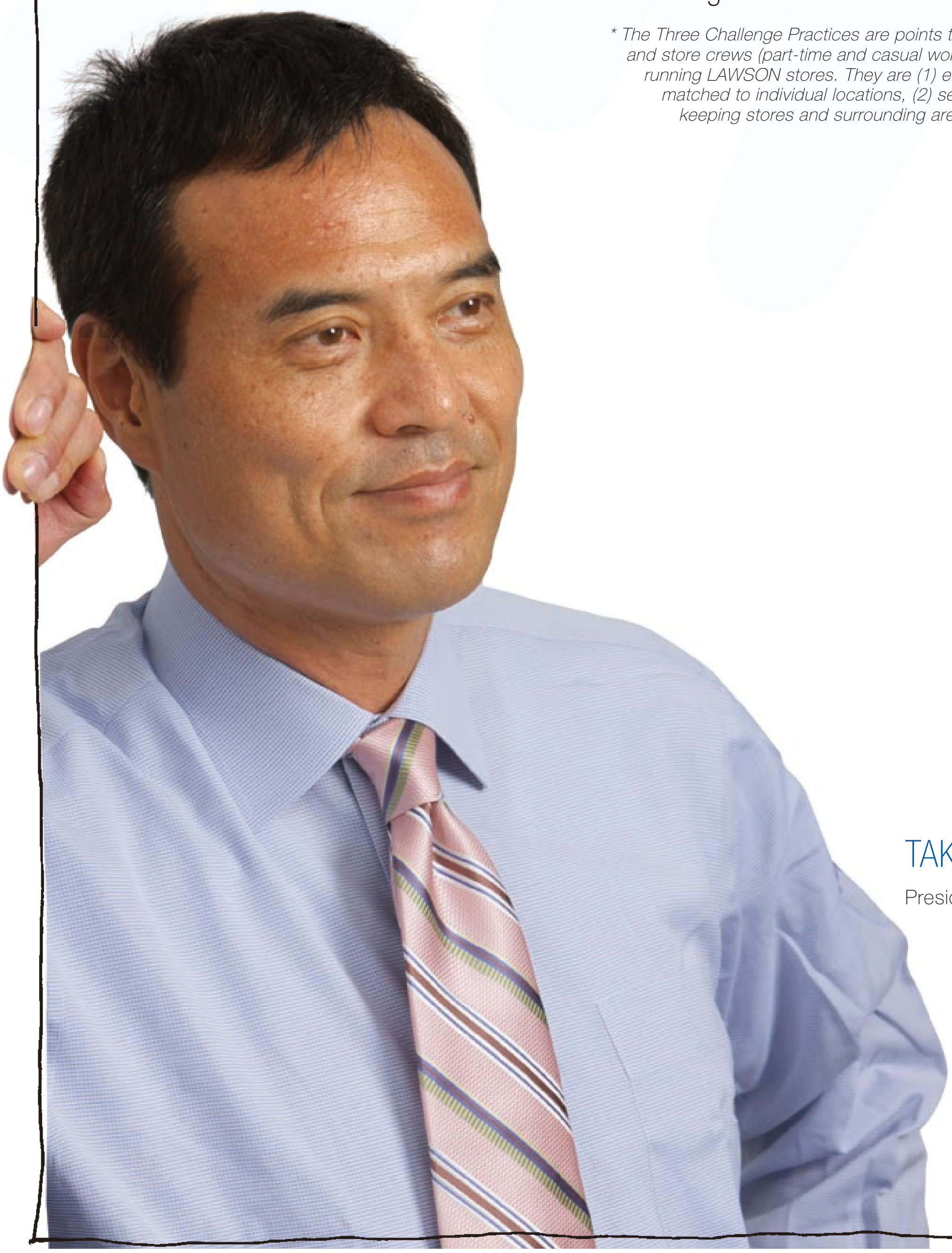
Environmental preservation is one of our leading priorities. New stores that have opened since June 2009 use light-emitting diode (LED) bulbs and light fixtures for interior lighting and signboards. We have also started introducing electric vehicles for use by supervisors and staff making the rounds to visit stores, and have equipped some stores with battery rechargers. These initiatives are just some of the active steps we are taking to protect the environment and coexist with communities.

A MESSAGE TO LAWSON STAKEHOLDERS

PURSUING INNOVATION FOR SUSTAINABLE MEDIUM- TO LONG-TERM GROWTH

Fiscal 2010 will be a crucial year for LAWSON. It will shape our future by preparing us for a great leap forward. We will continue to apply the Three Challenge Practices* that are the foundation of our franchised store operating strengths, while revamping operations by utilizing our point card data and our next-generation IT system (PRiSM). We will also focus our resources on business segments such as fresh foods, healthcare, in-store food preparation, and overseas operations, where we have the potential to achieve industry leadership. Our aim is to attain sustainable growth over the medium to long term.

** 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.*



TAKESHI NIINAMI

President and Chief Executive Officer

A LOOK BACK AT FISCAL 2009

In fiscal 2009, consolidated operating income increased 2.2% year on year to ¥50,276 million, marking the seventh consecutive year of operating income growth on a consolidated basis.

Waning consumer sentiment, price competition between retail formats, and competition between major convenience store (CVS) operators opening stores with similar attributes depressed existing store sales by 4.1%. However, the gross profit margin rose 0.3 points to 30.4%, thanks to reactionary gains after input prices surged in fiscal 2008 and to the effect of structural improvements from the second half of fiscal 2009.

Selling, general & administrative (SG&A) expenses were less than we planned because we successfully cut costs by streamlining our existing IT system, which reduced IT costs, and applying a return on investment-driven approach to cutting back on low-performing advertising channels. Robust performances by LAWSON ATM Networks Inc., Ninety-nine Plus Inc., and other consolidated subsidiaries also boosted consolidated operating income.

LAWSON incurred significant extraordinary losses in fiscal 2009 stemming from the alleged misappropriation of company funds by two former directors of LAWSON ENTERMEDIA, INC., a consolidated subsidiary, that were made public in February 2010. We sincerely apologize to shareholders, investors, and all of our stakeholders for the problems this has caused. We take such actions very seriously and are further strengthening corporate governance and compliance at LAWSON and all Group companies and affiliates to ensure that the problem does not reoccur. Please see page 22 of this report for our investigation of the incident and the countermeasures that we have taken.

IMPORTANT POLICY INITIATIVES IN FISCAL 2009

- Supported franchise (FC) owners and strengthened their store operating capabilities
- Developed products in response to polarization in consumption
- Improved gross profit margins through structural reform
- Installed next-generation IT system (PRiSM)
- Promoted CVS businesses offering fresh items

Since all of these policies will continue to be key policy initiatives in fiscal 2010, I will describe them in more detail here.

KEY POLICY INITIATIVES IN FISCAL 2010

Rather than focusing resources on the number of conventional CVS store openings, our primary goal is to increase gross profits at our existing stores through measures to strengthen their operations, and to increase profits for franchise owners. To this end, we have been making ongoing upfront investment for sustainable medium-term growth.

Our efforts to strengthen existing stores are based on improving the store operating capabilities of franchise owners with the important goal of creating product assortments that match the needs of local customers. We equip franchise owners for this task by organically weaving together card data analysis for better understanding customer needs, development of value-added products through the use of specialty ingredients, and our next-generation IT system (PRiSM) which allows users to see clearly where sales opportunities are being lost.

We will also pursue growth as a company by developing new store formats and opening stores outside of Japan.

STRENGTHENING STORE OPERATING CAPABILITIES OF FRANCHISE OWNERS

Our “Mystery Shopper” program has been in place since fiscal 2003 for objectively and quantitatively evaluating store operations from a customer perspective. The program is now firmly established among franchise owners. Setting the “Mystery Shopper” evaluation as the standard for store operation has helped to enhance franchise owners’ store operating abilities by fostering a constant awareness of the Three Challenge Practices that I have continually stressed since becoming president.

Store owners that receive high marks from the “Mystery Shopper” program have a keen understanding of the next-generation IT system (PRiSM) and actively use it. They are well able to operate stores in multiple formats, including LAWSON STORE100, Fresh Food-type LAWSON formats, and NATURAL LAWSON store formats. Enhancing the store operating capabilities of franchise owners is crucial to promoting franchise store development under multiple formats as a strategy for differentiating ourselves from competitors.

USING CARD DATA

More than 11 million of our original point cards had been issued by the end of February 2010. Transactions by member cardholders have grown to account for about 20% of sales. The data gleaned from these sales is instrumental for ascertaining customer needs in the catchment areas where our stores are located. We analyze purchasing data for product development and for devising merchandise assortments at stores. In addition, we joined the *Ponta* multi-partner shopping points program in conjunction with other firms in March 2010. More than 20 million cards have been issued for this program in total, including those of the other participating companies. Through this program we can provide additional services for customers, broaden our marketing analysis, and facilitate sales promotion strategies.

DEVELOPING VALUE-ADDED PRODUCTS

To create value from the procurement of raw materials for our original ready-made meals (lunch boxes, rice balls, and other carry-out foods), we established the Raw Material Purchasing Dept. as a specialist division and stepped up our involvement in procurement. We have also focused on securing and training personnel for this field. In fiscal 2009, we further strengthened our ties with partners including Mitsubishi Corporation and took steps to control risks in raw material procurement. As a result we can now procure high-quality ingredients at low prices, and have been able to establish the Surprise Product Development Project. (See the Topics section of this report on page 3.)

Looking ahead, we will involve ourselves in a broader range of raw materials and parlay the value added by our procurement activities into the quality and prices of the products we develop.

INNOVATING OUR ORDERING PROCESS

Our problem in the past has been an inability to fully understand buying trends among customers visiting our stores. Our FC owners often used a supplementary order system that determined how much stock we should purchase based on past sales records. This led to lost sales opportunities*. Until now our core IT system has often been unable to quantify these losses. It tended to be overly predisposed to reducing product disposal losses**, which are relatively easy to calculate, and this prevented us from offering the merchandise assortments that customers wanted.

The next-generation IT system (PRiSM), installed in the second half of fiscal 2009, allows us to use card data analysis to create the best possible merchandise assortments. It also allows us to clearly see lost sales opportunities and effectively creates merchandise assortments that better match customer needs. In fiscal 2010, we will use PRiSM to promote a change in our franchise owners' approach to ordering, by switching from a supplementary order system to a planned order system***. For processed food and non-food products, this will stop the unfortunate cycle of product orders being prompted by product shortages, and in ready-made meals it should reduce both disposal losses and lost sales opportunities, as well as increase sales of these high-gross margin products. We believe that franchise owners will register improved profits as a result.

*When a product desired by customers is out of stock.
** Losses incurred by franchise owners disposing of unsold stock.
*** A system that anticipates products wanted by customers and orders sufficient stock to supply the anticipated need.

AGGRESSIVE DEVELOPMENT OF FRESH FOOD CVS FORMATS

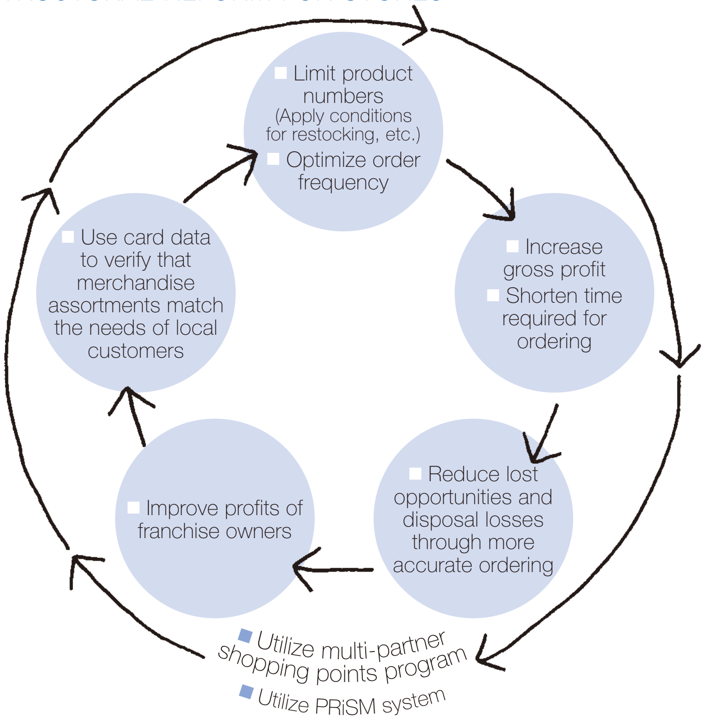
LAWSON STORE100 stores operated by subsidiary Ninety-nine Plus Inc. are geared toward meeting the needs of housewives, the middle-aged and seniors, who want to buy fresh food within walking distance of their homes. The stores have been performing strongly. We began full-fledged development of franchise stores in this format in the second half of fiscal 2009. In fiscal 2010, we will accelerate franchise store development as we open new stores and actively invest in the fresh food CVS businesses.

As of February 2010, we had refurbished more than 800 of our conventional LAWSON stores to carry an assortment of fresh foods. In fiscal 2010, we plan to continue such refurbishments at suitable store locations and work to improve profits at existing stores.

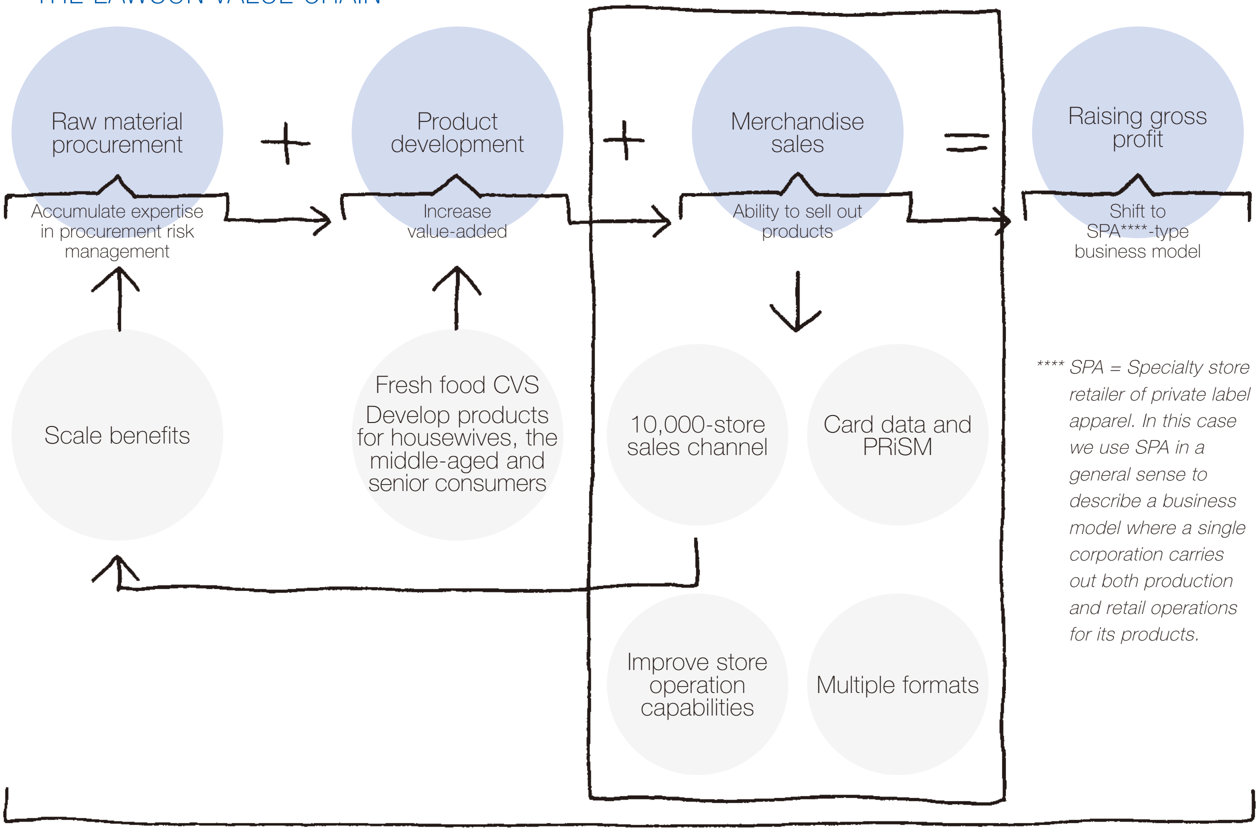
NEW INNOVATIONS AND OVERSEAS STORE DEVELOPMENT

We are developing innovative new store formats, including LAWSON stores with in-store kitchens and LAWSON stores with a greater focus on healthcare. Also, we are looking into new expansion overseas. In China, we currently have around

STRUCTURAL REFORM FOR STORES



THE LAWSON VALUE CHAIN



300 stores in Shanghai, and we will open stores in Chongqing starting in fiscal 2010.

MEDIUM- TO LONG-TERM GROWTH VISION FOR FISCAL 2020

We aim to achieve sustainable growth over the medium and long term. This will require having merchandise assortments tailored to the needs of local (regional) customers and differentiating ourselves from competitors. We are focusing on three key strategies in order to set ourselves apart from our competitors: (1) shift to a SPA-type business model, (2) develop multiple store formats attuned to local (regional) needs, and (3) enhance the operating capabilities of franchise owners.

SHIFTING TO A SPA-TYPE BUSINESS MODEL

Increasing our product development capabilities while also improving gross profit margins requires that we secure as much added value as possible on the upstream area of the retail value chain–that is, in procurement. In the downstream area, it will be crucial to analyze purchase data from the steadily increasing number of cardholders in the multi-partner shopping points program, and to have the ability to sell out merchandise through our sales channel, which has almost reached 10,000 group stores. With these attributes in place, we can treat raw materials as the starting point for our product development. Initiatives in upstream and downstream areas will create a virtuous cycle that will allow us as a SPA-type retailer to achieve greater profitability gains than we can under our existing retailer model.

MULTIPLE FORMATS

1) LAWSON STORE100 and Fresh Food-type LAWSON stores

There is still considerable scope for opening LAWSON STORE100 stores (a fresh food CVS) in places where conventional CVS couldn't be located and in residential areas with large needs for fresh items, delicatessen items and daily delivered foods. We are accelerating store openings, principally in Japan's three largest metropolitan areas and ordinance-designated cities.

Fresh Food-type LAWSON stores are a format created by refurbishing conventional CVS stores. We plan to continue refurbishing conventional CVS stores that are suitably located for introducing fresher food, starting with those that have favorable Mystery Shopper critiques and show strong management capabilities.

2) Healthcare-type LAWSON stores

Through an alliance with MatsumotoKiyoshi Holdings Co., Ltd., a drugstore chain operator, we are not only marketing over-the-counter (OTC) drugs using a system of licensed sales personnel, but we are also gaining valuable sales expertise in preparation for establishing our own sales network ahead of further deregulation. We are also developing a new retail format that combines drugstore and CVS operations in conjunction with MatsumotoKiyoshi.

In addition, we are developing a Pharmacy LAWSON format along with Qol Co., Ltd., which operates a chain for drug-dispensing pharmacies. The format integrates drug-dispensing pharmacies with NATURAL LAWSON stores that cater to health-conscious consumers.

3) In-store Kitchen-type LAWSON stores

Convenience stores, located close to built-up areas, are well positioned to tap into robust needs for freshly made boxed lunches among consumers. We plan to introduce a system for offering customers boxed lunches and delicatessen items freshly prepared in-store with the aim of further differentiating us from our peers.

OVERSEAS STORE DEVELOPMENT

Overseas, while focusing on store profitability, we are setting our sights on expansion in China and other Asian countries that are poised for market growth. In fiscal 2010, we will continue opening stores in addition to those in Shanghai and start opening stores in Chongqing, the largest commercial area in southwestern China. We will leverage our experience accumulated during 14 years in operating stores in Shanghai to expand in other areas using the vendor networks and FC systems know-how that are the cornerstones of our Japanese CVS model.

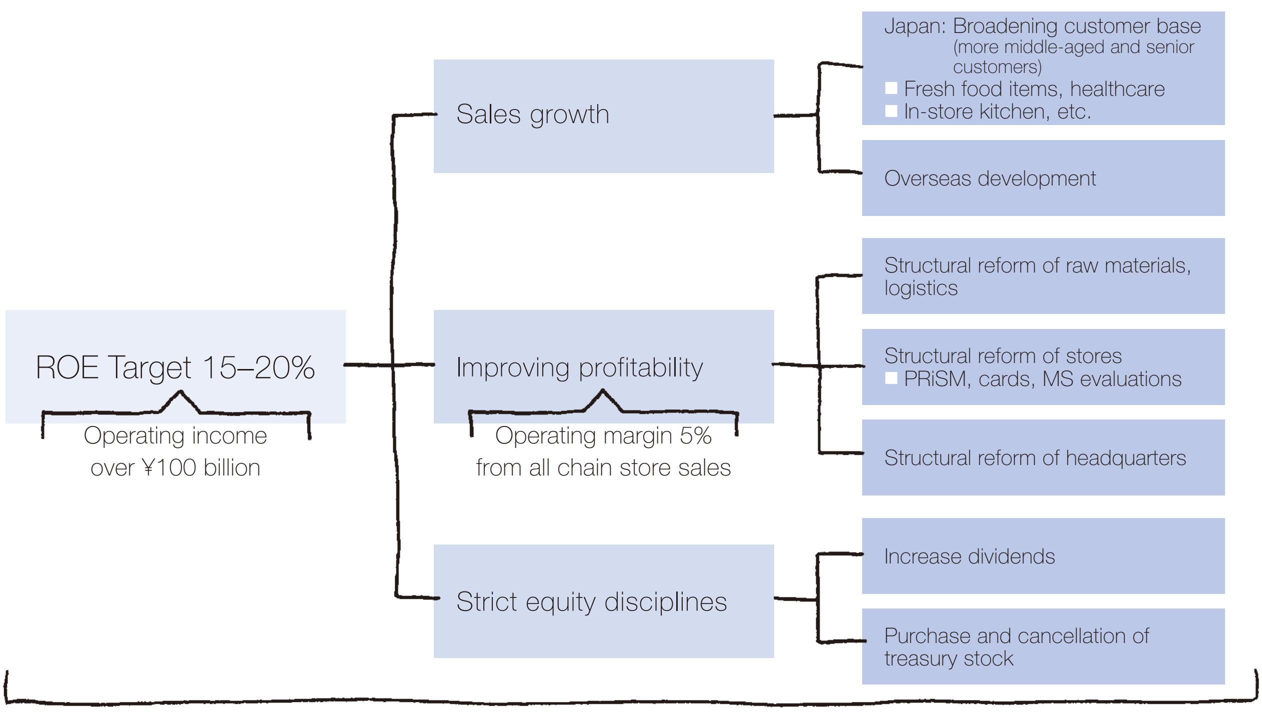
PERSISTENT FOCUS ON SUSTAINABLE MEDIUM-TERM GROWTH

LAWSON has attained growth in consolidated operating income for seven consecutive fiscal years by pursuing its own independent strategies rather than following competitors to open stores with similar attributes. Under our last two medium-term plans, LAWSON Challenge 2004 and LAWSON Challenge 2007, we aggressively invested in strengthening management at existing stores by revamping operations, setting up the Mystery Shopper program, and other means. We also invested in developing and expanding the multiple store formats that will position us for future growth; and developing personnel to drive the Company in its next growth phase.

