LAWSON

Annual Report 2011

Year ended February 28, 2011

I can pick up my medications at any time – that too helps keep me healthy.

[Businessman, 55]

I get started in the morning with fresh-baked bread and coffee.

[Office worker, 26]

Happiness and Harmony in Our Community

I'm always concerned for my family, so I'm confident in buying vegetables from Lawson.

[Housewife, 35]

My money is from mom. And I'm saving up points with it too.

[Primary school student, 7]

Corporate Philosophy

LAWSON

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.

Contents

Corporate Philosophy

Happiness and Harmony in Our Community

Code of Conduct

Act with utmost consideration for others
Challenge with innovative ideas and actions
Have 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 into 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's 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.

Financial Highlights

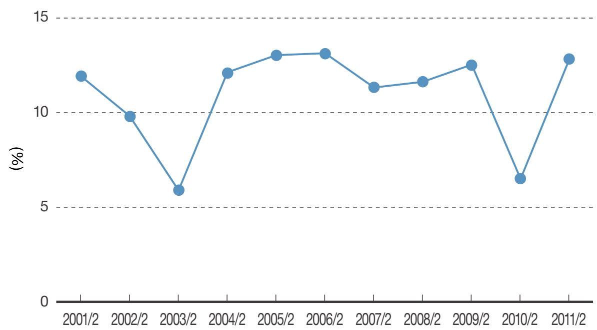
Consolidated Eleven-Year Summary

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

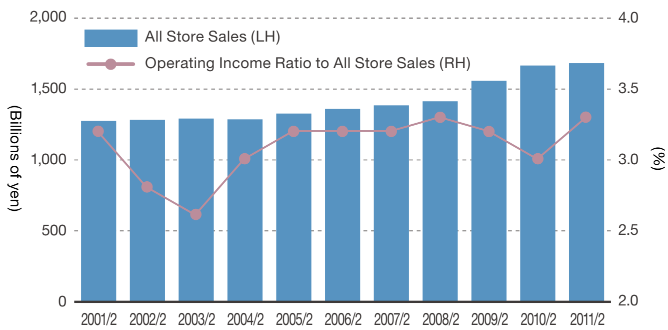
	2011/2	2010/2	2009/2	2008/2	2007/2
For the year:					
Operating revenues					
Franchise commission from franchise stores	¥ 197,673	¥ 185,656	¥ 186,928	¥ 177,443	¥ 174,325
Net sales from Company-operated stores	183,236	232,459	119,099	83,321	75,151
Other	60,369	49,077	43,449	40,413	33,577
Total operating revenues	441,278	467,192	349,476	301,177	283,053
Operating income	55,541	50,276	49,186	46,610	44,513
Net income	25,387	12,562	23,807	22,119	20,983
Cash flows from operating activities	72,210	40,696	51,717	55,774	47,596
Cash flows from investing activities	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)
Cash flows from financing activities	(28,799)	(27,239)	(14,911)	(31,973)	(736)
Capital expenditure [(2)]	50,326	71,399	42,907	64,413	49,822
Depreciation and amortization [(3)]	33,083	27,468	20,879	21,469	21,352
At year-end:					
Total assets	¥ 476,037	¥ 448,132	¥ 436,096	¥ 397,108	¥ 398,258
Total equity	208,467	198,136	201,167	188,574	199,493
Equity ratio	42.7%	42.8%	44.8%	46.6%	49.0%
Interest-bearing debt	—	—	—	—	—
Ratio of interest-bearing debt	—	—	—	—	—
Cash and cash equivalents	67,712	54,843	83,982	62,823	75,547
Total number of stores [(4)]	9,994	9,761	9,527	8,587	8,564
Number of employees (full-time)	5,703	5,236	5,186	3,735	3,614
Per share data:					
Net income	¥ 255	¥ 127	¥ 240	¥ 215	¥ 202
Cash dividends	170	160	160	110	100
Payout ratio	66.8%	126.3%	66.6%	51.2%	49.6%
Financial data:					
ROE	12.8%	6.5%	12.5%	11.6%	11.3%
ROA	5.5%	2.8%	5.7%	5.6%	5.4%
Net sales of all stores:					
Net sales by store category					
Franchise stores [(5)]	¥ 1,499,576	¥ 1,433,678	¥