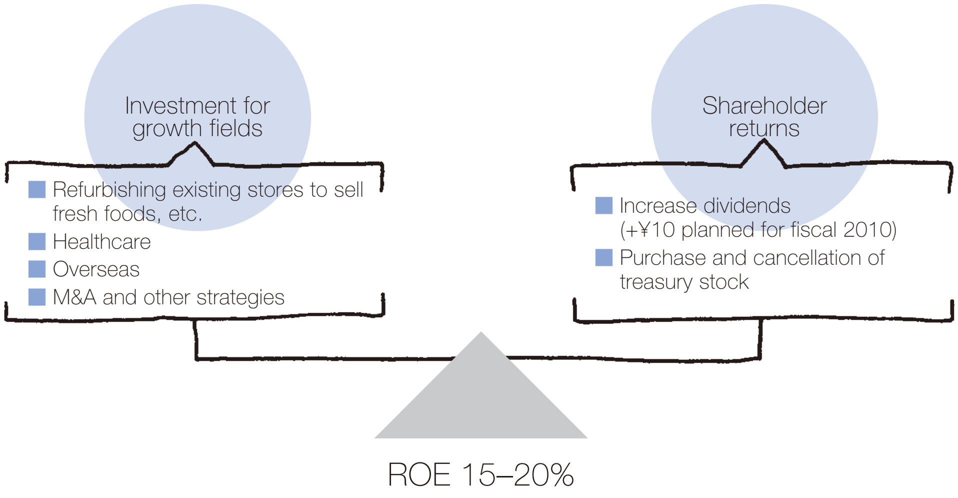
Looking ahead, clearly ascertaining growth fields as sources for future earnings and making additional forward-looking investments for training personnel will be the keys to sustainable growth over the long term. These growth strategies and policies differ from our competitors because we

THE PATH TO VALUE CREATION BY 2020

Becoming the World's Top Catchment-Area Retail Chain as a SPA-Type Retailer



CASH FLOW ALLOCATION



believe that the conventional CVS market targeting males in their twenties and thirties is already saturated and that competing against stores that all have the same traits would not be an effective way to use resources or win acceptance from society. We can attain leading positions in the industry in areas such as fresh foods, healthcare, and in-store food preparation that are not covered by the conventional CVS format. We can also lead the industry in expanding into new markets overseas. These are the areas where we will concentrate our business resources.

APPLYING STRICT DISCIPLINES FOR CAPITAL ALLOCATION, PROMOTING SHAREHOLDER RETURNS

LAWSON has set a management target to achieve ROE of 15-20% over the long term. To raise ROE, we earnestly consider how to best use free cash flow based on strict disciplines for applying our capital resources. When investing management resources for opening and refurbishing stores, entering into new business fields, and applying business resources for M&As and other purposes, we give much weight to standards for return on investment (ROI), and always seek to maximize the efficiency of our investments.

Moreover, we aim to strike a balance between investment in growth fields and shareholder returns in using the free cash flow we generate and manage our balance sheet to ensure that resources are allocated in the best way possible. Looking ahead, as efficient capital investment generates greater free cash flow we will consider raising dividends and purchasing and cancelling treasury stock.

In fiscal 2010, we are shifting from opening conventional LAWSON stores to LAWSON STORE100 stores. These fresh food CVS stores require only about half the investment cost per store compared to our conventional CVS stores. Our aim is to invest for future growth and to generate cash flow that can be applied for shareholder returns. We plan to increase shareholder compensation by raising our dividend by ¥10 compared with last year to ¥170 per share.

HAND-IN-HAND WITH THE COMMUNITY

We believe that working together hand-in-hand with communities is extremely important. Coexistence requires that we maintain a virtuous cycle of contributing to society through our core businesses and receiving the profit we need to continue as evidence that society values our contribution. This is also connected with increasing corporate value. Companies are required to realize these twin concepts of maximizing economic return and maximizing social contributions in order to raise their corporate value.

LAWSON will strive to increase its corporate value by working together with communities to achieve sustainable growth. We will also work actively in the environmental field.

We thank our shareholders and other stakeholders for your continuing support.

July 2010

TAKESHI NIINAMI
President and Chief Executive Officer

LAWSON FEATURE:
FREQUENTLY ASKED QUESTIONS FROM INVESTORS

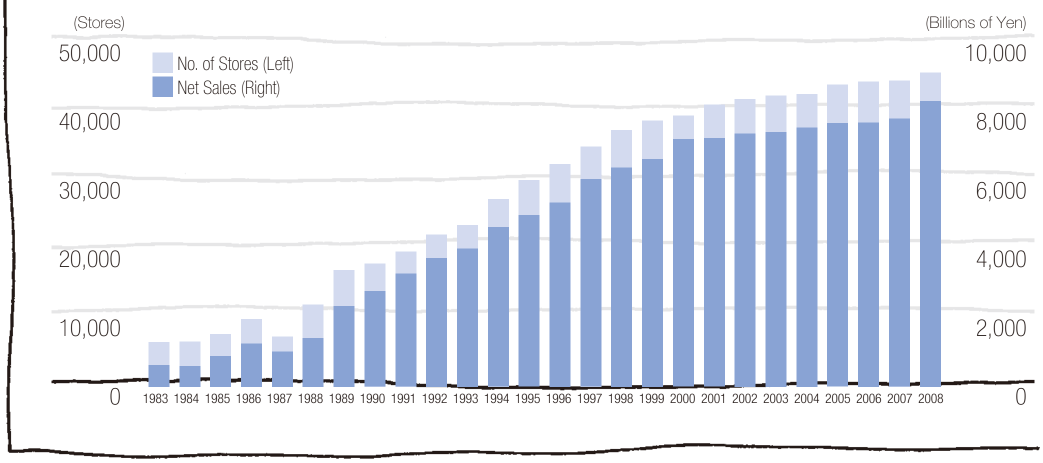
Q Some say that the Japanese CVS market is reaching the saturation point. What is your view on this issue?

A Through innovation, we think we can broaden our customer base and attain growth by switching to formats capable of attracting new customers.

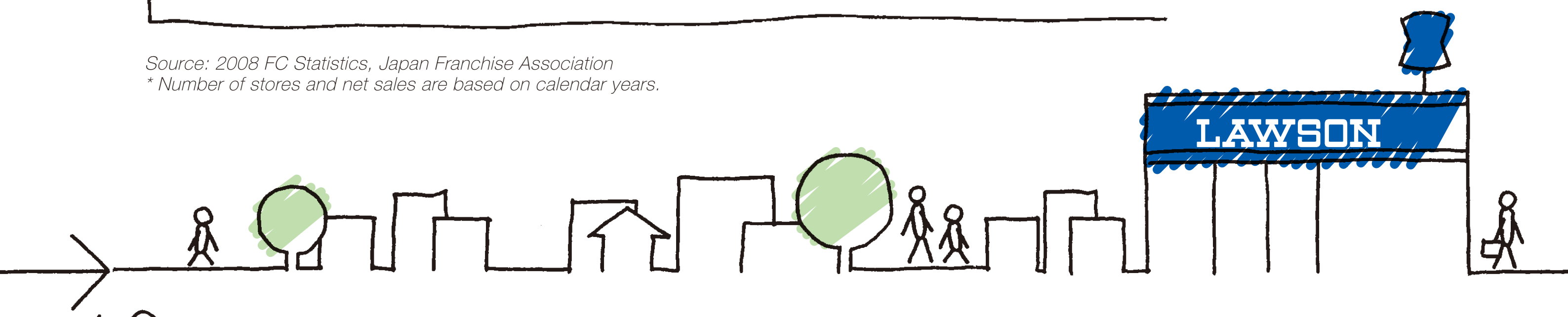
Convenience store numbers have reached about 45,000 in Japan, and most of them target men in their 20s and 30s. Our competitors tend to focus on tapping into the potential for opening stores in areas where none have been opened so far, but most of these remaining areas are in regional cities, where the population has been declining. Also, supermarkets, general merchandise stores, and stores in other retail sub-sectors have a presence in these areas. In our view there is little scope for opening conventional convenience stores that can attain high profitability, even if we concentrate new stores in an area.

Thus, given the limitations of the conventional CVS format, we think the market is becoming saturated because stores have not adapted to changing demographics in Japan, namely the declining birthrate and the aging of society, and companies are competing to open homogenous CVS stores in an environment with limited room for opening new stores. Nevertheless, through innovation, we think we can broaden our customer base and attain growth by switching to formats that are capable of attracting new customers, including women, the middle-aged and seniors.

CONVENIENCE STORE NUMBERS AND NET SALES*



Source: 2008 FC Statistics, Japan Franchise Association
** Number of stores and net sales are based on calendar years.*



Q In fiscal 2009, your existing store sales decreased. Why?

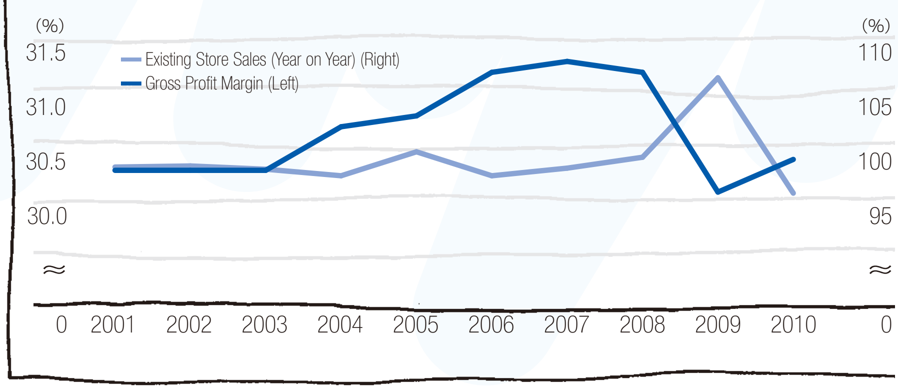
A Reactionary effects from *taspo*, cold summer weather, deflation, and heated competition among CVS industry players to open homogenous stores were to blame.

Looking back before fiscal 2009, existing store sales growth was brisk in fiscal 2008 for several reasons.

Taspo (a proof-of-age card required for buying cigarettes from vending machines) was introduced in fiscal 2008. As a result we saw consumers without *taspo* coming to stores to buy cigarettes. Once there, they tended to buy soft drinks and fast food on the counter in passing. Also, some unusual external factors, including growth in soft drinks sales because of unusually hot summer weather, contributed to rising sales. This led to robust 6.5% growth in existing store sales in fiscal 2008.

In fiscal 2009, reactionary effects after the *taspo* launch in fiscal 2008, cool summer weather that depressed sales of summer merchandise, the economic slowdown after the Lehman shock that further exacerbated deflation and hurt sales, competition among our peers opening homogenous stores, and other negatives combined to push down existing store sales.

EXISTING STORE SALES (YEAR ON YEAR) AND GROSS PROFIT MARGIN



Q But your gross profit margin increased in 2009. Why was that?

A Structural reform lifted the gross margin by 0.3 percentage-point year on year to 30.4%, which is a strong improvement within the CVS industry.

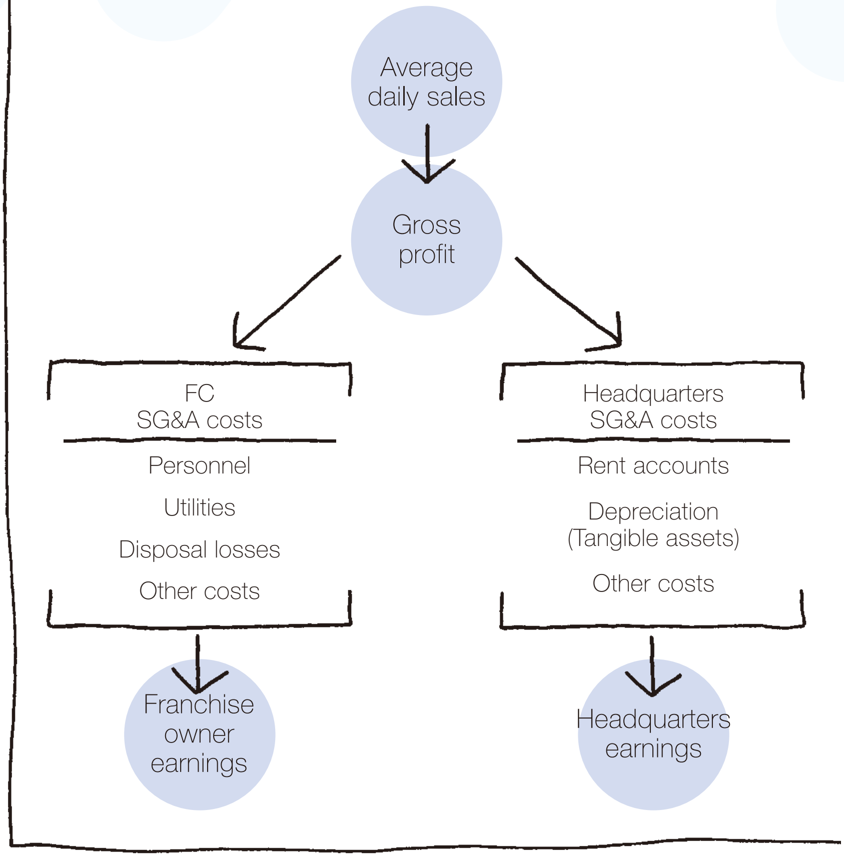
One factor in lifting the gross profit margin was reactionary gains because raw material costs had surged and depressed the margin in fiscal 2008. The main factor, however, was a structural reform of the processes we use for transporting merchandise to stores. I'll cite some examples. We increased the ratio of direct suppliers for procurement of the ingredients we use for our private brand ready-made meals, which increased value added. For processed food and non-food items, which consist mostly of national brand merchandise, we promoted planned ordering to cut intermediary distribution inventory. Also, we reduced the frequency of room-temperature deliveries, which further improved efficiency. As a result of these restructuring measures, the gross profit margin increased 0.3 percentage-point to 30.4% in fiscal 2009, a significant gain within the CVS industry. In fiscal 2010, we plan to increase the gross profit margin by over 0.5 percentage-point to 30.9% on the back of additional structural reforms that will further boost the gross profit margin.

Q How does improving earnings for franchise owners improve LAWSON's earnings?

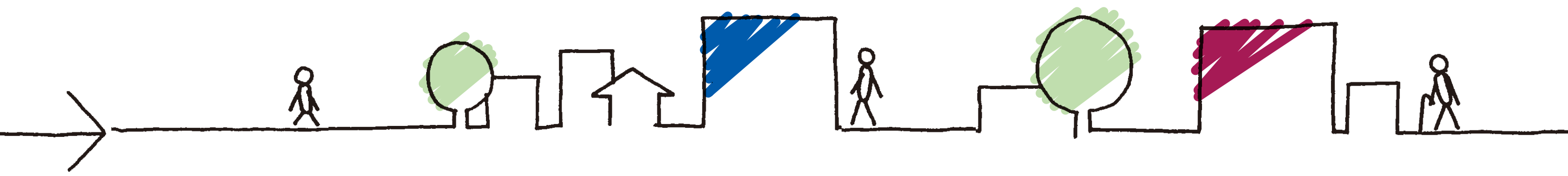
A Our franchise system distributes gross profits generated at stores between franchise owners and headquarters.

Our franchise system distributes gross profit that is generated at the store level between franchise owners and headquarters. Consequently, increasing gross profit at the store level translates into higher earnings for franchise owners and for headquarters. At LAWSON (the parent company), the franchise store ownership rate is about 97%, so profits among franchise owners have a major impact on the Company's own profits. For this reason, we help strengthen the operating capabilities of franchise stores through our "Mystery Shopper" program, and managers from the Head Office meet with franchise owners around 60 times annually to keep their motivation up. We provide the underlying support for improving franchise store profits in a number of ways. For example, our next-generation IT system (PRiSM) enhances structural reform for stores. Point cards are used to support sales promotions, and we provide support for owners who are ranked high under "Mystery Shopper" evaluations to replace their stores.

EXAMPLE OF A LAWSON C-TYPE* CONTRACT



Please see page 31 for an explanation of contract types.



Q What is LAWSON's position in the CVS industry, and how do you differentiate yourselves from other chains?

A We are confident that we will differentiate ourselves by carrying out innovative management strategies.

We rank second in the Japanese CVS industry in both store numbers and net sales of all stores, and we are noted for being the first company in the industry to expand nationwide. Cash flow allocations are geared toward creating return on equity (ROI). Rather than investing in opening conventional CVS stores, our priority is on making forward-looking investments such as creating stores in multiple formats and establishing new businesses as a means of expanding our customer base. We also focus on personnel training and R&D in innovative new fields. We lead the industry in buying back and canceling shares, and we have consistently increased dividends. These innovative business strategies put us at the forefront of the CVS industry, and as strategies for standing apart from our competitors they are clearly reaping rewards.

Q *Premium Whipped Cream Roll* has been hugely successful with consumers. What is the reason for its success?

A Innovations heighten product value, leaving customers pleasantly surprised. We think this is what made the product successful.

Complementing our product lines satisfying the needs of price-conscious customers, we started the Surprise Product Development Project to address the needs of customer that value quality more than price. For this project, we buy ingredients in bulk to control foreign exchange risks, and employ new technologies in the production process and other innovations heighten product value. Our goal is for customers to be pleasantly surprised by a product's value. Our initiatives here have been well received by customers, as evidenced by the success of *Premium Whipped Cream Roll*. For this product, the ingredients were the primary focus. For example, we cooperated with dairy companies to develop a pure, fresh cream blend made up of three types of cream from milk. Although we buy our ingredients in bulk, the risks of being saddled with surplus ingredients are minimal because our sales channels encompassing more than 9,500 Group stores can sell out all production. We will further hone our skills through the project and shift to a SPA-type retailer business model*.

Please see page 7.

Premium Whipped Cream Roll

Double Pork Steak Meal

Stamina Grilled Beef Bento

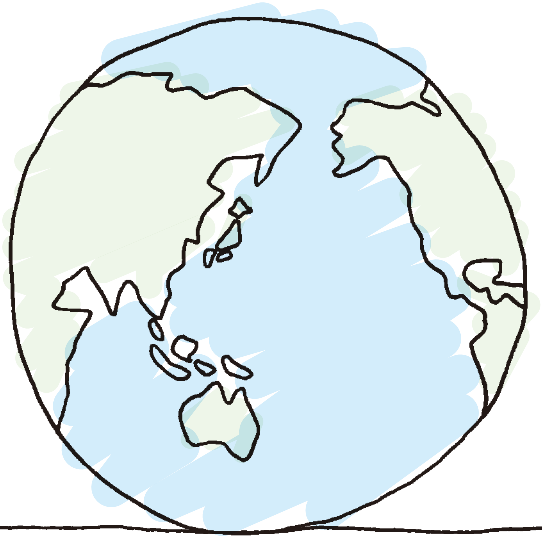
Q Other CVS companies are increasing their store numbers overseas. Why has LAWSON only opened stores in Shanghai?

A We are stressing ROI in opening stores overseas. We do plan to develop on a franchise basis in areas outside of Shanghai.

Since opening its first store overseas in Shanghai in 1996, LAWSON has opened 300 stores through joint ventures with the local partners. Our overseas operations turned profitable at the operating income in fiscal 2006. Instead of increasing store numbers haphazardly overseas, we are stressing ROI and we do plan to grow operations on a franchise basis. With this in mind, we are setting our sights on the growing markets of China and Asia. In April 2010, we established a company in Chongqing, China, and we are taking concrete steps to expand into Asian countries.

We will rely on the vendor networks and our expertise in franchise systems—the cornerstones of our Japanese CVS operations that have been applied in Shanghai—to expand into other major Chinese cities and Asian countries. We are looking into forming alliances with local partners and analyzing ways to promote overseas businesses.

Moreover, as part of our response to the increasing diversity of the society in which we operate, we now aim to hire foreign students studying in Japan for about one-third of our new hires.



Q What are the special features and strengths of your stores offering a broader assortment of fresh foods?

A The LAWSON STORE100 fresh food CVS format serves as a mini-supermarket offering single-class (mostly ¥105) daily delivered foods such as fresh foods and delicatessen items and products in appropriately-sized small quantities. It meets the needs of housewives, the middle-aged and senior consumers, and households with few inhabitants.

The LAWSON STORE100 fresh food CVS format offers a number of advantages to consumers. Stores combine the wide-ranging merchandise assortment of a supermarket with the easily recognizable uniform pricing of one-hundred yen shops (¥105 including tax), and the conveniences of a convenience store. Single people and housewives are the focus, but the stores cater to customers of all ages from children to the elderly. Quality goods, many under our *Value Line* private brand, are offered at single prices in smaller, more appropriately-sized portions for customer safety and peace of mind. Also, steady growth in store numbers and favorable sales and earnings are contributing to sharply higher consolidated operating income.

With the Fresh Food-type LAWSON format, we find that conventional LAWSON stores competing with rival company stores in the same catchment area can be differentiated and revitalized by introducing wider product assortments of fresh foods and other items geared toward a broader range of customers.

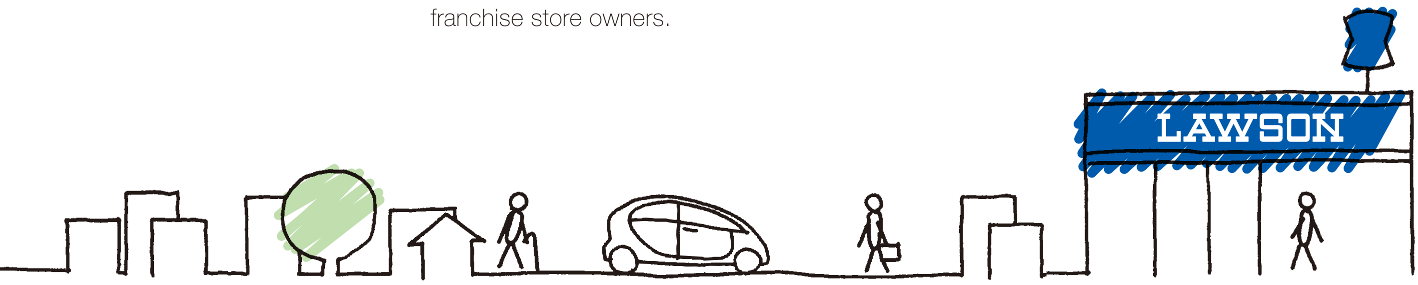
LAWSON STORE100

Q Tell us about your next-generation IT system (PRiSM).

A By installing PRiSM, we can operate stores based on concepts for ordering products from the customer's perspective. We can limit product numbers and use planned ordering to minimize lost sales opportunities and disposal losses based on analysis of purchase data from the multi-partner shopping points program.

A backbone IT system forms a core infrastructure that transmits data between stores and headquarters and facilitates smooth transactions of order data and other information between LAWSON and its suppliers. It has enabled us to build a logistics network with optimal efficiency for frequent and accurate deliveries.

Major CVS operators replace their IT systems about once every seven years. In the second half of fiscal 2009, we completely renovated our backbone IT system, introducing a next-generation IT system that we call PRiSM. It enables us to operate stores based on concepts for ordering products from the customer's perspective. We can limit product numbers and use planned ordering to minimize lost sales opportunities and disposal losses based on analysis of purchase data from the multi-partner shopping points program. It is innovating business processes among our franchise store owners.



CORPORATE SOCIAL RESPONSIBILITY (CSR)

LAWSON is working to help create a low-carbon society in order to leave a rich world for future generations. For example, we conduct various trials at stores to reduce electricity use. Other activities include the introduction of electric vehicles in the Company-owned cars. Moreover, as part of our efforts to preserve the environment, we have formulated the LAWSON Group Environmental Policy.

BASIC COMMITMENT

The LAWSON Group is committed to leaving a rich world for future generations. We will consider the environment in every aspect of our business activities and strive to achieve sustainable development and coexistence with local communities.

POLICIES

1. Helping build a low-carbon society

To help combat global warming, we will work in our business activities to conserve energy and resources, and to reduce waste.

2. Considerations in the development of products and services

We will give proper consideration to the effect on the natural environment and local communities at every stage in the cycle of products and services, from procurement of raw materials, through to sales and disposal.

3. Active participation in social contribution activities

We will actively participate in social contribution activities, getting involved as a member of local communities in efforts to promote greenery and beautification of local areas, and other initiatives.

4. Continuous improvements

We will strive to preserve the environment by utilizing our environmental management systems to make continuous improvements, which will be measured against objectives and targets.

5. Observing laws and regulations

We will observe laws and internal rules relating to environmental preservation activities.

6. Promotion of communication

We will foster greater awareness about environmental preservation by promoting education, and will also promote communication with stakeholders.

June 2010

FY2009 ENVIRONMENTAL TARGETS AND RESULTS

AREA	ACTIVITIES	TARGETS	ACHIEVEMENT STATUS	ASSESSMENT
Saving energy	Cut store air conditioner, cooler and lighting equipment electricity use	Introduce energy-saving units in 90% of new stores	Introduced 486 units in 527 new stores opened (Introduction rate of 92.2%)	Attained
		Introduce adjustable lighting systems or LED lighting fixtures in 90% of new stores	Introduced in 500 of the 527 new stores opened. (LED lighting introduced at 270 stores; introduction rate of 94.9%)	Attained
	Delivery trucks Cut emissions of CO_2 by promoting eco-driving and the introduction of eco-tires	Reduce CO_2 emissions per store by 4.0% (364 kg-CO_2 per store) compared with FY2007	Reduced per-store CO_2 emissions by 10.9% (991 kg-CO_2 per store) compared with FY2007	Attained
	Company-owned cars 1) Promote eco-driving and safe-driving 2) Introduce electric vehicles to cut emissions of CO_2	1) Reduce Company-owned car fuel expenses by 10% compared with FY2008 2) Introduce 40 electric vehicles	1) Reduced annual expenses by 7.1% (96.7% vs. target) 2) Introduced 38 electric vehicles (40 by the end of March 2010)	Nearly
	Cut store electricity consumption by lowering the power consumed by store equipment	Introduce new store equipment during the fiscal year Reduce electricity consumption by 326 kW per store/month	Completed switch to new store equipment at all stores (8,607 stores in total)	Attained
	Promote Company-wide prevention of global warming (reduce CO_2)	1) Establish CO_2 emissions database 2) Create energy-efficient store model	1) Decided to commission construction of a database 2) Assessed benefits in winter, considered additional measures	Nearly

AREA	ACTIVITIES	TARGETS	ACHIEVEMENT STATUS	ASSESSMENT
Saving resources	Reduce the use of plastic shopping bags	1) Reduce by asking customers if they want a bag 2) Promote "Bring Your Own" campaign Reduce distribution rate per store by 3 percentage points compared to FY2008 (Reduce the use of plastic shopping bags per store by 32% compared to FY2000)	Achieved a distribution rate per store of 74.3% vs. 73.9% target (Use of plastic shopping bags per store reduced by 27.7% compared to FY2000)	Nearly
	Reduce the use of disposable chopsticks	1) Reduce by asking customers if they want chopsticks 2) Promote "Bring Your Own" campaign Reduce the number of sets used per store by 20.0% compared with FY2006	Reduced the number of chopsticks used per store by 11.0% compared to FY2006 (Reduced total number was 52,767 pairs)	Nearly
	1) Promote the reduction of packaging weight 2) Promote the use of non-plastic materials (paper, green plastics)	Reduce CO_2 emissions from incineration of packaging by 7.0% compared with FY2006	Reduced CO_2 emissions from incineration of packaging by 23.0% compared with FY2006	Attained
	Reduce store paper receipts and vouchers	Reduce paper by 80 million sheets annually	Reduced paper by 90.04 million sheets	Attained
	Effectively create sales promotion materials and comply with the law on disposal	Develop materials based on advertising display standards, comply with law on disposal	1) Reduced the volume of materials used by 1.4% compared with FY2008 2) Confirmed manifest receipt upon disposal	Attained
Reducing waste	Improve food recycling rate	Improve food recycling rate by more than 4 percentage points compared to FY2007 (to at least 26.5%)	Achieved a food recycling rate of 25.6%*[2] 1) Waste-oil recycling: 7,817 stores 2) Recycling into feed and fertilizer: 1,266 stores 3) Thermal recycling: 136 stores	Nearly
Regional social contributions	Continue collecting donations through LAWSON Green Fund	1) Fundraising activities in all stores 2) Participation in greenery operations 3) Promote and educate, and support regional headquarters' operations	1) FY2009 collections: ¥0.23 billion Collections to date: ¥3.01 billion 2) Participated in 97 greenery operations	Attained
Promotion and education	Combat global warming through activities with customers (Promote CO_2 Offset Campaign)	1) Promote CO_2 Offset Campaign (Use points, *Loppi*) 2) Continue selling products with CO_2 emission credits	FY2009 CO_2 offset volume: 5,647 tons (Total to date: 12,839 tons)	Nearly

** Assessment of quantitative targets: 100% attained: (Attained), 70% or higher attained: (Nearly), Less than 70% attained: (No)*
** Assessment of qualitative targets: Implementation (execution) completed: (Attained), Implementation (execution) in progress: (Nearly), Not implemented (executed): (No)*

*[1] Excludes LAWSON STORE100
*[2] The food recycling rate, including waste reduction, based on the Food Recycling Law of Japan, was 26.5%.

FY2010 ENVIRONMENTAL TARGETS

AREA	ACTIVITIES	TARGETS
Saving energy	Cut store air conditioner, cooler and lighting equipment electricity use	Introduce energy-saving measures at 100% of new stores 1) LED lighting or automatic adjustment systems for controlling lighting levels 2) Combined refrigeration and air conditioning systems 3) Energy-saving sign boards 4) Toilet sensors
		Implement energy-saving measures at existing stores 1) Replace freezers 2) Replace air conditioners 3) Install anti-condensation heaters
	Cut emissions of CO_2 from delivery trucks by promoting eco-driving and the introduction of eco-tires	Reduce CO_2 emissions per store by 15% compared with FY2007
	Company-owned cars 1) Promote eco-driving and safe-driving 2) Introduce electric vehicles to cut emissions of CO_2	1) Reduce Company-owned car fuel expenses by 3% compared with FY2009 2) Introduce 30 electric vehicles
	Promote Company-wide prevention of global warming (reduce CO_2)	1) Establish energy database 2) Create energy-efficient stores
Saving resources	Reduce the use of plastic shopping bags	1) Reduce by asking customers if they want a bag and expanding point system 2) Promote "Bring Your Own" campaign Reduce distribution rate per store by 3 percentage points compared to FY2009 (70%) (Reduce the use of plastic shopping bags by 35% compared to FY2000)
	1) Promote the reduction of packaging weight 2) Promote the use of non-petroleum-derived packaging (paper, green plastics) to reduce CO_2 emissions	Reduce CO_2 emissions from incineration of packaging by 8% compared with FY2006
	Gradual elimination of paper for use in materials distributed by stores	Reduce paper by 3 million sheets annually by incorporating store distributed materials into the information system
	Adhere to advertising display standards for sales promotion materials and comply with the law on disposal	1) Develop materials based on advertising display standards 2) Confirm disposal volume and comply with law on disposal
Reducing waste	Improve food recycling rate	Improve food recycling rate by more than 6 percentage points compared to FY2007 (when it was 22.5%)
Regional social contributions	Continue collecting donations through LAWSON Green Fund	1) Fundraising activities in all stores 2) Participation in greenery operations 3) Promote and educate, and support regional headquarters' operations
Promotion and education	Combat global warming through activities with customers (Promote CO_2 Offset Campaign)	FY2010 CO_2 offsets of 7,000 tons 1) Promote CO_2 Offset Campaign (Use points, *Loppi*) 2) Continue selling products with CO_2 emission credits

DIRECTORS AND CORPORATE AUDITORS

(As of May 26, 2010)

TAKESHI NIINAMI

Representative Director and CEO

Years as a director 8 years
Number of LAWSON shares held
6,000 shares

1981 Joined Mitsubishi Corporation
2002 President, Representative Director and Executive Officer, LAWSON, INC.
2005 President, Representative Director and CEO, LAWSON, INC. (Current position)

TORU MORIYAMA

Director

Years as a director 4 years
Number of LAWSON shares held
900 shares

1977 Joined Mitsubishi Corporation
2005 Executive Assistant to CEO, LAWSON, INC.
2006 Director, Senior Executive Vice President; General Manager, Merchandising & Logistics Division, LAWSON, INC.
2009 Director, LAWSON, INC. (Current position)
2010 Executive Vice President, Group COO, Living Essentials Group, Mitsubishi Corporation (Current position)

OUTSIDE DIRECTORS AND CORPORATE AUDITORS

TETSUO OZAWA

Corporate Auditor (Outside)

Years as a corporate auditor 7 years
Number of LAWSON shares held
0 shares

1973 Admitted to the Japan Bar, joined Tokyo Fuji Law Office (Current position)
2003 Outside corporate auditor, LAWSON, INC. (Current position)
2004 Outside corporate auditor, Monex Group, Inc. (Current position)
2007 Outside corporate auditor, CEMEDINE CO., LTD. (Current position)

TAKEHIKO KAKIUCHI

Director

Years as a director 5 years
Number of LAWSON shares held
0 shares

1979 Joined Mitsubishi Corporation
2005 Director, LAWSON, INC. (Current position)
Director, Kentucky Fried Chicken Japan, Ltd. (Current position)
2008 Director, The Nisshin OilliO Group, Ltd. (Current position)
2009 Director, MARUICHI Co., Ltd. (Current Position)
2010 Senior Vice President, Division COO, Foods (Commodity) Division, Mitsubishi Corporation (Current position)

HIROSHI TASAKA

Director

Years as a director 10 years
Number of LAWSON shares held
0 shares

1990 Joined the Japan Research Institute Limited
2000 Fellow, The Japan Research Institute Limited (Current position)
Professor, Graduate School of Tama University (Current position)
Director, LAWSON, INC. (Current position)
President, SophiaBank Limited (Current position)
2005 Director, Softbank Investment Corporation (now SBI Holdings, Inc.) (Current position)

YOSHIYUKI YAHAGI
Director, Senior Executive Vice President and CFO

Years as a director 3 years
Number of LAWSON shares held 200 shares

1979 Joined Mitsubishi Corporation
2006 Senior Vice President and Executive Assistant to CEO, LAWSON, INC.
2007 Executive Vice President and CFO, in charge of Corporate Planning Office, LAWSON, INC.
2009 Director, Senior Executive Vice President and CFO (Current position)
2010 Senior Vice President, Mitsubishi Corporation (Current position)

MANABU ASANO
Director, Executive Vice President and CCO in Charge of CSR

Years as a director 4 years
Number of LAWSON shares held 3,300 shares

1977 Joined T.V.B Sun Chain Co., Ltd.
2002 Senior Vice President; General Manager, Store Development Division, LAWSON, INC.
2006 Director, Senior Vice President and CCO in Charge of General Affairs and Internal Audit, LAWSON, INC.
2010 Director, Executive Vice President and CCO in Charge of CSR (Current position)

ATSUHIKO SEKI
Standing Corporate Auditor

Years as a corporate auditor Newly appointed
Number of LAWSON shares held 1,100 shares

1977 Joined The Daiei, Inc.
2007 Executive Officer (Other), General Manager, Line Support Division, LAWSON, INC.
2010 Corporate auditor, LAWSON, INC. (Current position)

REIKO OKUTANI
Director

Years as a director 8 years
Number of LAWSON shares held 0 shares

1974 Joined Japan Airlines Corporation
1982 President, The R Co., Ltd. (Current position)
2002 Director, LAWSON, INC. (Current position)

MUNEHIKO NAKANO
Standing Corporate Auditor (Outside)

Years as a corporate auditor 4 years
Number of LAWSON shares held 0 shares

1974 Joined Mitsubishi Corporation
2006 Corporate auditor, LAWSON, INC. (Current position)

KAZUYUKI MASU
Corporate Auditor (Outside)

Years as a corporate auditor Newly appointed
Number of LAWSON shares held 0 shares

1982 Joined Mitsubishi Corporation
2010 General Manager, Administration Dept. of Corporate Section, Mitsubishi Corporation (Current position)
Corporate auditor, LAWSON, INC. (Current position)

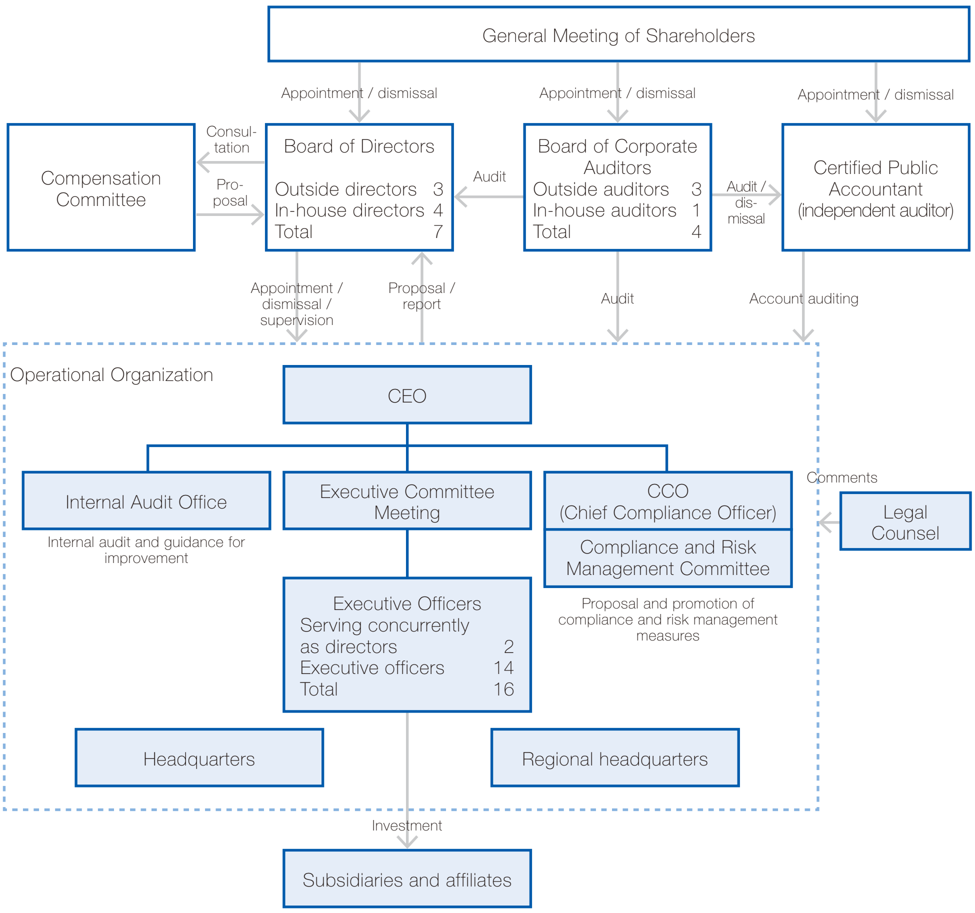
CORPORATE GOVERNANCE

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, the 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 26, 2010)



CORPORATE GOVERNANCE SYSTEM (AS OF MAY 26, 2010)

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 FY09:	16 (including 5 extraordinary meetings)
Outside Directors' attendance rate at Board of Directors' meetings in FY09:	Approximately 77% (including extraordinary meetings)
Number of Corporate Auditors:	4 (including 3 Outside Corporate Auditors)
Outside Corporate Auditors' attendance rate at Board of Directors' meetings in FY09:	Approximately 88% (including extraordinary meetings)
Major committee meetings attended by Corporate Auditors:	Board of Directors' meetings, Executive Committee meetings, Financial Reporting Internal Control Committee meetings, Compliance and Risk Management Committee meetings, Board of Corporate Auditors' meetings, other meetings
Number of Board of Corporate Auditors' meetings in FY09:	16 (including 5 extraordinary meetings)
Attendance rate at Board of Corporate Auditors' meetings in FY09:	Approximately 98%
Appointment of Independent Officers:	Appointed 1 Outside Director and 1 Outside Auditor
Average age of Directors and Corporate Auditors:	56
Independent Auditor:	Deloitte Touche Tohmatsu LLC
Internal Audit Division:	Internal Audit Office
Overview of the internal control system:	■ We are focusing on the following six areas, in accordance with the Fiscal 2010 Basic Policy on Development and Operation of the Internal Control System, as revised in February 2010: **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 legal counsel, respectively **4]** Compliance and risk management via a dedicated compliance system **5]** The establishment of the necessary systems to ensure proper financial reporting **6]** The establishment of a system to appropriately disclose important company information
Compliance system:	■ Appointment of an executive responsible for compliance and risk management (Chief Compliance Officer (CCO)) ■ Appointment of compliance officers at all headquarters divisions and seven regional headquarters ■ Monthly meeting of Compliance and Risk Management Committee, chaired by the CCO, and quarterly meeting of the Affiliated Company Compliance Officers Committee, to identify LAWSON Group 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, and which met four times in fiscal 2009, 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 28, 2010) ■ Subsidiaries Ninety-nine Plus Inc., which runs a fresh foods convenience store business, and ticket sales business operator LAWSON ENTERMEDIA, INC. are publicly owned companies listed on the Osaka Securities Exchange and the JASDAQ market. Furthermore, in order to realize more integrated organizational operation and faster decision-making processes in business operations, LAWSON made both Ninety-nine Plus and LAWSON ENTERMEDIA into wholly-owned subsidiaries on July 1, 2010 by exchange of shares.
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. ■ Two dedicated committees, the Compliance and Risk Management Committee and the Affiliated Company Compliance Officers Committee, meet to discuss risk.
Other initiatives:	Disclosure of voting results from the General Meeting of Shareholders http://www.lawson.co.jp/company/e/ir/library/pdf/ketsugi/ketsugi_35r_e.pdf

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

MISCONDUCT BY TWO FORMER DIRECTORS OF LAWSON ENTERMEDIA, INC.

LAWSON wishes to offer its sincerest apologies for any inconvenience caused to shareholders and investors and all other stakeholders for recording approximately ¥14.5 billion in extraordinary losses in fiscal 2008 and fiscal 2009 combined, which stemmed from the misappropriation of funds by two former directors of LAWSON consolidated subsidiary LAWSON ENTERMEDIA, INC. (LEM).

Following discovery of this problem on January 24, 2010, LAWSON immediately set up an internal investigating committee, which was chaired by LAWSON president Takeshi Niinami, and began investigations with the cooperation of outside legal counsel and an accounting firm. The committee made public the details of its investigation on February 9, 2010. Furthermore, in order to investigate and confirm the facts surrounding the misconduct and to look at business improvements at LEM, LAWSON formed a third party investigating committee on February 9, 2010 made up of outside specialists. The third party investigating committee looked at the course of events leading to and reasons for the problem, and evaluated responsibility, conducted a legal evaluation, and proposed improvement measures. The results of these investigations were made public to stakeholders on April 12, 2010 in a press release titled “Third Party Investigating Committee Issues Final Report Concerning Alleged Misconduct by Two Former Directors of LAWSON ENTERMEDIA” (http://www.lawson.co.jp/company/e/news/detail/detail_158.html).

The committee found that the reason for the misappropriation of funds lay in the concentration of authority in the two former directors. For an overview of the misappropriation of funds, please refer to the February 9, 2010 press release titled “Discovery of Misconduct by Two Directors of LAWSON ENTERMEDIA” (http://www.lawson.co.jp/company/e/news/detail/detail_151.html).

LEM will implement the following preventative measures based on the report of the third party investigating committee.

EMERGENCY COUNTERMEASURES

- Elimination of concentration of authority
- More extensive supervision of payments

FUNDAMENTAL COUNTERMEASURES

- Enhancement of legal compliance
- Recognition and prevention of transaction risks
- Emphasizing an organizational over individual approach
- Enhanced management of the Sales Division
- Stronger supervision
- Encourage use of internal whistleblower system
- Monitoring of preventative measure implementation

When this incident was discovered, LAWSON conducted inspections of accounting at Group companies as an emergency measure, confirming that no other misappropriation of funds had occurred. Looking ahead, the LAWSON Group as a whole will rigorously enforce risk management in order to prevent corporate misconduct from recurring, with two main measures—dispersion of authority, and a stronger risk management system.

FINANCIAL SECTION

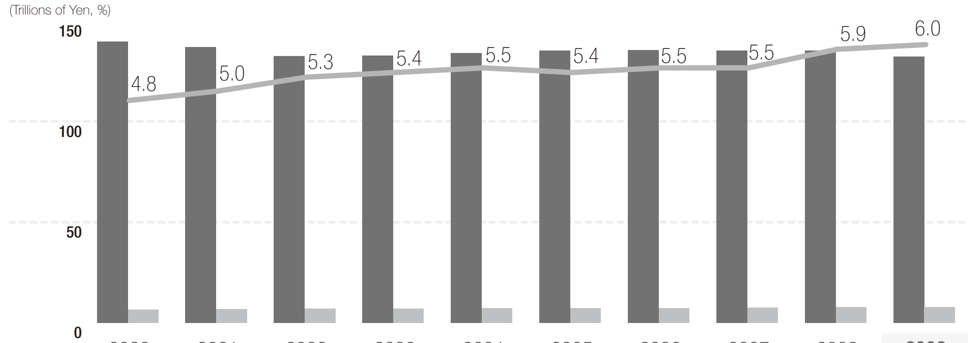
SUPPLEMENTARY EXPLANATION

AUDITS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

In the fiscal year ended February 28, 2010, Japan introduced an internal control reporting system based on the Financial Instruments and Exchange Act. In evaluating the LAWSON Group's internal controls over financial reporting, LAWSON follows this internal control reporting system based on the Financial Instruments and Exchange Act of Japan, and not the Sarbanes-Oxley Act of the United States. LAWSON is also audited by independent auditors in accordance with auditing standards generally accepted in Japan for internal controls over financial reporting.

OVERVIEW OF THE CVS SECTOR AND SELECTED FINANCIAL DATA

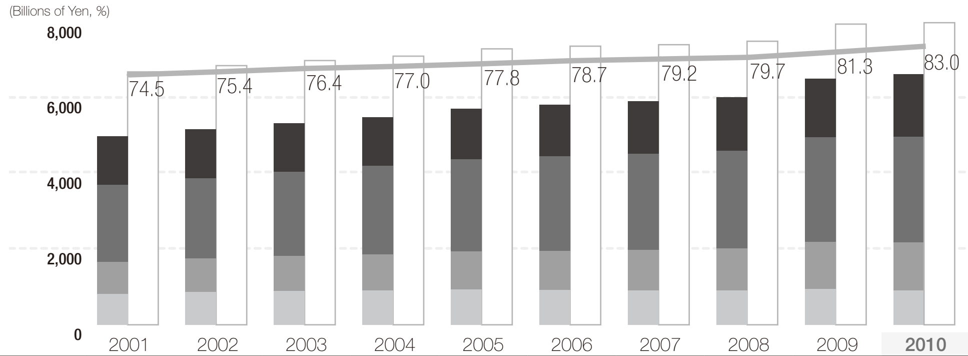
CVS Share of the Total Retail Market



Years ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Total retail industry annual sales	¥139	¥137	¥132	¥132	¥134	¥135	¥135	¥135	¥135	**¥132**
CVS sector annual sales	6.7	6.8	7.0	7.1	7.3	7.4	7.4	7.5	7.9	**8.0**
CVS share	4.8%	5.0%	5.3%	5.4%	5.5%	5.4%	5.5%	5.5%	5.9%	**6.0%**

Source: "Survey of Commerce," Ministry of Economy, Trade and Industry

Share of CVS Market Held by Top Four Chains (Net Sales of All Stores)



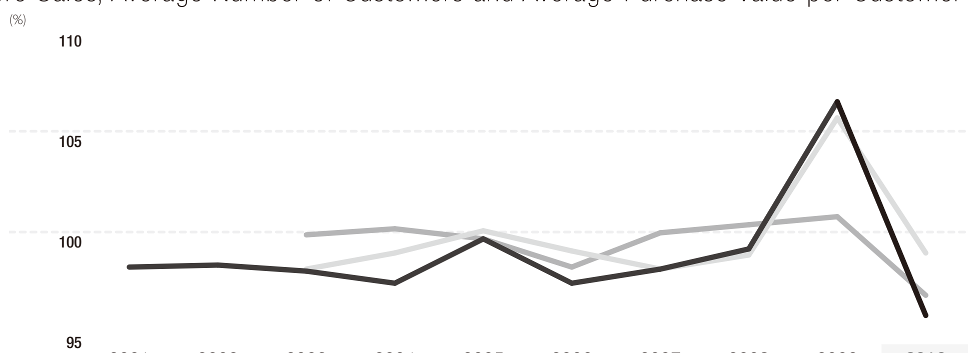
February 28 and 29	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
LAWSON	¥1,278	¥1,286	¥1,294	¥1,288	¥1,329	¥1,362	¥1,387	¥1,415	¥1,559	**¥1,666**
Seven-Eleven Japan	2,047	2,114	2,213	2,343	2,441	2,499	2,534	2,574	2,763	**2,785**
FamilyMart	843	899	932	954	998	1,032	1,069	1,122	1,246	**1,274**
Circle K Sunkus*	814	860	892	902	934	920	911	902	940	**902**
Total	4,978	5,159	5,330	5,468	5,674	5,792	5,863	5,971	6,458	**6,627**
(Estimated market share of top 4 chains)	74.5%	75.4%	76.4%	77.0%	77.8%	78.7%	79.2%	79.7%	81.3%	**83.0%**
CVS industry**	¥6,680	¥6,846	¥6,980	¥7,096	¥7,289	¥7,360	¥7,399	¥7,490	¥7,943	**¥7,981**

Source: Data published by each company

** Data for the year ended February 28, 2001 shows the figure for Circle K and Sunkus combined and C&S Co., Ltd. for the fiscal years ended February 28, 2002, February 28, 2003 and February 29, 2004.*

*** CVS industry figures are based on the calendar year.*

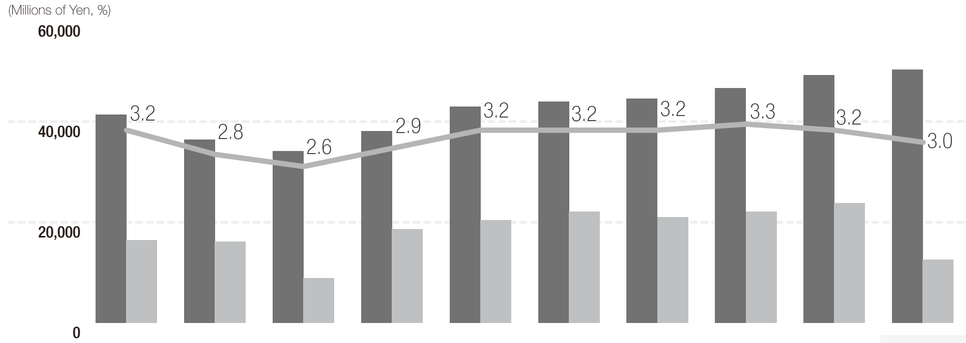
YoY Rate on Existing Store Sales, Average Number of Customers and Average Purchase Value per Customer in Existing Stores (LAWSON)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
YoY rate on existing store sales	98.3	98.4	98.1	97.5*	99.7	97.5	98.2	99.2	106.5	**95.9**
Average number of customers and average purchase value per customer in existing stores										
Number of customers	–	–	98.2	99.0	100.1	99.1	98.2	98.9	105.7	**99.0**
Average purchase value per customer	–	–	99.9	100.2	99.7	98.3	100.0	100.4	100.8	**96.9**

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

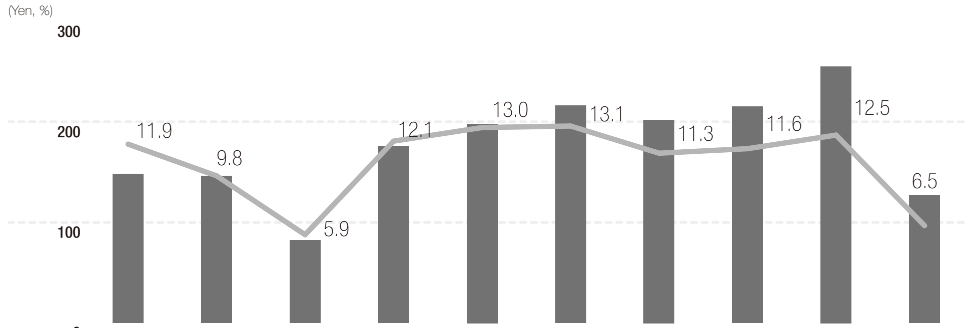
Operating Income, Operating Income Ratio and Net Income (LAWSON)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
■ Operating Income	¥41,279	¥36,363	¥34,107	¥38,087	¥42,941	¥43,867	¥44,513	¥46,610	¥49,186	**¥50,276**
━ Operating Income Ratio*	3.2%	2.8%	2.6%	2.9%	3.2%	3.2%	3.2%	3.3%	3.2%	**3.0%**
■ Net Income	¥16,368	¥16,123	¥8,861	¥18,571	¥20,435	¥22,025	¥20,983	¥22,119	¥23,807	**¥12,562**

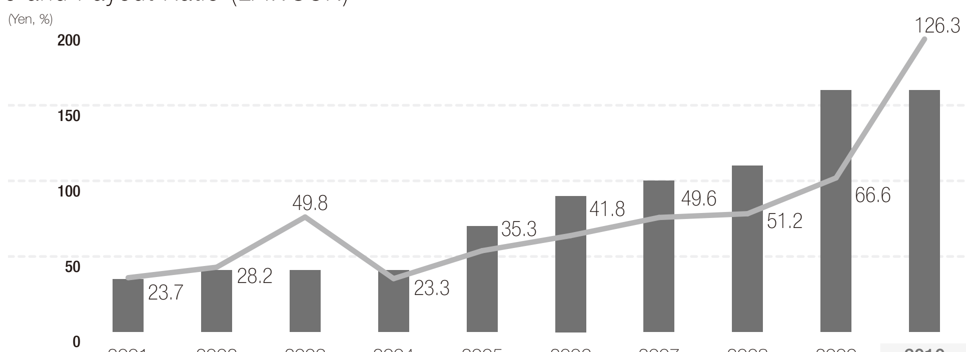
** Operating income ratio = Operating income / Net sales of all stores*

Net Income per Share and ROE (LAWSON)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
■ Net Income per Share	¥148	¥146	¥82	¥176	¥198	¥216	¥202	¥215	¥240	**¥127**
━ ROE	11.9%	9.8%	5.9%	12.1%	13.0%	13.1%	11.3%	11.6%	12.5%	**6.5%**

Cash Dividends per Share and Payout Ratio (LAWSON)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
■ Cash Dividends per Share	¥35	¥41	¥41	¥41	¥70	¥90	¥100	¥110	¥160	**¥160**
━ Payout Ratio	23.7%	28.2%	49.8%	23.3%	35.3%	41.8%	49.6%	51.2%	66.6%	**126.3%**

CONSOLIDATED ELEVEN-YEAR SUMMARY

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

	2010	2009	2008	2007	2006
For the year:					
Operating revenues					
Franchise commission from franchised stores	**¥ 185,656**	¥ 186,928	¥ 177,443	¥ 174,325	¥ 170,785
Net sales from Company-operated stores	**232,459**	119,099	83,321	75,151	66,027
Other	**49,077**	43,449	40,413	33,577	31,246
Total operating revenues	**467,192**	349,476	301,177	283,053	268,058
Operating income	**50,276**	49,186	46,610	44,513	43,867
Net income	**12,562**	23,807	22,119	20,983	22,025
Cash flows from operating activities	**40,696**	51,717	55,774	47,596	46,933
Cash flows from investing activities	**(42,596)**	(15,647)	(36,525)	(31,754)	(55,282)
Cash flows from financing activities	**(27,239)**	(14,911)	(31,973)	(736)	(7,795)
Capital expenditure(2)	**71,399**	42,907	64,413	49,822	54,417
Depreciation and amortization(3)	**27,468**	20,879	21,469	21,352	20,896
At year-end:					
Total assets	**¥ 448,132**	¥ 436,096	¥ 397,108	¥ 398,258	¥ 375,107
Total equity	**198,136**	201,167	188,574	199,493	175,184
Equity ratio	**42.8%**	44.8%	46.6%	49.0%	46.7%
Interest-bearing debt	**–**	–	–	–	–
Ratio of interest-bearing debt	**–**	–	–	–	–
Cash and cash equivalents	**54,843**	83,982	62,823	75,547	60,441
Total number of stores(4)	**9,761**	9,527	8,587	8,564	8,366
Number of employees (full-time)	**5,236**	5,186	3,735	3,614	3,585

	2010	2009	2008	2007	2006
Per share data:					
Net income	**¥ 127**	¥ 240	¥ 215	¥ 202	¥ 216
Cash dividends	**160**	160	110	100	90
Payout ratio	**126.3%**	66.6%	51.2%	49.6%	41.8%
Financial data:					
ROE	**6.5%**	12.5%	11.6%	11.3%	13.1%
ROA	**2.8%**	6.1%	5.6%	5.4%	6.0%
Net sales of all stores:					
Net sales by store category					
Franchised stores(5)	**¥1,433,678**	¥1,434,166	¥1,331,785	¥1,311,479	¥1,295,704
Company-operated stores	**232,459**	124,614	83,321	75,151	66,027
Net sales by product category(5)					
Processed foods	**¥ 902,306**	¥ 844,324	¥ 726,750	¥ 705,155	¥ 682,006
Fast foods	**324,197**	332,894	327,501	324,993	312,289
Daily delivered foods	**239,088**	186,109	162,625	155,575	150,917
Non-food products	**200,544**	195,453	198,230	200,907	216,519
Net sales of all stores	**¥1,666,136**	¥1,558,781	¥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 28, 2010, of ¥89.43=$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 36 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 during the fiscal year ended February 28, 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	2010
¥ 162,963	¥ 153,910	¥ 149,032	¥ 141,621	¥ 135,237	¥ 124,587	**$ 2,075,992**
63,802	67,479	80,954	101,353	132,921	149,458	**2,599,340**
27,630	24,212	20,348	13,142	12,061	17,808	**548,776**
254,395	245,601	250,334	256,116	280,218	291,853	**5,224,108**
42,941	38,087	34,107	36,363	41,279	40,185	**562,183**
20,435	18,571	8,861	16,123	16,368	15,011	**140,467**
47,329	37,424	33,860	44,804	52,793	67,790	**455,060**
(33,297)	(40,621)	(3,787)	(44,031)	(54,696)	121,758	**(476,305)**
(13,836)	(14,364)	(7,247)	(58,236)	18,707	(92,521)	**(304,585)**
46,873	48,303	75,828	59,810	32,651	30,703	**798,379**
19,641	18,499	16,071	16,328	16,021	15,017	**307,145**
¥ 356,310	¥ 354,831	¥ 342,599	¥ 342,934	¥ 387,236	¥ 339,413	**$ 5,010,981**
160,282	154,317	151,864	149,827	178,448	95,932	**2,215,543**
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	**613,251**
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	**$ 1.42**
70	41	41	41	35	17	**1.79**
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	**$16,031,276**
63,802	67,479	80,954	101,353	132,921	149,458	**2,599,340**
¥ 665,687	¥ 625,031	¥ 600,508	¥ 583,712	¥ 562,777	¥ 528,188	**$10,089,523**
297,369	302,568	303,098	297,030	362,979	350,702	**3,625,148**
148,134	139,506	138,353	150,862	90,569	89,248	**2,673,465**
217,887	221,192	252,083	253,953	261,313	254,742	**2,242,469**
¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	¥1,277,638	¥1,222,880	**$18,630,616**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In fiscal 2009, personal consumption remained weak due to concerns about employment and incomes. Coupled with deflationary trends, the Japanese retail industry experienced a difficult operating environment. The retail industry also saw price-based competition intensify as general merchandise stores (GMS) and supermarkets developed low-pricing strategies centered on private brands. Meanwhile, in the department store sector, further industry realignment and along with this store restructuring failed to fully offset dwindling demand.

Amid these industry trends, the sales system for over-the-counter (OTC) medications, such as cold and stomach remedies, underwent a major change with the June 2009 enforcement of amendments to the Pharmaceuticals Affairs Law. The establishment of a new qualification, "Registered Pharmaceuticals Salesperson," means that it is now possible to sell some OTC drugs (Type 2 and 3) with this type of salesperson without the need to have a pharmacist in store, thus opening the way for OTC drugs to be sold in the CVS industry.

In the CVS industry, existing store sales at all convenience store chains dropped year on year for several reasons. One was that the boosting effect of *taspo*, which lifted sales in fiscal 2008, ran its course. Secondly, the summer months, traditionally the highest period of demand throughout the year, were marked by unseasonable weather. Third was the impact of competition created by major convenience store chains opening stores of the same type. In the face of these conditions, there were signs of industry restructuring taking place. For its part, LAWSON made Ninety-nine Plus Inc. a subsidiary. Meanwhile, FamilyMart Co., Ltd. acquired am/pm Japan Co., Ltd.

Retail Industry Market Size and CVS Share (Billions of Yen, %)

Years ended December 31	2009	2008	2007	2006	2005
Total retail industry annual sales	**¥132,328**	¥135,477	¥135,081	¥135,257	¥135,055
CVS sector annual sales	**7,981**	7,943	7,490	7,399	7,360
CVS share	**6.0%**	5.9%	5.5%	5.5%	5.4%

Source: "Survey of Commerce," Ministry of Economy, Trade and Industry

Share of CVS Market Held by Top Four* Chains (Net sales of all stores) (Billions of Yen, %)

February 28 and 29	2010	2009	2008	2007	2006
LAWSON	**¥1,666**	¥1,559	¥1,415	¥1,387	¥1,362
Seven-Eleven Japan	**2,785**	2,763	2,574	2,534	2,499
FamilyMart	**1,274**	1,246	1,122	1,069	1,032
Circle K Sunkus*	**902**	940	902	911	920
Total	**6,627**	6,458	5,971	5,863	5,792
(Estimated market share of top 4 chains)	**83.0%**	81.3%	79.7%	79.2%	78.7%

Source: Data published by each company
** C&S Co., Ltd. for the fiscal years ended February 28, 2002, February 28, 2003 and February 29, 2004*

CVS Store Numbers

Years ended December 31	2008	2007	2006	2005	2004
CVS store numbers	44,391	43,228	43,087	42,643	41,340

Source: Annual FC Statistics, Japan Franchise Association

MANAGEMENT MEASURES IN FISCAL 2009

LAWSON executed the following management measures in the year ended February 28, 2010 with the goal of strengthening existing stores.

1. We implemented structural reforms in order to generate gross profit at existing stores in a difficult external environment.

   Specifically, we optimized intermediary distribution inventory, reviewed distribution efficiency, and created appealing products beginning from scratch with raw materials. As a result of these efforts, the gross profit margin improved 0.3 of a percentage point.

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

   We worked to sign up more members and improve the frequency of members' visits to stores. We continued to roll out loyalty card initiatives and developed stronger merchandise assortments at individual stores via customer relationship management (CRM). In March 2010, LAWSON joined the *Ponta* multi-partner shopping points program. Loyalty Marketing, Inc., a wholly owned subsidiary of Mitsubishi Corporation, issues the cards, and operates and manages the program.

The "Plan" in pages 28 through 41 is the revised plan that was announced at the time of the second quarter earnings report for fiscal 2009.

3. In the second half of fiscal 2009, we completed introduction of PRiSM at all stores. PRiSM is our next-generation IT system and with its introduction we have completely revamped our backbone system.

   The introduction of PRiSM has made cash register screens easier to view, improved the ease-of-use of *Loppi* multimedia terminals and increased operating speed. In addition, it has enabled individual stores to use sales data collected from point cards for ordering purposes. Moving forward, we will utilize PRiSM to further raise ordering accuracy at franchise stores with a view to creating merchandise assortments matched to local customer needs.

4. We began franchising the LAWSON STORE100 fresh food convenience store format.

   Ninety-nine Plus Inc, which operates fresh food convenience stores as a LAWSON consolidated subsidiary, is responding to increased frugality among consumers by offering appealing products at a single price. As we did in fiscal 2008, we continued converting SHOP99 stores to LAWSON STORE100 brand stores, and also began franchising LAWSON STORE100 stores.

PRODUCTS AND SERVICES OVERVIEW

The consumer market in fiscal 2009 was defined by increasing polarization of consumption, with major changes in consumer needs in terms of product value and product price. LAWSON responded quickly by launching products that accurately addressed these diverging customer needs.

For customers placing priority on product value, we continued rolling out products offering a positive "surprise" with their high added value relative to price by sourcing high-quality ingredients in large quantities through bulk purchasing to lower costs. We focused in particular on the following categories.

- In the rice dishes category, we launched *Stamina Grilled Beef Bento,* which is made using high-quality cuts of beef, after which we continued to develop and sell other boxed lunches to surprise customers.
- In the dessert category, we launched a new brand called *Uchi Café SWEETS*, developing such products as *Premium Whipped Cream Roll*, which uses real whipped cream. These products were well supported by customers.
- In the cooked noodles category, we launched a new brand called *Pasta Ya*. As part of this brand launch, we introduced pasta-making equipment featuring a new technique at all processing facilities throughout Japan. Furthermore, we provided quality products to rival any specialist pasta restaurant, increasing the volume of ingredients and sauce, and using chewy fresh pasta.

For price-sensitive customers, we began selling *L Chiki* fried chicken, which offers a healthy serving at a reasonable price. In addition, we pushed ahead with introducing *Value Line* private brand merchandise, which was developed mainly for LAWSON STORE100 stores, into regular LAWSON stores.

In sales promotions, we implemented campaigns leading to higher earnings for franchise owners, prioritizing campaigns which produced a high return on investment, such as the *Spring Rilakkuma Fair* and *Ponyo Ramen Bowl Present* campaigns.

On the services front, our stores handled 162 million bill settlement transactions, including public utility charges; the chain handled transactions amounting to ¥1,553.8 billion on behalf of third parties in this way. Furthermore, ATM machines were installed in 3 more prefectures, bringing the number of prefectures with LAWSON stores that have ATMs to 40.

Regarding MY LAWSON POINT and LAWSON PASS loyalty cards, we focused on sales initiatives for members, such as expanding the range of products eligible for bonus points, and giving more points for purchases made on a certain day of the week. As a result of these efforts, the number of card members at February 28, 2010 exceeded 11 million people. Sales to these members accounted for approximately 20% of all our sales.

STORE OPERATIONS

In store operations, the Company continued providing guidance to franchise owners in order to ensure merchandise assortments that match customer needs in each location. The guidance is provided continuously to individual stores based on a thorough understanding of the customers in each area.

Furthermore, through the introduction of our next-generation IT system (PRiSM), we used members' card data to order products to suit customers' needs, thereby operating stores so as to create merchandise assortments matching customer needs in each location.

In fiscal 2009, we continued to implement the "Mystery Shopper*" program with the aim of raising customer satisfaction, which we are doing by promoting the Three Challenge Practices**—the enhancement of quality (Q), service (S), and cleanliness (C). The Three Challenge Practices are the keystone for LAWSON store operations. These efforts helped to strengthen store operation capabilities.

* *In this program, researchers visit individual LAWSON stores posing as ordinary shoppers and objectively and quantitatively evaluate them from a customer's perspective.*

** *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.*

STORE DEVELOPMENT AND STORE FORMATS

Development of LAWSON Stores

The Company took steps to open stores that it expects to generate high earnings relative to its investment, adhering to proprietary store opening standards. This entailed concentrating on opening new stores mainly in major metropolitan areas in the Kanto, Chubu and Kinki regions.

Regarding conventional convenience stores, the scope for opening new stores is limited due to fierce competition with homogeneous convenience stores opened by other companies. Given this situation, LAWSON pushed ahead with the opening of formats suited to each location, leveraging its strength in having multiple formats.

Initiatives with formats other than regular LAWSON stores during the past fiscal year were as follows.

LAWSON STORE100 Fresh Food Convenience Stores

LAWSON is developing a fresh food convenience store format in order to meet the needs of housewives, the middle-aged and seniors, customer segments whose needs weren't fully met by conventional convenience stores.

By continuing to open new LAWSON STORE100 fresh food convenience stores and franchising these stores, LAWSON is aiming to drive further growth. Where the location justifies it, the Company will also introduce fresh foods and *Value Line* private brand merchandise at regular LAWSON stores.

Fresh Food-type LAWSON Stores

With the aim of developing store formats that meet local customer needs, we are converting and enhancing existing LAWSON stores into Fresh Food-type LAWSON stores with stronger fresh food assortments. These enhanced LAWSON stores offer products for new customer segments (women, the middle-aged and seniors), centered on fresh foods and daily delivered foods. The concept behind these enhanced LAWSON stores is the same as fresh food LAWSON STORE100 stores, that is, to strengthen the merchandise assortment for women, the middle-aged and senior customers to expand LAWSON's customer base. However, the difference from LAWSON STORE100 stores is that these are basically conventional LAWSON stores that have been enhanced.

NATURAL LAWSON for Health-Conscious Customers

NATURAL LAWSON is a CVS format targeting mainly working women and health-conscious customers, based on the key words of "beauty," "health" and "convenience." The first store opened in 2001. In 2004, one business division in the 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 concept and unique corporate culture that are distinct from the Head Office. NATURAL LAWSON has therefore been able to develop products that break 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, LAWSON is continuing to develop the format to meet the needs of health-conscious consumers. As a result of these efforts, LAWSON is establishing some stores with a dispensing pharmacy.

Future Store-Opening Strategy

LAWSON will open the optimal format for an area, fully leveraging the distinctive features of four formats to meet area needs: "LAWSON," "NATURAL LAWSON," "LAWSON STORE100," and "Fresh Food-type LAWSON" Stores. Armed with multiple formats, LAWSON will be able to avoid competition to open same-type stores with other market players and to cater to areas where conventional convenience stores could not be opened in the past, thus allowing it to respond flexibly based on the conditions of a candidate location.

Furthermore, in overseas operations, LAWSON plans to make use of its 14 years of experience in Shanghai, China, to open stores in Chongqing from July 2010.

Number of Stores in the LAWSON Network (Consolidated)

Years ended February 28 and 29	2010**	2009*	2008	2007	2006
Number of stores	**9,761**	9,527	8,587	8,564	8,366
Openings*	**607**	501	452	700	717
Closings*	**373**	414	429	502	428
Net increase (decrease)	**234**	940	23	198	289

** Since Ninety-nine Plus Inc. was made into a consolidated subsidiary from the year ended February 28, 2009, stores operated by Ninety-nine Plus Inc. are included in the data above from the year ended February 28, 2009 onwards.*
*** Figures for the year ended February 28, 2010 include 136 stores operated by LAWSON Okinawa, Inc.*

Number of Stores by FC Contract Type (Consolidated, Japan)

February 28 and 29	2010**		2009*		2008		2007		2006	
Franchised stores	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)
B	**1,258**	**13.1**	1,322	13.9	1,369	15.9	1,512	17.7	1,674	20.0
G	**2,001**	**20.8**	2,041	21.4	2,123	24.7	2,209	25.8	2,272	27.2
C	**5,074**	**52.7**	4,863	51.0	4,641	54.0	4,367	51.0	4,011	47.9
NATURAL LAWSON	**27**	**0.3**	22	0.2	15	0.2	5	0.1	1	0.0
LAWSON STORE100 / SHOP99	**167**	**1.7**	114	1.2	–	–	–	–	–	–
Subtotal	**8,527**	**88.6**	8,362	87.8	8,148	94.9	8,093	94.5	7,958	95.1
Company-operated stores	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)
LAWSON	**207**	**2.2**	283	3.0	291	3.4	296	3.5	323	3.9
NATURAL LAWSON	**62**	**0.6**	71	0.7	76	0.9	95	1.1	50	0.6
LAWSON STORE100 / SHOP99	**829**	**8.6**	811	8.5	72	0.8	80	0.9	35	0.4
Subtotal	**1,098**	**11.4**	1,165	12.2	439	5.1	471	5.5	408	4.9
Total	**9,625**	**100.0**	9,527	100.0	8,587	100.0	8,564	100.0	8,366	100.0

** Since Ninety-nine Plus Inc. was made into a consolidated subsidiary from the year ended February 28, 2009, stores operated by Ninety-nine Plus Inc. are included in the data above from the year ended February 28, 2009 onwards.*
*** Figures for the year ended February 28, 2010 exclude the number of stores operated by LAWSON Okinawa, Inc.*

Outline of Store Contracts (Conventional LAWSON Stores)

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

** The above amount is paid by the 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.*
*** Head Office income and minimum guarantee are in the case of stores operating on a 24-hour basis.*

Outline of LAWSON STORE100 Contracts

Contract type		VL-C	VL-B
Contract term		10 years from store opening day	
Owner conditions		At least 20 years old, 1 full-time store worker	
Land and buildings		Prepared by LAWSON	Prepared by franchisee
Contract stores		Stores already being operated by Ninety-nine Plus as LAWSON STORE100	Land and buildings owned by franchisee
Investment in store construction and interior decoration expenses		Borne by LAWSON	Borne by franchisee
Signage and business fixtures		Prepared by LAWSON	
Payment by franchisee at time of contract*	Franchise fee	¥1.0 million (Contract fee ¥250,000, training expenses ¥250,000, and store opening preparation commission ¥500,000) (excluding tax)	
	Investment	¥1.5 million (Including payment for some merchandise purchased on behalf of the store)	
Head Office income		¥1–3,000,000 Gross profit x 34% ¥3,000,001–4,500,000 Gross profit x 43% ¥4,500,001–5,400,000 Gross profit x 55% Over ¥5,400,001 Gross profit x 68%	Gross profit x 27%
Burden of utility expenses		Franchisee	
Minimum guarantee (annual)** (thousands of yen)		21,000	22,200

** The above amount is paid by the 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.*
*** Head Office income and minimum guarantee are in the case of stores operating on a 24-hour basis.*

OVERVIEW OF RESULTS

1. SALES FIGURES

Total Net Sales (consolidated)

Consolidated net sales of LAWSON stores in fiscal 2009, ended February 28, 2010, while slightly under plan, rose 6.9% year on year, to ¥1,666,136 million. The main reason for the increase was the conversion of Ninety-nine Plus Inc. into a consolidated subsidiary. On a non-consolidated basis, sales declined 2.3%, ¥1,472,415 million.

Existing Store Sales (consolidated)

Existing store sales on a non-consolidated basis in fiscal 2009 were down 4.1% year on year, and were 1.1 percentage points below plan, reflecting a worsening external environment. By region, the Chubu area was comparatively weak because of the effects of a lackluster manufacturing sector, while the Tohoku area was strong. Existing store sales on a consolidated basis, including sales of Ninety-nine Plus Inc., in fiscal 2009 were 3.7% lower year on year.

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

	2010	2009	2008	2007	2006
YoY rate on existing store sales	**95.9%**	106.5%	99.2%	98.2*%	97.5%
Average number of customers and average purchase value per customer at existing stores					
Number of customers	**99.0**	105.7	98.9	98.2	99.1
Average purchase value per customer	**96.9**	100.8	100.4	100.0	98.3

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

Sales by Product Category (consolidated, total net sales)

Sales of processed foods, daily delivered foods and non-food products were higher year on year, mainly reflecting the full-year contribution to sales of Ninety-nine Plus Inc.

Fast foods sales were down year on year, however, due to lower sales of rice dishes.

Sales by Product Category (consolidated, total net sales)

(Millions of Yen)

Years ended February 28 and 29	2010	2009	2008	2007	2006
Fast foods	**¥ 324,197**	¥ 332,894	¥ 327,501	¥ 324,993	¥ 312,289
Share (%)	**19.5%**	21.4%	23.1%	23.4%	22.9%
Daily delivered foods	**239,088**	186,109	162,625	155,575	150,917
Share (%)	**14.3**	11.9	11.5	11.2	11.1
Processed foods	**902,306**	844,324	726,750	705,155	682,006
Share (%)	**54.2**	54.2	51.4	50.9	50.1
Cigarettes	**358,600**	342,450	249,745	238,406	221,957
Share (%)	**21.5**	22.0	17.6	17.2	16.3
Total food sales	**1,465,592**	1,363,328	1,216,876	1,185,724	1,145,212
Share (%)	**88.0**	87.5	86.0	85.5	84.1
Non-food products	**200,544**	195,453	198,230	200,907	216,519
Share (%)	**12.0**	12.5	14.0	14.5	15.9
Net sales of all stores	**¥1,666,136**	¥1,558,781	¥1,415,106	¥1,386,630	¥1,361,731
Share (%)	**100.0**	100.0	100.0	100.0	100.0

Breakdown of Product Category

Category	Products Included
Fast foods	Rice dishes, noodles, sandwiches, delicatessen items, fast foods on the counter, etc.
Daily delivered foods	Bakery items, desserts, ice cream, fresh foods, 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 was 30.4%, 0.3 of a percentage point higher than fiscal 2008 and 0.1 of a percentage point higher than planned. The main reason was a higher-than-expected contribution from structural reform initiatives, including streamlining raw materials procurement and distribution. (For details of structural reforms, please refer to page 11.)

In the fast foods category, the margin improved 1.2 percentage points year on year, due to a decrease from the high raw materials prices in the previous fiscal year, as well as the aforementioned raw materials procurement initiatives (refer to page 13). In the processed foods category, the gross profit margin declined due to the greater share of sales from cigarettes in the product mix, which increased as a share by 1.4 percentage points. Margins on processed foods other than cigarettes and non-food products improved year on year due to the rightsizing of manufacturer inventories, resulting from more systematic ordering linked to product development, and the benefits of improved distribution efficiency.

Gross Profit Margin by Product Segment (parent company)

Years ended February 28 and 29	2010	2009	2008	2007	2006
Fast foods	**37.3%**	36.1%	36.3%	36.5%	36.8%
Daily delivered foods	**34.3**	33.7	33.6	33.8	33.6
Processed foods*	**24.6**	24.8	26.3	26.4	26.7
Non-food products**	**40.8**	39.5	38.5	38.0	35.8
Gross profit margin	**30.4**	30.1	31.2	31.3	31.2

** The processed foods category includes cigarettes.*
*** Calculation of the gross profit margin for non-food products includes bill settlement and other commission income.*

Bill Settlement Services (parent company)

Years ended February 28 and 29	2010	2009	2008	2007	2006
Bill settlements (millions of yen)	**¥1,553,832**	¥1,506,531	¥1,412,335	¥1,294,004	¥1,165,255
No. of transactions (millions)	**162.2**	156.6	149.9	140.9	130.6
Commission income (millions of yen)	**8,651**	8,415	8,275	8,141	7,507

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 ¥117,716 million, or 33.7%, to ¥467,192 million. However, total operating revenues were ¥11,808 million less than planned, mainly on account of lower franchise commission accompanying the year-on-year fall in existing store sales on a non-consolidated basis. The amount included due to the conversion of Ninety-nine Plus Inc. into a consolidated subsidiary was ¥167,813 million.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose ¥31,262 million, or 14.8%, year on year, to ¥243,194 million. SG&A expenses were approximately ¥3,600 million less than planned. The main reason for the year-on-year increase was the inclusion of ¥33,605 million from the consolidation of Ninety-nine Plus Inc. Rents rose ¥8,247 million, or 13.2%, due to an increase in the opening of mainly C-type franchised stores. Personnel expenses decreased ¥933 million, or 2.5%, on a non-consolidated basis due to a decline in performance-linked bonuses and 85 fewer Company-operated stores than the previous fiscal year. On a consolidated basis, however, personnel expenses increased ¥14,630 million, or 31.7%, year on year, reflecting the consolidation of Ninety-nine Plus Inc. Regarding advertising and promotional expenses, LAWSON spent the same amount as the previous fiscal year for supporting franchise owners. Regarding conventional advertising activities, in addition to concentrating expenditure on highly effective methods in terms of return on investment, LAWSON did not have to incur expenses for countering higher costs of raw materials to support suppliers as it did in fiscal 2008. As a result, advertising and promotional expenses decreased ¥1,615 million, or 11.7%, year on year. IT-related costs declined ¥1,362 million, or 9.1%, year on year, despite the introduction of a next-generation IT system in the second half of the fiscal year. The decline reflected efforts to rationalize expenses for existing IT systems.

Breakdown of Main SG&A Expenses

Years ended February 28 and 29	2010	2009	2008	2007	2006
Personnel expenses*	**¥ 60,833**	¥ 46,203	¥ 39,927	¥ 37,888	¥ 35,450
Share (%)	**25.0%**	21.8%	20.6%	20.7%	20.2%
Advertising and promotional expenses	**12,166**	13,781	9,385	9,693	9,177
Share (%)	**5.0**	6.5	4.9	5.3	5.2
Rents	**70,570**	62,323	58,562	55,318	51,236
Share (%)	**29.0**	29.4	30.3	30.2	29.1
Equipment leasing charges	**13,443**	14,988	18,414	17,475	16,734
Share (%)	**5.5**	7.1	9.5	9.5	9.5
Depreciation expenses**	**21,053**	16,752	16,630	16,185	15,859
Share (%)	**8.7**	7.9	8.6	8.8	9.0
Amortization expenses	**6,414**	4,126	4,815	5,163	5,034
Share (%)	**2.6**	1.9	2.5	2.8	2.9
Depreciation and amortization	**27,468**	20,879	21,445	21,348	20,893
Share (%)	**11.3**	9.9	11.1	11.7	11.9
Other	**58,711**	53,755	45,653	41,446	42,402
Share (%)	**24.1**	25.4	23.6	22.6	24.1
Total	**¥243,194**	¥211,932	¥193,390	¥183,169	¥175,894
Share (%)	**100.0%**	100.0%	100.0%	100.0%	100.0%

** 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.*

*** Due to the application of new accounting standards for leases, depreciation expenses for fiscal 2009 and fiscal 2010 include depreciation and amortization of lease assets treated as sale-and-purchase transactions.*

Operating Income

Operating income increased ¥1,090 million, or 2.2%, to ¥50,276 million. However, this figure was ¥225 million, or 0.4%, less than planned. It also included ¥2,168 million in income from Ninety-nine Plus Inc. Operating income relative to total sales was 3.0%.

Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests decreased ¥10,396 million, or 25.8%, to ¥29,875 million. This decrease was mainly attributable to an impropriety-related loss of ¥12,616 million related to the alleged misappropriation of funds by two former directors of consolidated subsidiary LAWSON ENTERMEDIA, INC. (LEM), in addition to a ¥3,899 million charge for loss on disposal of property and store equipment, and a ¥3,904 million charge for impairment of long-lived assets.

Net Income

As a result of the above, net income declined ¥11,245 million, or 47.2%, to ¥12,562 million. This included ¥1,787 million belonging to Ninety-nine Plus Inc. Net income per share was ¥126.67.

FINANCIAL POSITION

1. CONSOLIDATED BALANCE SHEETS

Current Assets

Total current assets decreased ¥22,562 million, or 14.6%, to ¥132,199 million. This mainly reflected the repayment of monies to concert and other promoters following the alleged misappropriation of funds by two former directors of LAWSON ENTERMEDIA, INC. as well as the advance repayment of Ninety-nine Plus Inc. loans, which resulted in a ¥29,139 million, or 34.7%, year-on-year decline to ¥54,843 million in cash and cash equivalents.

Property and Store Equipment, Investments and Other Assets

Net property and store equipment rose ¥30,310 million, or 26.4%, to ¥145,309 million. Investments and other assets increased ¥4,288 million, or 2.6%, to ¥170,624 million.

Current Liabilities

Total current liabilities increased ¥757 million, or 0.4%, to ¥184,497 million. The main factors were a ¥5,078 million, or 8.4%, increase to ¥65,858 million in money held as agent such as in bill settlement services, and a ¥4,641 million increase accompanying the application of new lease accounting standards.

Long-term Liabilities

Total long-term liabilities rose ¥14,310 million, or 28.0%, to ¥65,499 million. There was a ¥3,729 million decrease in guarantee deposits received from franchised stores and lease deposits from lessees due to a decrease in the number of G-type franchised stores, which operate under franchise agreements requiring the payment of a guarantee deposit. On the other hand, there was a ¥19,410 million increase stemming from the application of new lease accounting standards.

Total Equity

Total equity, including minority interests, amounted to ¥198,136 million at the end of February 28, 2010, representing a ¥3,031 million, or 1.5%, year-on-year decrease. Retained earnings decreased ¥3,639 million to ¥94,172 million due to the payment of cash dividends of ¥15,866 million, although net income amounted to ¥12,562 million.

2. SPECIAL ACCOUNT ITEMS ON THE BALANCE SHEETS

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 28, 2010, this asset account was ¥20,791 million, ¥585 million lower than a year ago.

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 ¥26,446 million at February 28, 2010, a decrease of ¥246 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 28, 2010, this account was ¥2,301 million higher than a year ago at ¥29,724 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 28, 2010, this account was ¥83,206 million, a decrease of ¥2,151 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 28, 2010, this account was ¥1,025 million, up ¥203 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 year-on-year rise of ¥5,078 million to ¥65,858 million in this account at February 28, 2010.

Guarantee Deposits Received From Franchised Stores

This represents guarantee deposits received by LAWSON from store owners operating under FC-G contracts. As of February 28, 2010, this account was ¥38,711 million, ¥3,729 million less than the previous year due to a decline in the number of FC-G contract stores.

CAPITAL EXPENDITURE, ETC.

In fiscal 2009, capital expenditure on a consolidated basis totaled ¥71,399 million, up ¥28,492 million year on year. New store investments increased ¥4,252 million to ¥19,887 million due to increased store openings compared to the previous fiscal year. Existing store investments increased ¥1,354 million to ¥8,101 million, reflecting an increase in conversions accompanying contract renewals. IT-related investments decreased ¥2,655 million to ¥9,409 million, principally due to partial postponement of system development following investment in a next-generation IT system and further streamlining in other IT investment. Leases increased ¥17,236 million to ¥36,376 million as investment peaked in a next-generation IT system and lease assets related to new stores and to ATMs increased.

Breakdown of Capital Expenditure

Years ended February 28 and 29	2010	2009	2008	2007	2006
New store investments	**¥19,887**	¥ 15,635	¥12,387	¥23,444	¥26,047
Existing store investments	**8,101**	6,747	7,493	5,887	6,592
IT-related investments	**9,409**	12,064	7,733	4,662	9,084
Other	**629**	3,886	2,260	(1,395)	1,615
Investments subtotal	**38,026**	38,331	29,873	32,598	43,338
Investments and advances	**(3,004)**	(14,564)	19,690	3,013	1,250
Leases*	**36,376**	19,140	14,850	14,211	9,829
Total	**¥71,399**	¥ 42,907	¥64,413	¥49,822	¥54,417

** The amount equivalent to the acquisition cost of leased property acquired during each fiscal year. The amount of repayments of lease obligations is ¥9,149 million in fiscal 2009.*

Breakdown of Depreciation

Years ended February 28 and 29	2010	2009	2008	2007	2006
Depreciation expenses**	**¥21,053**	¥16,752	¥16,630	¥16,185	¥15,859
Amortization expenses	**6,414**	4,126	4,838	5,167	5,037
Total depreciation and amortization	**27,468**	20,879	21,469	21,352	20,896

*** Due to the application of new accounting standards for leases, depreciation expenses for fiscal 2009 and fiscal 2010 include depreciation and amortization of lease assets treated as sale-and-purchase transactions.*

CASH FLOWS

Operating activities provided net cash of ¥40,696 million, ¥11,021 million less than in the previous fiscal year. This was mainly attributable to a significantly lower year-on-year result for income before income taxes and minority interests due to the booking of an impropriety-related loss caused by the alleged misappropriation of funds by two former directors of consolidated subsidiary LAWSON ENTERMEDIA, INC.

Investing activities used net cash of ¥42,596 million, ¥26,949 million more than in the previous fiscal year. This mainly reflected a fall in proceeds from redemption of marketable securities, and the absence of a decrease in short-term loans accompanying the sale of LAWSON CS Card in fiscal 2008.

As a result of changes in cash flows from operating and investing activities, free cash flow—the difference between the two figures—decreased ¥37,970 million to negative ¥1,900 million.

Financing activities used net cash of ¥27,239 million, ¥12,328 million more than the previous fiscal year. This reflects an increase in cash dividends paid of ¥2,480 million, and cash payments of ¥9,149 million to repay lease obligations following the application of new lease accounting standards.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥54,843 million, down ¥29,139 million from 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 the Company is run with recognition that the level of capital cost should reflect the profit expectations of investors toward the Company. We therefore seek to select and develop businesses that achieve earnings above the cost of capital, using ROE, an indicator of capital efficiency, as the most important management indicator. We ensure financial soundness by 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. We also pursue optimal capital efficiency by distributing profits through dividends and the purchase and cancellation of treasury stock based on what we consider to be an appropriate capital composition. Our medium and long term goal is ROE of 15% to 20%.

Our dividend yield on February 28, 2010 was 4.1%. (Please refer to pages 26 and 27 for details on our cash dividends per share.) For fiscal 2010, we plan to increase the cash dividend per share by ¥10 to ¥170.

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

SCOPE OF CONSOLIDATION

The consolidated results for fiscal 2009 include the performance of six members of the LAWSON Group—four consolidated subsidiaries and two affiliates accounted for under the equity method—and the parent company. These subsidiaries and affiliates are broadly involved in four categories of business: CVS operations, financial services, other services, and overseas services. The business operations and fiscal results of companies included within the scope of consolidation are presented below.

CVS Operations

Ninety-nine Plus Inc. (Consolidated Subsidiary)

Established in October 2000, Ninety-nine Plus operates the fresh food CVS formats "LAWSON STORE100" and "SHOP99," and has grown rapidly as a pioneer in Japan of a fresh foods store format that provides everything from daily food items, including fresh foods, to sundries at a single price. LAWSON signed a business and equity alliance with Ninety-nine Plus in February 2007. Fresh food CVS stores have won strong acceptance from housewives, the middle-aged and seniors by strengthening the merchandise assortment of fresh and daily delivered foods at stores in catchment areas. This is highlighted by a higher percentage of these groups in the customer mix compared with conventional convenience stores. In 2007, Ninety-nine Plus carried out an increase in capital by way of a third-party allotment of shares to LAWSON. In January 2008, Ninety-nine Plus carried out another increase in capital by third-party allotment of shares to LAWSON, to strengthen its business alliance with LAWSON and to raise funds to open more stores. As a result, LAWSON became the leading shareholder in Ninety-nine Plus with an equity interest of 34.2%. In September 2008, LAWSON conducted a tender offer for Ninety-nine Plus' shares, raising its equity interest to 76.8%.

On May 1, 2009, VALUE LAWSON, INC., a LAWSON subsidiary running a fresh food CVS operation, and Ninety-nine Plus merged, with the latter the surviving company. The goal of the merger was to generate even greater alliance benefits and become the unrivalled leader in the fresh food CVS sector by sharing expertise in the sale of fresh foods and daily delivered foods, and jointly developing the private brand *Value Line,* featuring products in appropriately-sized small quantities and conveniently sized packages.

Since Ninety-nine Plus had a March 31 fiscal year-end until fiscal 2008, LAWSON's equity-method earnings in Ninety-nine Plus in fiscal 2007 included earnings for the nine months through the end of Ninety-nine Plus's third quarter. In fiscal 2008, LAWSON recorded as equity-method earnings nine months of earnings from Ninety-nine Plus's fourth quarter in fiscal 2007 to the end of its second quarter in fiscal 2008. Ninety-nine Plus was then completely consolidated from its third quarter in fiscal 2008. Ninety-nine Plus changed its fiscal year-end from March 31 to February 28 at its ordinary general meeting of shareholders in June 2009. As a result of this change, Ninety-nine Plus's fiscal 2009 was an 11-month transitional fiscal year. Moreover, LAWSON's consolidated results for fiscal 2009 also include three months' results of Ninety-nine Plus for the fourth quarter of fiscal 2008, to make 14 months.

Ninety-nine Plus was listed on the JASDAQ market, but it delisted in June 2010 and became a wholly consolidated subsidiary of LAWSON by share exchange in July 2010.

(Millions of Yen)

	2010*	2009	2008	2007
Operating income	**¥1,792**	¥ 261	¥401	¥ 955
Net income (loss)	**1,673**	(504)	47	(886)
No. of stores	**996**	856	837	780

Note: The above figures are Ninety-nine Plus's results for the fiscal years ended March 31.
** Following a change in the fiscal year-end to February 28, fiscal 2009 was a transitional fiscal year of 11 months. The amount included in LAWSON consolidated financial statements was ¥2,160 million for a 14-month period, including the fourth quarter of fiscal 2008 as well as this 11-month transitional period.*

LAWSON Okinawa, Inc. (Equity-method Affiliate)

In January 2009, LAWSON and SAN-A CO., LTD., a leading retailing group in Okinawa, agreed to form a business alliance in Okinawa Prefecture, Japan. Through this alliance with SAN-A, which is well supported by customers in Okinawa, LAWSON aims to create products and stores better meshing with Okinawa, which is known for its unique way of life and food preferences. To this end, we established LAWSON Okinawa, Inc. as a wholly owned subsidiary in October 2009. In December 2009, we made LAWSON Okinawa into a joint venture by transferring 51% of its total outstanding shares to SAN-A. Going forward, we will continue to develop the LAWSON chain in Okinawa Prefecture through LAWSON Okinawa by creating stores that better meet the needs of the local community.

(Millions of Yen)

	2010	2009	2008	2007
Operating revenues	**733**	–	–	–
Operating income	**109**	–	–	–
No. of stores	**136**	–	–	–

Financial Services

LAWSON ATM Networks, Inc. (Consolidated Subsidiary)

This consolidated subsidiary was established in 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 2001. The company's ATM business installs jointly operated ATMs in LAWSON stores in regions where agreement has been reached with partner banks. As of February 28, 2010, LAWSON ATM Networks had formed alliances with a total of 33 partner banks, including the major city bank groups and regional banks. The company's main source of revenue is fees from banks for the commissioned operation of ATMs. Its main expenses are operating center outsourcing fees, ATM line charges and ATM leasing charges.

As of February 28, 2010, LAWSON ATM Networks had installed 6,978 ATMs in 40 prefectures. LAWSON holds a 49.0% stake in LAWSON ATM Networks.

(Millions of Yen)

	2010	2009	2008	2007	2006
Operating revenues	**¥18,570**	¥16,964	¥14,900	¥11,907	¥11,311
Operating income	**2,444**	1,439	1,201	866	654
Net income	**1,412**	589	718	509	675

Number of ATMs Installed

	2010	2009	2008	2007	2006
Number of ATMs installed	**6,978**	5,970	5,643	4,245	3,812

Other Services

LAWSON ENTERMEDIA, INC. (Consolidated Subsidiary)

This subsidiary was established as a ticket sales company in 1992 as RIZA JAPAN, and in 1996 was renamed LAWSON TICKET INC., becoming a consolidated subsidiary of LAWSON in 1997. In terms of number of tickets handled, the company is one of the largest players in the ticket sales industry in Japan. The company sells tickets to concerts, sporting events, the theater, movies and other attractions, primarily through *Loppi* multimedia terminals at LAWSON stores, and is particularly strong in sales of tickets for J-POP* and sporting events. In March 2009, LAWSON TICKET carried out an absorption-type merger, absorbing LAWSON's wholly owned subsidiary i-Convenience, Inc. The aim of the merger was to make fullest use of the combination of LAWSON TICKET's customer contacts and i-Convenience's expertise in the e-commerce business. In July 2009, LAWSON TICKET was renamed LAWSON ENTERMEDIA, INC.

While operating income for LAWSON ENTERMEDIA rose year on year in fiscal 2009 on the back of strong sales in its core concert ticket business, net income fell sharply due to booking of extraordinary losses following alleged misappropriation of funds by two former directors. As of February 28, 2010, LAWSON held a 75.5% stake in LAWSON ENTERMEDIA.

LAWSON ENTERMEDIA was listed on the JASDAQ market, but it delisted in June 2010, becoming a wholly consolidated subsidiary of LAWSON by share exchange in July 2010.

** Japanese popular music generally popular among the relatively younger generation*

(Millions of Yen)

	2010	2009	2008	2007	2006
Operating revenues	**¥10,022**	¥7,620	¥6,960	¥6,533	¥6,259
Operating income	**1,099**	791	636	836	821
Net income (loss)	**(11,887)**	(1,445)**	423	507	487

*** Prior-year results were adjusted following the booking of an impropriety-related loss due to alleged misappropriation of funds by two former directors.*

BestPractice Inc. (Consolidated Subsidiary)

This company was established in 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. Under the "Mystery Shopper" program, an employee of BestPractice objectively and quantitatively evaluates convenience store operations and merchandise assortments from a customer's perspective as an undercover researcher. The results are fed back to LAWSON's Head Office and franchise owners.

(Millions of Yen)

	2010	2009	2008	2007	2006
Operating revenues	**¥991**	¥982	¥919	¥885	¥892
Operating income	**91**	50	8	82	62
Net income (loss)	**59**	(1)	1	45	34

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 1996. In 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 2009, there were 300 stores in operation, of which 242 were franchised stores.

(Millions of Yen)

	2009	2008	2007	2006	2005
Operating revenues	**¥6,313**	¥6,670	¥7,265	¥6,355	¥5,304
Operating income (loss)	**2**	13	77	20	(7)
No. of stores	**300**	300	287	291	283

** SHANGHAI HUALIAN LAWSON CO., LTD. closes its accounts in December.*
*** Hualian Group Corporation transferred its 51% stake to Shanghai Bailian Group Co., Ltd. in December 2008 along with the cancellation of Hualian Group Corporation's corporate registration.*

BUSINESS COOPERATION AND ALLIANCES

The main business cooperation and alliances are as follows. Please refer to the item on CVS operations under "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 28, 2010. The two firms have built a cooperative relationship in several areas including personnel resources and store development, new businesses, and product development, including procurement of raw materials.

Japan Post Holdings Co., Ltd.

LAWSON formed a business alliance in 2002 with the then Postal Services Agency. After this announcement, the two worked on various initiatives, including installing mailboxes in LAWSON stores (2003), opening convenience stores inside post offices (2003) and handling You-Pack parcels (2004). In 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 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. In 2007, this alliance led to the introduction of iD™ electronic money services provided by NTT DOCOMO in all LAWSON stores and the launch of the LAWSON PASS iD™ service. The latter service allows holders of the LAWSON PASS Visa credit card issued by Credit Saison Co., Ltd. (at the time 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.*

Qol Co., Ltd.

In December 2008, LAWSON signed a business alliance agreement with drug-dispensing pharmacy operator Qol Co., Ltd. Through personnel exchanges, LAWSON is working to develop Registered Pharmaceuticals Salespersons*, and in fiscal 2010 will begin opening stores that combine a drug-dispensing pharmacy with a convenience store.

** A newly established qualification following the June 2009 enforcement of amendments to the Pharmaceutical Affairs Law, the "Registered Pharmaceuticals Salesperson" qualification allows the holder to sell over-the-counter medications (Type 2 and 3). The law requires holders to have a minimum of one year's experience.*

MatsumotoKiyoshi Holdings Co., Ltd.

LAWSON entered a business alliance with MatsumotoKiyoshi Holdings Co., Ltd. in August 2009. MatsumotoKiyoshi Holdings operates urban and suburban drugstores, pharmacies, and combination drugstore/pharmacies throughout Japan in a variety of store formats according to regional characteristics and location. In fiscal 2009, the LAWSON and MatsumotoKiyoshi groups began examining options for mutually leveraging their respective management resources, including buying power, and infrastructure. The two groups also carried out personnel exchanges, assigning their staff to each other with the objective of acquiring each other's specialist knowledge. LAWSON has accepted MatsumotoKiyoshi personnel who hold Registered Pharmaceuticals Salesperson qualifications in order to conduct trial pharmaceutical sales at convenience stores. Looking ahead, the two companies plan to begin opening pilot stores in a new format that combines a drugstore with a convenience store.

KOBE BUSSAN CO., LTD.

In April 2009, LAWSON and KOBE BUSSAN CO., LTD. established a joint venture, KOBE HOT DELI Co., LTD., as a way to combine the expertise of both companies in sales of in-store cooking boxed lunches and delicatessen items in convenience stores. KOBE BUSSAN is the headquarters of the "Business Supermarket" supermarket chain franchise with stores throughout Japan, and is also a manufacturer of food products with its own plants in and outside Japan. KOBE BUSSAN's supply chain management involves cultivating produce at its own agricultural facilities, processing these at its own factories, and delivering them to stores using its own logistics system. LAWSON will leverage synergies with its own strengths in sales, namely its expertise in operating convenience stores and sales capabilities, to establish a business model for preparing food in-store. Plans call for full-scale development of this model from fiscal 2010.

OUTLOOK

In fiscal 2010, the Japanese economy is expected to see a recovery against a backdrop of improving economies in other countries and government measures to stimulate the economy. However, there is also a downside risk for the economy posed by worsening employment and the effects of deflation. In light of this, a full-fledged recovery in consumer spending is considered unlikely.

With regard to the CVS sector operating environment, if LAWSON focuses on opening conventional format stores, which predominantly provide merchandise assortments and services for the core target of young male customers, addressing only customers' need to save time and convenience, it will be forced into a war of attrition with other homogenized CVS stores in a mature market. This will in turn make it increasingly difficult to achieve stable and sustainable growth in an environment of changing customer needs and in an aging society with a falling birthrate.

In this environment, LAWSON is aiming to realize its corporate philosophy, "Happiness and Harmony in our Community." To this end, we will promote the following management measures to improve customer satisfaction. We believe this will result in improved corporate earnings through maintenance and expansion of our customer base, increased earnings for franchise owners, and higher corporate value.

By carrying out the following management measures, in fiscal 2010 we plan to improve consolidated operating income 0.4% year on year to ¥50,500 million, and to increase consolidated net income by 89.5% year on year to ¥23,800 million.

Enhance Customer Satisfaction

In order to offer merchandise assortments and develop shops that meet the needs of customers in each store location, LAWSON will continue to utilize shopping point program data to create customer-oriented merchandise assortments. We will make full use of the next-generation IT system that we introduced in fiscal 2009 to reduce lost sales opportunities* and disposal losses** and to improve ordering accuracy and product development capabilities. In March 2010, LAWSON joined the *Ponta* multi-partner shopping points program. Loyalty Marketing, Inc., a wholly owned subsidiary of Mitsubishi Corporation, issues the cards, and operates and manages the program. We will strive to provide convenient and appealing services for customers through this program, working with other participating companies to broaden our marketing analysis and facilitate sales promotion strategies.

** When a product desired by customers is out of stock*
*** Losses incurred by franchise owners disposing of unsold stock*

Promote Fresh Food-type CVS

As Japanese society ages and households grow smaller, customers needs relating to dining in*** are expected to rise. To meet these needs, LAWSON will promote the fresh food CVS business, concentrating on residential areas, and expand its customer base.

**** Cooking and eating at home*

Promote Healthcare-type CVS

Through its alliances with MatsumotoKiyoshi Holdings Co., Ltd. and Qol Co., Ltd., LAWSON is expanding its sales of pharmaceutical products. At the same time, to help customers realize the healthy, comfortable lives they seek, we are providing high value-added specialist products and services, and creating new stores guided by our healthcare theme, "food is medicine."

Improve Asset Efficiency

LAWSON aims to improve asset efficiency by developing high-quality stores in accordance with unique store opening guidelines and decreasing the number of store closures to reduce associated losses. Looking ahead, we will focus on growth fields such as our LAWSON STORE100 fresh food CVS, and our NATURAL LAWSON stores that cater to health-conscious consumers. We also plan to increase the ratio of investment in our existing stores, focusing on converting stores so they have strong fresh food lineups; this requires lower investment than opening regular LAWSON stores.

Strengthen Personnel Development

In accordance with our corporate philosophy and action guidelines, we are determined to nurture people who can think for themselves and not rely on direction from the top. In addition, personnel rotations are implemented to prepare future management candidates.

Full-scale Operation of the Next-Generation IT System

In fiscal 2010, we will begin full-scale operation of our next-generation IT system, PRiSM, with the goal of innovating our merchandise assortments from the customer's perspective. We will utilize PRiSM, which relates to store systems and company-wide information systems, to reduce lost sales opportunities and product disposal losses in store operations, and to continue to improve ordering accuracy and product development capabilities.

Developing Internal Controls

Regarding internal controls over financial reporting, in order to properly implement the internal control reporting system of the Japanese Financial Instruments and Exchange Act, LAWSON has established a dedicated internal organization to ascertain and document the status of internal controls throughout LAWSON and the various business processes that occur at the major operating bases. Through this process, LAWSON will put in place internal and third-party evaluation systems and related improvements.

LAWSON will report regularly to the Board of Directors on evaluations and improvements at LAWSON and major subsidiaries. Furthermore, LAWSON will follow its "Fiscal 2010 Basic Policy on Development and Operation of Internal Control System" to implement the necessary frameworks for ensuring legal compliance, information storage and control and risk management.

Strengthen Group Governance

LAWSON has reflected seriously and sincerely on the booking of large losses relating to the alleged misappropriation of funds by two former directors of LAWSON consolidated subsidiary LAWSON ENTERMEDIA, which was announced in February 2010. LAWSON is working to prevent a reoccurrence by strengthening the internal management systems and internal controls at LAWSON and its subsidiaries, doing its utmost to regain the trust of shareholders.

■ BUSINESS RISK FACTORS

The seven main risks that may impact on the LAWSON Group's performance and financial position are described below. Sufficiently aware that these risks may occur, the LAWSON Group conducts risk management and responds 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 LAWSON, and we do not believe that they cover all potential risks relating to the LAWSON Group's business operations.

Risks Relating to Changes in the Business Environment

Because the LAWSON Group'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 LAWSON operates, as well as changes in competition with other companies in the CVS sector or different retail sectors, may impact the LAWSON Group's earnings and financial condition.

Risks Relating to Food Safety, Hygiene Management and Labeling

In the CVS business, the LAWSON Group's main business, we sell food products to customers. From the manufacturing process to sales in stores, in cooperation with suppliers, the LAWSON Group strictly observes quality standards by performing thorough management and also performs rigorous hygiene management and sales data management within stores, at the same time as properly labeling items in terms of consumption date, expiry date, place produced, raw materials and so forth. However, in the event of a serious incident such as food poisoning or contamination by foreign matter, or food mislabeling, the resulting loss of customer trust could have an impact on the Group's performance and financial position. Should such an incident occur, the Group intends to make the utmost effort to minimize the effect on customers and maintain customer trust 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, the LAWSON Group handles personal information of customers, shareholders, suppliers, franchise owners and other parties. The Group 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 LAWSON are thoroughly aware of these matters. However, should personal information be leaked or divulged outside LAWSON under any circumstances, the LAWSON Group's performance or financial position may be affected.

Legal and Regulatory Risks

The LAWSON Group operates numerous stores in all of Japan's 47 prefectures and in China, and the majority of stores operate 24 hours a day. Because of this, in operating its business, LAWSON must comply with various laws and regulations regarding store development, store operations, hygiene management, product transactions, environmental protection, and other matters in Japan and 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 the LAWSON Group's performance or financial position.

Risks Relating to Franchise Operations

In the CVS business, the LAWSON Group's main business, LAWSON has adopted the franchise system. Based on franchise agreements concluded with franchise owners, LAWSON operates a chain of stores via store brand names that are owned by the LAWSON Group. 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 the LAWSON Group's performance or financial position.

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

Risks Relating to Disasters

LAWSON is a national chain with stores located throughout Japan's 47 prefectures, as well as in China. Therefore, an earthquake, typhoon or other natural disaster that physically damages LAWSON Group stores or other facilities, could have an impact on the LAWSON Group's performance or financial position.

Furthermore, in order to continue to fulfill its social function, LAWSON will continue to run convenience stores based on a business continuity plan even if there is an outbreak of a new strain of influenza or other infectious disease. However, any unanticipated temporary closure of stores could have an impact on the LAWSON Group's performance or financial position.

Risks Involving Damage to IT Systems

Failure of the Group's IT system or information network system due to a computer virus, or natural disasters such as an earthquake in the Metropolitan area could delay the delivery of products to stores and cause the suspension of store services. Such developments could impact on the LAWSON Group's performance or financial position.

CONSOLIDATED BALANCE SHEETS

LAWSON, INC. and Subsidiaries
February 28, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2010	2009	2010
CURRENT ASSETS:			
Cash and cash equivalents	¥ 54,843	¥ 83,982	$ 613,251
Marketable securities (Note 4)	2,500	3,800	27,955
Time deposits	9,174	4	102,583
Accounts receivable:			
Due from franchised stores (Notes 3 and 8)	20,791	21,376	232,484
Other	26,446	26,692	295,717
Allowance for doubtful accounts	(156)	(141)	(1,744)
Inventories	4,447	5,293	49,726
Deferred tax assets (Note 13)	4,587	4,061	51,292
Prepaid expenses and other current assets	9,567	9,694	106,976
Total current assets	132,199	154,761	1,478,240
PROPERTY AND STORE EQUIPMENT (Note 5)**:**			
Land (Note 6)	6,527	6,899	72,984
Buildings	184,446	174,067	2,062,462
Furniture, fixtures and equipment	57,241	61,920	640,065
Lease assets (Notes 2.l and 15)	31,435		351,504
Total	279,649	242,886	3,127,015
Accumulated depreciation	(134,340)	(127,887)	(1,502,180)
Net property and store equipment	145,309	114,999	1,624,835
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	512	700	5,725
Investments in associated companies	2,042	532	22,834
Long-term loans receivable	29,724	27,423	332,372
Goodwill	4,249	4,852	47,512
Software	29,674	26,586	331,813
Lease deposits	83,206	85,357	930,404
Deferred tax assets (Note 13)	15,274	14,469	170,793
Deferred tax assets for land revaluation (Note 6)		181	
Claims in bankruptcy and reorganization	13,631	1,033	152,421
Other assets	6,948	9,546	77,691
Allowance for doubtful accounts	(14,636)	(4,343)	(163,659)
Total investments and other assets	170,624	166,336	1,907,906
TOTAL	¥ 448,132	¥ 436,096	$ 5,010,981

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2010	2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 7 and 16)	¥ 73,189	¥ 77,216	$ 818,394
Due to franchised stores (Note 8)	1,025	822	11,461
Other	22,423	27,681	250,733
Current portion of long-term debt (Note 9)	4,730	937	52,891
Income taxes payable	9,852	9,456	110,164
Money held as agent	65,858	60,780	736,420
Accrued expenses and other current liabilities	7,420	6,848	82,970
Total current liabilities	184,497	183,740	2,063,033
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	6,207	5,051	69,406
Allowance for retirement benefits to executive officers and corporate auditors	217	201	2,426
Guarantee deposits received from franchised stores and other	38,711	42,440	432,864
Allowance for impairment loss on leased property (Note 15)	471	481	5,267
Long-term debt (Note 9)	19,492	1,371	217,958
Other	401	1,645	4,484
Total long-term liabilities	65,499	51,189	732,405
EQUITY (Notes 11 and 18)**:**			
Common stock—authorized, 409,300,000 shares in 2010 and 2009; issued, 99,600,000 shares in 2010 and 2009	58,507	58,507	654,221
Capital surplus	41,520	41,520	464,274
Stock acquisition rights	346	275	3,869
Retained earnings	94,172	97,811	1,053,025
Net unrealized gain (loss) on available-for-sale securities	14	(41)	157
Land revaluation difference (Note 6)	(634)	(969)	(7,089)
Foreign currency translation adjustments	66	59	737
Treasury stock—at cost, 432,190 shares in 2010 and 432,015 shares in 2009	(1,714)	(1,713)	(19,166)
Total	192,277	195,449	2,150,028
Minority interests	5,859	5,718	65,515
Total equity	198,136	201,167	2,215,543
TOTAL	¥448,132	¥436,096	$5,010,981

CONSOLIDATED STATEMENTS OF INCOME

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥185,656	¥186,928	$2,075,992
Net sales from Company-operated stores	232,459	119,099	2,599,340
Other	49,077	43,449	548,776
Total	467,192	349,476	5,224,108
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 16)	173,722	88,358	1,942,547
Selling, general and administrative expenses	243,194	211,932	2,719,378
Total	416,916	300,290	4,661,925
Operating income	50,276	49,186	562,183
OTHER INCOME (EXPENSES):			
Interest income—net	303	912	3,388
Equity in earnings (losses) of associated companies	62	(631)	693
Loss on disposal of property and store equipment	(3,899)	(4,053)	(43,598)
Impairment of long-lived assets (Note 5)	(3,904)	(2,014)	(43,654)
Provision for allowance for doubtful accounts (Note 14)		(1,936)	
Impropriety-related loss (Note 14)	(12,616)		(141,071)
Gain on sale of investment in subsidiaries	1,629		18,215
Other—net	(1,976)	(1,193)	(22,096)
Other expenses—net	(20,401)	(8,915)	(228,123)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	29,875	40,271	334,060
INCOME TAXES (Note 13)**:**			
Current	18,393	17,675	205,669
Deferred	(1,152)	(1,124)	(12,881)
Total	17,241	16,551	192,788
MINORITY INTERESTS IN NET (LOSS) INCOME	(72)	87	(805)
NET INCOME	¥ 12,562	¥ 23,807	$ 140,467

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.p and 17)**:**	2010	2009	2010
Net income—basic	¥126.67	¥240.10	$1.42
Net income—diluted	126.54	239.89	1.41
Cash dividends applicable to the year	160.00	160.00	1.79

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2010 and 2009

Thousands of Shares/Millions of Yen

	Common Stock Shares	Common Stock Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE, MARCH 1, 2008	99,600	¥58,507	¥41,520	¥160	¥87,391	¥ 135	¥(1)
Net income					23,807		
Year-end cash dividends, ¥55 per share					(5,453)		
Interim cash dividends, ¥80 per share					(7,933)		
Treasury stock—at cost:							
Purchase of treasury stock							
Exercise of stock options					(1)		
Others—net				115		(176)	1
BALANCE, FEBRUARY 28, 2009	99,600	58,507	41,520	275	97,811	(41)	
Net income					**12,562**		
Year-end cash dividends, ¥80 per share					**(7,933)**		
Interim cash dividends, ¥80 per share					**(7,933)**		
Reversal of revaluation reserve for land					**(335)**		
Treasury stock—at cost:							
Purchase of treasury stock							
Others—net				**71**		**55**	
BALANCE, FEBRUARY 28, 2010	**99,600**	**¥58,507**	**¥41,520**	**¥346**	**¥94,172**	**¥ 14**	**–**

Thousands of Shares/Millions of Yen

	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock Shares	Treasury Stock Amount	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2008	¥(682)	¥140	(464)	¥(1,838)	¥185,332	¥3,242	¥188,574
Net income					23,807		23,807
Year-end cash dividends, ¥55 per share					(5,453)		(5,453)
Interim cash dividends, ¥80 per share					(7,933)		(7,933)
Treasury stock—at cost:							
Purchase of treasury stock				(1)	(1)		(1)
Exercise of stock options			32	126	125		125
Others—net	(287)	(81)			(428)	2,476	2,048
BALANCE, FEBRUARY 28, 2009	(969)	59	(432)	(1,713)	195,449	5,718	201,167
Net income					**12,562**		**12,562**
Year-end cash dividends, ¥80 per share					**(7,933)**		**(7,933)**
Interim cash dividends, ¥80 per share					**(7,933)**		**(7,933)**
Reversal of revaluation reserve for land					**(335)**		**(335)**
Treasury stock—at cost:							
Purchase of treasury stock				**(1)**	**(1)**		**(1)**
Others—net	**335**	**7**			**468**	**141**	**609**
BALANCE, FEBRUARY 28, 2010	**¥(634)**	**¥ 66**	**(432)**	**¥(1,714)**	**¥192,277**	**¥5,859**	**¥198,136**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-sale Securities	Land Revaluation Difference
BALANCE, FEBRUARY 28, 2009	$654,221	$464,274	$3,075	$1,093,716	$(458)	$(10,835)
Net income				140,467		
Year-end cash dividends, $0.89 per share				(88,706)		
Interim cash dividends, $0.89 per share				(88,706)		
Reversal of revaluation reserve for land				(3,746)		
Treasury stock—at cost:						
Purchase of treasury stock						
Others—net			794		615	3,746
BALANCE, FEBRUARY 28, 2010	$654,221	$464,274	$3,869	$1,053,025	$ 157	$ (7,089)

	Thousands of U.S. Dollars (Note 1)				
	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28, 2009	$660	$(19,155)	$2,185,498	$63,938	$2,249,436
Net income			140,467		140,467
Year-end cash dividends, $0.89 per share			(88,706)		(88,706)
Interim cash dividends, $0.89 per share			(88,706)		(88,706)
Reversal of revaluation reserve for land			(3,746)		(3,746)
Treasury stock—at cost:					
Purchase of treasury stock		(11)	(11)		(11)
Others—net	77		5,232	1,577	6,809
BALANCE, FEBRUARY 28, 2010	$737	$(19,166)	$2,150,028	$65,515	$2,215,543

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 29,875**	¥ 40,271	**$ 334,060**
Adjustments for:			
Income taxes paid	**(17,723)**	(19,763)	**(198,177)**
Depreciation and amortization	**27,468**	20,879	**307,145**
Impairment of long-lived assets	**3,904**	2,014	**43,654**
(Reversal of) provision for allowance for doubtful accounts	**10,309**	1,917	**115,275**
Loss on disposal of property and store equipment	**1,981**	2,039	**22,151**
Equity in losses (earnings) of associated companies	**(62)**	631	**(693)**
Other—net	**109**	2,151	**1,219**
Changes in assets and liabilities:			
(Increase) decrease in claims in bankruptcy and reorganization	**(12,637)**	27	**(141,306)**
Decrease (increase) in accounts receivable	**651**	(8,299)	**7,279**
Decrease (increase) in prepaid expenses and other current assets	**1,451**	(624)	**16,227**
Decrease (increase) in inventories	**840**	(277)	**9,393**
(Decrease) increase in accounts payable	**(9,133)**	11,457	**(102,125)**
Increase in money held as agent	**5,197**	4,393	**58,112**
Increase (decrease) in accrued expenses and other liabilities	**609**	(2,599)	**6,810**
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	**1,172**	894	**13,105**
Decrease in guarantee deposits received from franchised stores and other	**(3,315)**	(3,394)	**(37,069)**
Total adjustments	**10,821**	11,446	**121,000**
Net cash provided by operating activities	**40,696**	51,717	**455,060**
INVESTING ACTIVITIES:			
Payments into time deposits	**(12,584)**	(3,004)	**(140,713)**
Proceeds from withdrawal of time deposits	**3,414**	3,104	**38,175**
Purchases of marketable securities	**(2,800)**	(25,957)	**(31,309)**
Proceeds from redemption of marketable securities	**4,100**	25,900	**45,846**
Acquisition of a subsidiary, net of cash acquired		2,228	
Purchases of property and store equipment	**(26,144)**	(22,440)	**(292,340)**
Purchases of software and other intangible assets	**(9,042)**	(12,457)	**(101,107)**
Decrease in lease deposits—net	**290**	769	**3,243**
Decrease in short-term loan		19,700	
Increase in long-term loan	**(2,041)**	(1,698)	**(22,822)**
Acquisition of associated companies	**(110)**	(50)	**(1,230)**
Proceeds from sale of investment in subsidiaries	**3,224**	629	**36,051**
Purchase of subsidiaries' stock from minority shareholders		(78)	
Other—net	**(903)**	(2,293)	**(10,099)**
Net cash used in investing activities	**(42,596)**	(15,647)	**(476,305)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	**(11,311)**	(308)	**(126,479)**
Decrease in short-term debt		(1,293)	
Cash dividends paid	**(15,866)**	(13,386)	**(177,412)**
Proceeds from issuance of shares upon exercise of stock options		125	
Purchase of treasury stock		(1)	
Cash dividends paid to minority shareholders	**(62)**	(48)	**(694)**
Net cash used in financing activities	**(27,239)**	(14,911)	**(304,585)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(29,139)**	21,159	**(325,830)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**83,982**	62,823	**939,081**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 54,843**	¥ 83,982	**$ 613,251**

Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February, 28, 2010 amounted to ¥31,500 million ($352,231 thousand) and ¥33,200 million ($371,240 thousand), respectively.
See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LAWSON, INC. and Subsidiaries
Years Ended February 28, 2010 and 2009

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 Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from 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 2009 financial statements to conform to the classifications used in 2010.

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 ¥89.43 to $1, the approximate rate of exchange at February 28, 2010. 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") owns 32,120 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2010, which represent 32.4% 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 four (seven in 2009) subsidiaries (collectively, 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.

Investments in two (one in 2009) associated companies are accounted for by the equity method.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

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.

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 not exceeding 20 years.

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 gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the 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 commissions from franchised stores" for services related to the opening of the LAWSON store. The remaining amount received by the Company is credited to the "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—Prior to March 1, 2009, inventories were stated at cost determined by the retail method as generally applied in the retail industry. In July 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. Replacement cost may be used in place of the net selling value, if appropriate.

The Companies applied this new accounting standard for measurement of inventories effective March 1, 2009. There was no effect on the consolidated financial statements from this change.

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 5). 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.

The useful lives for lease assets are the terms of the respective leases.

g. Long-Lived Assets—The Companies review their 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 in 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. Leases— In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Companies applied the revised accounting standard effective March 1, 2009. In addition, the Companies accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. As a result, compared with the previous method, the Companies recorded lease assets of ¥31,435 million ($351,504 thousand) under fixed assets, and lease obligations of ¥4,641 million ($51,895 thousand) and ¥19,410 million ($217,041 thousand) under current liabilities and long-term liabilities, respectively, on the consolidated balance sheets. The impact on earnings was not material.

All other leases are accounted for as operating leases.

m. 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.

n. 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.

o. 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.

p. 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 99,167 thousand shares for 2010 and 99,155 thousand shares for 2009.

Diluted net income per share for the years ended February 28, 2010 and 2009 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.

q. New Accounting Pronouncement

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. The Companies will adopt the new standard for asset retirement obligations newly incurred after March 1, 2011.

3. Accounts Receivable—Due From Franchised Stores

Under the franchise agreement, the Company is responsible for providing architectural and design 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 the respective franchised stores.

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

4. Marketable and Investment Securities

Marketable and investment securities as of February 28, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current—Bonds	¥2,500	¥3,800	$27,955
Non-current—Marketable and other equity securities	512	700	5,725

The costs and aggregate fair values of marketable and investment securities at February 28, 2010 and 2009, were as follows:

	Millions of Yen			
February 28, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	**¥2,500**	**¥1**		**¥2,501**
Available-for-sale—				
Equity securities	**56**		**¥13**	**43**
February 28, 2009				
Securities classified as:				
Held-to-maturity	¥3,000		¥ 1	¥2,999
Available-for-sale:				
Equity securities	61	¥1	17	45
Bonds	800			800

	Thousands of U.S. Dollars			
February 28, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	**$27,955**	**$11**		**$27,966**
Available-for-sale—				
Equity securities	**626**		**$145**	**481**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2010 and 2009 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Available-for-sale—Equity securities	**¥469**	¥655	**$5,244**

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 28, 2010 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held to Maturity	Held to Maturity
Due in one year or less	**¥2,500**	**$27,955**
Total	**¥2,500**	**$27,955**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2010 and 2009 were ¥0 million ($0 thousand) and ¥111 million, respectively. Gross realized losses on these sales, computed on the moving-average cost basis, were ¥2 million ($22 thousand) for the year ended February 28, 2010 and gross realized gains on these sales were ¥91 million for the year ended February 28, 2009.

5. Long-Lived Assets

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

The Companies recognized an impairment loss the following asset categories for the years ended February 28, 2010 and 2009:

Category	Related Assets	Location	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars 2010
Stores	Buildings and Furniture, fixtures and equipment	Tokyo	¥ 427	¥ 205	$ 4,775
		Osaka	191	165	2,136
		Others	2,786	1,644	31,152
Other	Goodwill		500		5,591
Total			¥3,904	¥2,014	$43,654

The above-noted assets, which incurred impairment losses for the years ended February 28, 2010 and 2009, consisted of the following:

	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars 2010
Fixed assets and lease assets:			
Land	¥ 395		$ 4,417
Buildings	2,125	¥1,458	23,762
Lease assets	442	341	4,942
Goodwill	500		5,591
Others	442	215	4,942
Total	¥3,904	¥2,014	$43,654

The recoverable amount of those assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or an expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rate used was mainly 4.9% and 5.3% for the years ended February 28, 2010 and 2009, respectively.

6. Land Revaluation

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

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

As at February 28, 2010, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥232 million ($2,594 thousand).

7. 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 28, 2010 and 2009, were summarized below:

	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars 2010
Accounts payable—trade for franchised stores	¥61,765	¥64,326	$690,652
Accounts payable—trade for Company-operated stores	11,424	12,890	127,742
Total	¥73,189	¥77,216	$818,394

8. Accounts Payable—Due to Franchised Stores

The cost of merchandise supplied to 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."

9. Current Portion of Long-Term Debt and Long-Term Debt

The current portion of long-term debt consisted of notes to banks and lease obligations at February 28, 2010 and 2009.

The annual interest rates applicable to the current portion of long-term debt ranged from 1.51% to 3.59% at February 28, 2010 and ranged from 1.47% to 1.65% at February 28, 2009.

Long-term debt less the current portion at February 28, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Loans from banks and leasing companies, due serially through 2017 with interest rates ranging from 1.63% to 3.35% (2010) and from 1.53% to 1.67% (2009) —Unsecured	**¥24,222**	¥2,308	**$270,849**
Less current portion	**(4,730)**	(937)	**(52,891)**
Long-term debt, less current portion	**¥19,492**	¥1,371	**$217,958**

Annual maturities of long-term debt as of February 28, 2010 for the following five years (and thereafter) are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 4,730	$ 52,891
2012	4,860	54,344
2013	4,988	55,775
2014	4,878	54,545
2015 and thereafter	4,766	53,294
Total	¥24,222	$270,849

10. Employees' Retirement Benefits

The Company and a certain domestic subsidiary each have a 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 28, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥12,528	¥12,227	$140,087
Fair value of plan assets	(5,576)	(5,575)	(62,350)
Unrecognized prior service cost	(702)	(878)	(7,850)
Unrecognized actuarial loss	(43)	(723)	(481)
Net liability	¥ 6,207	¥ 5,051	$ 69,406

The costs of defined benefit pension plans are accrued based on amounts determined principally using an actuarial method. Additionally the Company and a certain subsidiary each have a 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 28, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 972	¥ 872	$10,869
Interest cost	242	223	2,706
Amortization of prior service cost	176	176	1,968
Recognized actuarial loss	137	98	1,532
Contribution to defined contribution plan	272	265	3,041
Net periodic benefit costs	¥1,799	¥1,634	$20,116

Assumptions used for the years ended February 28, 2010 and 2009, were as follows:

	2010	2009
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

11. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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.

12. Stock Options

The Company and a certain domestic subsidiary have stock option plans as an incentive for directors, executive officers and selected employees.

The following is a summary of the Company's stock option plans:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
3rd Stock Option	9 directors and 20 executive officers	99,000 shares	2004.6.10	¥4,320 ($48.31)	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 ($46.52)	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 ($45.32)	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 ($44.16)	From September 7, 2009 to August 20, 2012
8th (a Stock Option)	7 directors	26,400 shares	2009.1.16	¥1 ($0.01)	From January 17, 2009 to December 15, 2028
8th (b Stock Option)	11 executive officers	36,000 shares	2009.1.16	¥5,174 ($57.86)	From January 18, 2011 to December 15, 2013
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 ($0.01)	From February 18, 2010 to February 1, 2030

The following is a summary of Ninety-nine Plus Inc.'s stock option plans:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2nd Stock Option	9 directors and auditors 226 managers (including store manager) 58 Ninety-nine Plus Kansai Inc.'s managers (including store manager)	3,824 shares	2003.10.31	¥90,000 ($1,006.37)	From September 4, 2005 to September 3, 2010

The stock option activity is as follows:

	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option
						(Shares)
Year Ended February 28, 2009						
Non-vested:						
February 29, 2008—outstanding					83,000	
Granted						
Canceled					(3,000)	
Vested					(80,000)	
February 28, 2009—outstanding						
Vested:						
February 29, 2008—outstanding	99,000	114,000	15,000	21,300		18,000
Vested					80,000	
Exercised	(8,100)	(10,400)				
Canceled		(3,000)				
February 28, 2009—outstanding	90,900	100,600	15,000	21,300	80,000	18,000

	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	9th Stock Option	Ninety-nine Plus Inc.'s 2nd Stock Option
					(Shares)
Year Ended February 28, 2009					
Non-vested:					
February 29, 2008—outstanding	45,000				
Granted		26,400	36,000		
Canceled	(3,000)				
Vested		(26,400)			
February 28, 2009—outstanding	42,000		36,000		
Vested:					
February 29, 2008—outstanding					1,000
Vested		26,400			
Exercised					(24)
Canceled					
February 28, 2009—outstanding		26,400			976

	3rd Stock Option	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option
						(Shares)
For the Year Ended February 28, 2010						
Non-vested:						
February 28, 2009—outstanding						
Granted						
Canceled						
Vested						
February 28, 2010—outstanding						
Vested:						
February 28, 2009—outstanding	**90,900**	**100,600**	**15,000**	**21,300**	**80,000**	**18,000**
Vested						
Exercised						
Canceled	**(90,900)**					
February 28, 2010—outstanding		**100,600**	**15,000**	**21,300**	**80,000**	**18,000**
Exercise price	**¥4,320 ($48.31)**	**¥4,160 ($46.52)**	**¥1 ($0.01)**	**¥1 ($0.01)**	**¥4,053 ($45.32)**	**¥1 ($0.01)**
Average stock price at exercise						
Fair value price at grant date				**¥3,178 ($35.54)**	**¥618 ($6.91)**	**¥2,852 ($31.89)**

	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	9th Stock Option	Ninety-nine Plus Inc.'s 2nd Stock Option
					(Shares)
For the Year Ended February 28, 2010					
Non-vested:					
February 28, 2009—outstanding	42,000		36,000		
Granted				21,500	
Canceled					
Vested	(42,000)			(21,500)	
February 28, 2010—outstanding			36,000		
Vested:					
February 28, 2009—outstanding		26,400			976
Vested	42,000			21,500	
Exercised					(848)
Canceled					(24)
February 28, 2010—outstanding	42,000	26,400		21,500	104
Exercise price	¥3,949 ($44.16)	¥1 ($0.01)	¥5,174 ($57.86)	¥1 ($0.01)	¥90,000 ($1,006.37)
Average stock price at exercise					¥129,817 ($1,451.60)
Fair value price at grant date	¥397 ($4.44)	¥3,477 ($38.88)	¥582 ($6.51)	¥2,652 ($29.65)	

The assumptions used to measure the fair value of the 8th stock options (2009) and 9th stock option (2010) were as follows:

	8th (a) Stock Option	8th (b) Stock Option	9th Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	35.59%	28.09%	34.43%
Estimated remaining outstanding period	10 years	3.5 years	10 years
Estimated dividend	¥135 per share	¥135 per share	¥160 per share
Risk-free interest rate	1.22%	0.52%	1.35%

13. 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 28, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2010 and 2009, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Accrued enterprise tax	¥ 906	¥ 902	$ 10,131
Accrued employees' bonuses	1,135	1,302	12,691
Excess of depreciation	5,371	4,969	60,058
Excess of amortization of software	919	794	10,276
Employees' retirement benefits	4,797	4,324	53,640
Allowance for doubtful accounts	5,807	1,414	64,933
Tax loss carryforwards	1,523	2,216	17,030
Impairment loss	2,396	2,165	26,792
Loss on replacement of computer system	412	841	4,607
Other	3,671	2,435	41,049
Less valuation allowance	(7,076)	(2,832)	(79,122)
Net deferred tax assets	¥19,861	¥18,530	$222,085

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended February 28, 2010 was as follows:

	2010
Normal effective statutory tax rate	**40.7%**
Increase in valuation allowance	**20.5**
Tax loss carryforwards	**(5.8)**
Per capita portion of resident tax	**1.3**
Permanently non-deductible expenses	**0.6**
Other—net	**0.4**
Actual effective tax rate	**57.7%**

At February 28, 2010, certain subsidiaries have tax loss carryforwards aggregating to approximately ¥3,743 million ($41,854 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
2012	¥ 88	$ 984
2013	1,598	17,869
2014	1,164	13,016
2015	220	2,460
2016	673	7,525
Total	¥3,743	$41,854

14. Impropriety-Related Loss

The Companies recorded an impropriety-related loss of ¥12,616 million ($141,071 thousand) at February 28, 2010 and a provision to the allowance for doubtful accounts of ¥1,936 million at February 28, 2009, relating to the alleged misappropriation of funds by two former directors of consolidated subsidiary LAWSON ENTERMEDIA, INC. ("LEM")

15. Leases

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

As discussed in Note 2.l, the Companies account for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

Pro forma information of such leases existing at the transition date, 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 28, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Furniture, Fixtures and Equipment and other Assets:			
Acquisition cost	**¥53,955**	¥76,786	**$603,321**
Accumulated depreciation	**29,057**	40,379	**324,913**
Accumulated impairment loss	**1,149**	776	**12,848**
Net leased property	**¥23,749**	¥35,631	**$265,560**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥ 8,944	¥11,286	$100,011
Due after one year	16,909	26,090	189,075
Total	¥25,853	¥37,376	$289,086

Allowance for impairment loss on leased property of ¥452 million ($5,054 thousand) and ¥684 million as of February 28, 2010 and 2009 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
	2010	2009	2010
Depreciation expense	¥11,161	¥13,658	$124,802
Interest expense	912	1,210	10,198
Lease payments	11,697	14,434	130,795
Reversal of allowance for impairment loss on leased property	512	377	5,725
Impairment loss	439	341	4,909

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 28, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥ 782	¥ 560	$ 8,744
Due after one year	1,606	462	17,958
Total	¥2,388	¥1,022	$26,702

16. Related Party Transactions

Balances and transactions of the Company with subsidiaries of Mitsubishi as of and for the years ended February 28, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
RYOSHOKU LIMITED:			
Accounts payable—trade	¥ 5,810	¥ 6,572	$ 64,967
Purchases	85,960	91,630	961,199
Food Service Network Co., Ltd.:			
Accounts payable—trade	16,455	16,442	183,999
Purchases	221,588	227,597	2,477,782
SAN-ESU INC.:			
Accounts payable—trade	2,803	2,903	31,343
Purchases	31,217	33,465	349,066

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

Balances and transactions of Ninety-nine Plus Inc., a consolidated subsidiary of the Company, with subsidiaries of Mitsubishi as of and for the year ended February 28, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
RYOSHOKU LIMITED:		
Accounts payable—trade	¥ 4,553	$ 50,911
Purchases	72,569	811,461

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

17. Net Income Per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2010	Net Income	Weighted-Average Shares		EPS
Basic EPS—Net income available to common shareholders	¥12,562	99,167	¥126.67	$1.42
Effect of dilutive securities—Stock options		102		
Diluted EPS—Net income for computation	¥12,562	99,269	¥126.54	$1.41
Year Ended February 28, 2009				
Basic EPS—Net income available to common shareholders	¥23,807	99,155	¥240.10	
Effect of dilutive securities—Stock options		88		
Diluted EPS—Net income for computation	¥23,807	99,243	¥239.89	

18. Subsequent Events

a. Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders meeting held on May 25, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥80 ($0.89) per share	¥7,933	$88,706

b. Share Exchange

1. In accordance with a Board of Directors' resolution on April 14, 2010, the Company concluded a share exchange agreement on the same day that would make it the wholly owning parent company and Ninety-nine Plus Inc. a wholly owned subsidiary, with the aims of further improving the operational efficiency and strengthening the competitiveness of the LAWSON Group as a whole. Ninety-nine Plus Inc. subsequently obtained approval for this agreement through a resolution at the annual meeting of shareholders on May 21, 2010.

An overview of the share exchange is as follows:

(1) Details of share exchange

The share exchange will make Ninety-nine Plus Inc. a wholly owned subsidiary of the Company, the wholly owning parent company.

(2) Effective date of share exchange

July 1, 2010 (scheduled)

(3) Share exchange method

The Company will issue new common stock for allotment to shareholders registered or recorded in Ninety-nine Plus Inc.'s shareholders register on the day before the effective date of the share exchange in exchange for all Ninety-nine Plus Inc. common stock held by said shareholders.

Company	LAWSON, INC. (Wholly Owning Parent Company)	Ninety-nine Plus Inc. (Wholly Owned Subsidiary)
Details of allotment for share exchange	1	33
Number of new shares to be issued for share exchange:	Common stock— 1,318,647 shares (planned)	

2. In accordance with a Board of Directors' resolution on April 14, 2010, the Company concluded a share exchange agreement on the same day that would make it the wholly owning parent company and LEM a wholly owned subsidiary, with the aims of further improving the operational efficiency and strengthening the competitiveness of the LAWSON Group as a whole. LEM subsequently obtained approval for this agreement through a resolution at the annual meeting of shareholders on May 24, 2010.

An overview of the share exchange is as follows:

(1) Details of share exchange

The share exchange will make LEM a wholly owned subsidiary of the Company, the wholly owning parent company.

(2) Effective date of share exchange

July 1, 2010 (scheduled)

(3) Share exchange method

The Company will issue new common stock for allotment to shareholders registered or recorded in LEM's shareholders register on the day before the effective date of the share exchange in exchange for all LEM common stock held by said shareholders.

Company	LAWSON, INC. (Wholly Owning Parent Company)	LEM (Wholly Owned Subsidiary)
Details of allotment for share exchange	1	21
Number of new shares to be issued for share exchange:	Common stock— 287,238 shares (planned)	

(4) Performance of LEM

Year ended February 28, 2010	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥10,022	$112,065
Net loss	(11,887)	(132,920)
Total assets	6,323	70,703
Total liabilities	13,932	155,786
Total capital deficiency	(7,609)	(85,083)

INDEPENDENT AUDITORS' REPORT

Deloitte.

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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 28, 2010 and 2009, 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 the Company and subsidiaries as of February 28, 2010 and 2009, 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.

As discussed in Note 18.b.2 to the consolidated financial statements, on April 14, 2010, the Company concluded a share exchange agreement that would make it the wholly owning parent company and LAWSON ENTERMEDIA, INC. ("LEM"), a wholly owned subsidiary company, in accordance with the Board of Directors' resolution of the same date. LEM subsequently obtained the approval of this agreement by a resolution at the annual shareholders meeting on May 24, 2010.

We have also audited management's report on internal control over financial reporting of the consolidated financial statements of the Company and subsidiaries as of February 28, 2010. The Company's management is responsible for designing and operating effective internal control over financial reporting and for preparing its report on internal control. Our responsibility is to express an opinion on management's report on internal control based on our audit. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free of material misstatement. An internal control audit includes examining, on a test basis, representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control. We believe that our internal control audit provides a reasonable basis for our opinion.

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of the Company and subsidiaries as of February 28, 2010 is not effectively maintained because of a material weakness, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

As discussed in management's report on internal control, the Company identified a material weakness in company-level controls of LEM, a consolidated subsidiary. The Company restated its consolidated financial statements for the year ended February 28, 2009, and reexamined its accounting for the year ended February 28, 2010. As a result, necessary adjustments were all reflected in the accompanying consolidated financial statements, and as such, this matter had no effect on our audit of the consolidated financial statements.

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 LLC

May 25, 2010

Member of
Deloitte Touche Tohmatsu

MANAGEMENT'S REPORT ON INTERNAL CONTROL

1. [Matters Relating to the Basic Framework for Internal Control Over Financial Reporting]

Takeshi Niinami, Representative Director, President and CEO, and Yoshiyuki Yahagi, Member of the Board, Senior Executive Vice President and CFO are responsible for designing and operating effective internal control over financial reporting of our company (the "Company") and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

Internal control aims at achieving its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. [Matters Relating to the Scope of Assessment, the Basis Date of Assessment and the Assessment Procedures]

The assessment of internal control over financial reporting was performed as of February 28, 2010, which is the end of the Company's fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidated basis ("company-level controls"). Furthermore, we reasonably selected business processes to be assessed. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality of the impact on the reliability of our financial reporting. The materiality of the impact on the reliability of financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. Consolidated subsidiaries and equity-method affiliated companies that do not have a material quantitative or qualitative impact are not included in the scope of assessment of company-level controls. In light of the results of assessment of company-level controls conducted for the Company and consolidated subsidiaries, we reasonably determined the scope of assessment of process-level controls.

Regarding the scope of assessment of process-level controls, we selected "significant locations and/or business units," which are those locations and/or business units to be assessed, in descending order of total operating revenues, total assets, and income before income taxes for the previous period, until their combined amount of one of the three factors reaches approximately two-thirds of the respective total amount on a consolidated basis. We included in the scope of assessment, at the selected significant locations and/or business units, business processes which impact the accounts that are closely associated with the Company's business objectives, namely those leading to operating revenues and net sales as well as franchisee accounts and inventories, and business processes relating to other accounts with a high degree of monetary materiality. Further, regardless of the selection of significant locations and/or business units, we also selected for assessment, as business processes with a significant effect on financial reporting, those business processes that have a high risk of material misstatements relating to (i) significant accounts involving estimates and management's judgment and/or (ii) a business or operation dealing with high-risk transactions.

3. [Matters Relating to the Results of the Assessment]

We have concluded that it is reasonably possible that the following deficiency of internal control over financial reporting at a consolidated subsidiary, LAWSON ENTERMEDIA, INC. ("LEM"), has the definition of a material effect on financial reporting, and therefore falls under a material weakness in internal control over financial reporting. As a result, as of the end of February 2010, we concluded that internal control over financial reporting of the Group was not effective.

The Company discovered on January 24, 2010 that the former senior managing and representative director and the former director in charge of accounting of LEM had misappropriated large sums of money without authority and without following internal corporate procedures.

In connection with the misconduct and unauthorized accounting processes, LEM recorded extraordinary losses of ¥1.9 billion for the fiscal year ended February 28, 2009, and ¥12.6 billion for the fiscal year ended February 28, 2010. LEM and the Company have amended the following financial reports: Annual securities report for fiscal 2008, which was the year ended February 28, 2009, and reports for the first quarter, first half, and third quarter of fiscal 2009, the year ended February 28, 2010.

The Group assessed internal control in accordance with the basic framework for internal control. It turned out, however, there was a material weakness in company-level controls at LEM in responding to the risk of inappropriate accounting practices by management, and therefore, inappropriate accounting was made, and the discovery and correction of this impropriety was delayed.

The reason the material weakness was not remedied by February 28, 2010 was because the misconduct was not discovered until close to the period-end, and therefore, there was not enough time to confirm the effectiveness of countermeasures as of the end of the business year, although LEM promptly carried out countermeasures following discovery of the misconduct, including eliminating the concentration of authority and strengthening the risk management system.

However, the Company recognizes the importance of design and operation of internal controls over financial reporting, and immediately responded to the discovery of this misconduct by launching an investigation by a third-party investigating committee. Based on the results of the committee's investigation, the Group has started implementing the following preventative measures to ensure that this kind of incident does not reoccur.

4. [Supplementary Information]

In order to remedy the deficiency in internal control discussed in Section 3 above, the Group has been implementing the following countermeasures since the discovery of the misconduct through the submission of Management's Report on Internal Control. The Group believes that by continuing to thoroughly implement these measures, it can prevent inappropriate accounting from occurring in the future.

Response of LEM

(1) Emergency Countermeasures

After discovering the misappropriation of money, LEM implemented the following emergency countermeasures.

1) Elimination of Concentration of Authority

LEM decentralized authority in view of the fact that the concentration of authority in one division or the directors in charge was identified as having facilitated the misconduct. Specifically, the Management Division was split into four divisions: the Finance and Accounting Division, the General Affairs Division, the Internal Audit Division, and the Management Planning Office; and a person with responsibility was appointed in each division. This created a system of checks and balances among the newly-formed divisions.

2) Stronger Supervision of Payments
LEM established a new system for checking payment applications in the General Affairs Division, in addition to the Finance and Accounting Division. The system relates to advance payments and other irregular transactions.

(2) Fundamental Countermeasures
LEM also decided to take the following fundamental countermeasures based on the final report of the third-party investigating committee.

1) Enhancement of Legal Compliance
Top management announces its commitment to preventing a reoccurrence of this incident. LEM will maintain and strengthen the existing compliance training for all executives and employees in order to ensure that awareness of legal compliance is thoroughly instilled. Furthermore, starting from the fiscal year ending February 28, 2011, LEM will conduct a regular annual awareness survey of all executives and employees to gauge their understanding and awareness of legal compliance.

2) Identification and Prevention of Transaction Risks
LEM will identify risks relating to trading partners and transactions, and reflect preventative measures in business manuals as well as ensure that all executives and employees understand them. These measures will be implemented before the end of the first six months of the fiscal year ending February 28, 2011.

3) Emphasizing an Organizational over Individual Approach
One of the characteristics of LEM's industry is the emphasis on individual connections, which tends to result in individualized work practices. Beginning from the fiscal year ending February 28, 2011, LEM will therefore work to ensure that individual work practices are more visible within the organization and encourage regular personnel rotation in order to ensure that business is handled in a more systematic manner.

4) Enhanced Management of the Sales Division
The General Affairs Division and the Finance and Accounting Division already conduct credit screening of trading partners and regular verification of transactions. Going forward, however, over the medium term, LEM plans to strengthen management functions in the Sales Division in line with organizational growth, installing control functions in the Division.

5) Enhanced Audit Function
Along with establishment of the Internal Audit Division as an emergency response measure, LEM also increased the number of dedicated internal audit staff to two, creating a system for comprehensive evaluation of inherent risk.

Going forward, LEM will rebuild its systems, including the finance and accounting systems, in order to promote more visible work practices and conduct continuous and effective monitoring.

6) Encourage Use of Internal Whistleblower System
Through compliance training and other programs, LEM encourages active use of the internal whistleblower system. Going forward, the management themselves will directly encourage employees to use the system at morning meetings and via in-house communications.

7) Monitoring of Preventative Measure Implementation
LEM will thoroughly monitor the implementation status of the aforementioned preventative measures.

Specifically, it will designate the Risk Management and Compliance Committee as the group in charge of promoting implementation of preventative measures. This committee will regularly report the results of its monitoring work to the Board of Directors.

Countermeasures in the LAWSON Group

(3) Group-wide Countermeasures
When this incident was discovered, the Company conducted inspections of accounting at other Group companies (Ninety-nine Plus Inc. and LAWSON ATM Networks, Inc.) as an emergency measure, confirming that no other misappropriation of funds had occurred. The Company also evaluated risk management at Group companies based on the factors that facilitated the alleged misconduct at LEM (concentration of authority and insufficient risk awareness) and confirmed that no similar issues were present. Looking ahead, the Group as a whole will enforce risk management in order to prevent such an incident from recurring.

1) Decentralization of Authority
- The Company has confirmed that individuals with responsibilities in a given division do not hold concurrent positions that could hinder the functioning of checks and balances among divisions.
- The Company confirmed its system of double checks on payment procedures.
- The Company will strengthen monitoring of the systems described above.

2) Stronger Risk Management System
Committees to oversee risk management and compliance have been established at Group companies, and these committees will work with the Company's Compliance and Risk Office to enforce risk management.

5. Special Items

No other items to report.

TAKESHI NIINAMI
Representative Director, President and CEO
LAWSON, INC.

DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS (As of May 26, 2010)

President and CEO	Takeshi Niinami	CEO, President, LAWSON University
Member of the Board and Senior Executive Vice President	Yoshiyuki Yahagi	Chief Financial Officer (CFO)
Member of the Board and Executive Vice President	Manabu Asano	Chief Compliance Officer (CCO), In charge of CSR, General Manager, Administration Department, LAWSON ENTERMEDIA, INC.
Member of the Board	Toru Moriyama	Executive Vice President, Group COO, Living Essentials Group, Mitsubishi Corporation
Members of the Board (Outside)	Hiroshi Tasaka	Professor, Graduate School of Tama University
	Reiko Okutani	President, The R Co., Ltd.
	Takehiko Kakiuchi	Senior Vice President, Division COO, Foods (Commodity) Div., Mitsubishi Corporation
Standing Corporate Auditor (Outside)	Munehiko Nakano	
Standing Corporate Auditor	Atsuhiko Seki	
Corporate Auditors (Outside)	Tetsuo Ozawa	Lawyer
	Kazuyuki Masu	General Manager, Administration Dept. of Corporate Section, Mitsubishi Corporation

Senior Executive Vice President	Takatoshi Kawamura	In charge of Healthcare Business
Executive Vice President	Syuichi Imagawa	General Manager, Marketing Strategy Group Division Director, Entertainment & Service Development Division Division Director, Regional Headquarters Support Division
Senior Vice President	Norikazu Nishiguchi	General Manager, CEO Office
	Shigeaki Kawahara	Executive Assistant to CEO Senior Executive Vice President, Ninety-nine Plus Inc.
	Takaki Mizuno	Region Director, Chubu LAWSON Branch
	Hajime Nakai	Division Director, Merchandizing & Logistics Division
	Jyun Miyazaki	Division Director, Corporate Communications Office
	Masahiro Oyama	Deputy Division Director, Merchandizing & Logistics Division
	Tatsushi Sato	CIO (Chief Information Officer) Division Director, Information Systems Office
	Kei Murayama	Division Director, Human Resources Office
	Ichiro Kijima	Division Director, Corporate Business Strategy Division
	Hisashi Yasuhira	Region Director, Tohoku LAWSON Branch
	Atsushi Maeda	Deputy Division Director, Merchandizing & Logistics Division Director, Ninety-nine Plus Inc.
	Kazuo Togasa	Deputy Region Director, Kanto LAWSON Branch

CORPORATE DATA (As of February 28, 2010)

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
5,236 (Consolidated)

Business Activities
Development of LAWSON, NATURAL LAWSON and LAWSON STORE100 franchise chains, etc.

Net Sales of All Stores
¥1,666.1 billion (Consolidated)

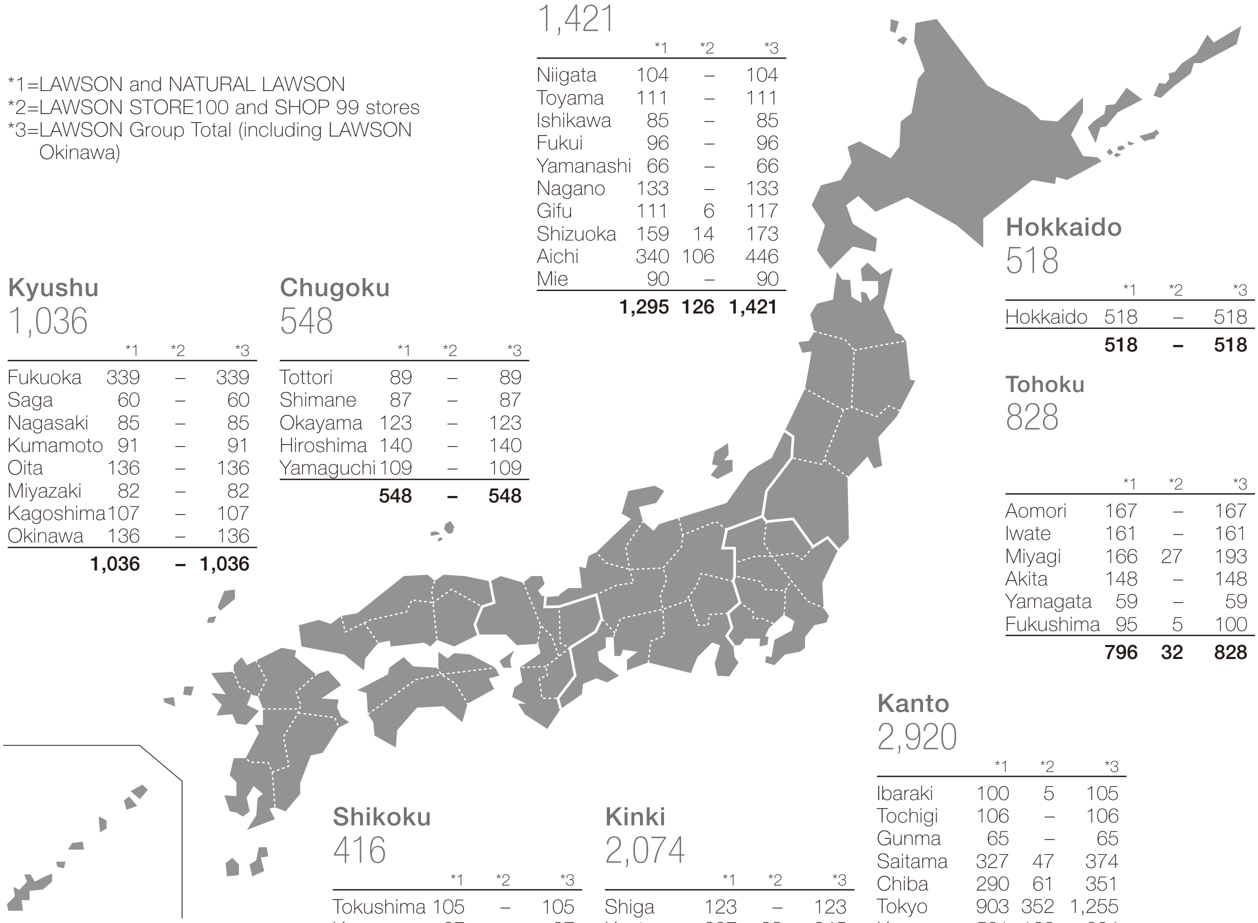
Operating Area
All 47 prefectures in Japan;
Shanghai, PRC

Established
April 15, 1975

Capital
¥58.5 billion

Number of Stores
9,761 (Consolidated)

*1=LAWSON and NATURAL LAWSON
*2=LAWSON STORE100 and SHOP 99 stores
*3=LAWSON Group Total (including LAWSON Okinawa)



Chubu
1,421

	*1	*2	*3
Niigata	104	–	104
Toyama	111	–	111
Ishikawa	85	–	85
Fukui	96	–	96
Yamanashi	66	–	66
Nagano	133	–	133
Gifu	111	6	117
Shizuoka	159	14	173
Aichi	340	106	446
Mie	90	–	90
	1,295	**126**	**1,421**

Hokkaido
518

	*1	*2	*3
Hokkaido	518	–	518
	518	**–**	**518**

Tohoku
828

	*1	*2	*3
Aomori	167	–	167
Iwate	161	–	161
Miyagi	166	27	193
Akita	148	–	148
Yamagata	59	–	59
Fukushima	95	5	100
	796	**32**	**828**

Kyushu
1,036

	*1	*2	*3
Fukuoka	339	–	339
Saga	60	–	60
Nagasaki	85	–	85
Kumamoto	91	–	91
Oita	136	–	136
Miyazaki	82	–	82
Kagoshima	107	–	107
Okinawa	136	–	136
	1,036	**–**	**1,036**

Chugoku
548

	*1	*2	*3
Tottori	89	–	89
Shimane	87	–	87
Okayama	123	–	123
Hiroshima	140	–	140
Yamaguchi	109	–	109
	548	**–**	**548**

Kanto
2,920

	*1	*2	*3
Ibaraki	100	5	105
Tochigi	106	–	106
Gunma	65	–	65
Saitama	327	47	374
Chiba	290	61	351
Tokyo	903	352	1,255
Kanagawa	501	163	664
	2,292	**628**	**2,920**

Shikoku
416

	*1	*2	*3
Tokushima	105	–	105
Kagawa	97	–	97
Ehime	156	–	156
Kouchi	58	–	58
	416	**–**	**416**

Kinki
2,074

	*1	*2	*3
Shiga	123	–	123
Kyoto	207	38	245
Osaka	818	136	954
Hyogo	508	33	541
Nara	99	3	102
Wakayama	109	–	109
	1,864	**210**	**2,074**

Store Information
SHANGHAI HUALIAN LAWSON CO., LTD.:
300 (as of December 31, 2009)

SHAREHOLDER INFORMATION (As of February 28, 2010)

Authorized Shares
409,300,000

Shares Issued
99,600,000

Shareholders
35,691

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

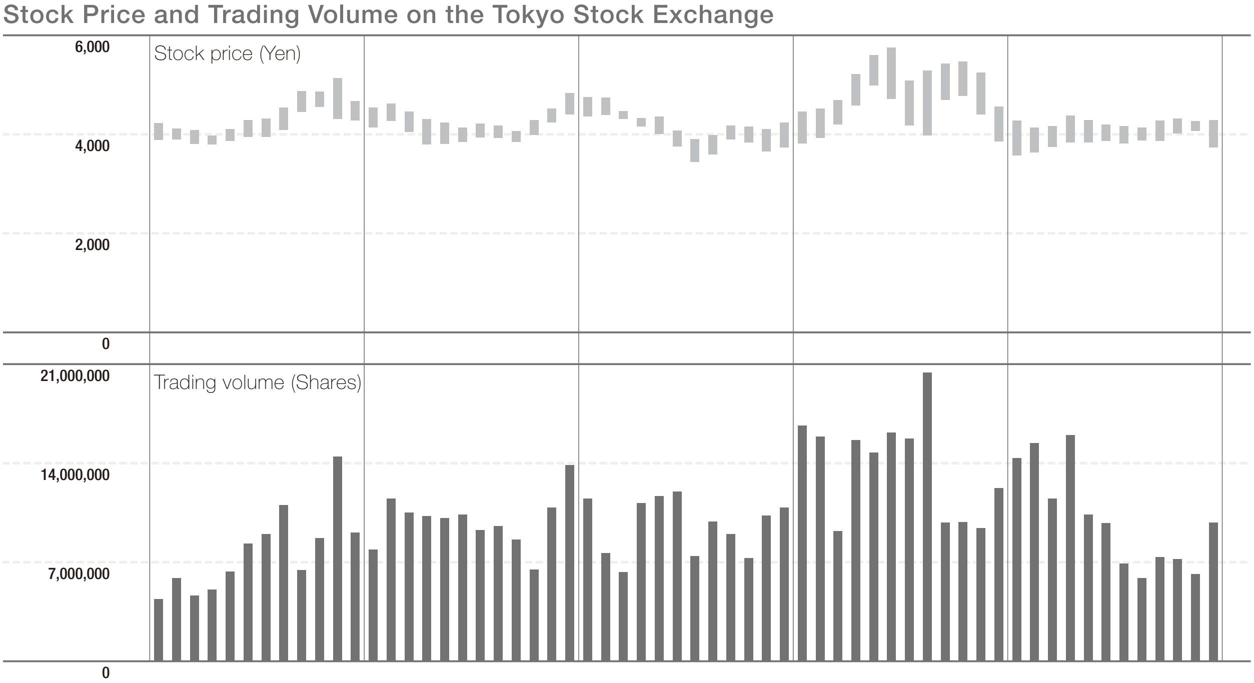
Stock Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

Major Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Held*
1. Mitsubishi Corporation	32,089	32.4
2. Marubeni Foods Investment Co., Ltd.	4,786	4.8
3. Japan Trustee Services Bank, Ltd. (Trust account)	3,765	3.8
4. The Master Trust Bank of Japan, Ltd. (Trust account)	3,363	3.4
5. STATE STREET BANK AND TRUST COMPANY 505223	2,543	2.6
6. NTT DOCOMO, Inc.	2,092	2.1
7. The Chase Manhattan Bank NA, London SL, Omnibus Account	1,856	1.9
8. STATE STREET BANK AND TRUST COMPANY 505225	1,337	1.3
9. Trust & Custody Services Bank, Ltd. (Securities investment trust account)	1,184	1.2
10. Mizuho Securities Co., Ltd.	1,087	1.1

** The above shareholding ratios exclude treasury stock (432,190).*

Stock Price and Trading Volume on the Tokyo Stock Exchange



Years Ended February 28 and 29	2006	2007	2008	2009	2010
High	5,130	4,830	4,750	5,750	4,380
Low	3,800	3,800	3,440	3,820	3,580
At Year-End	4,350	4,540	4,000	4,250	3,885

LAWSON

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Tokyo 141-8643, Japan
http://www.lawson.co.jp/company/e/
Published in August 2010.

Printed in Japan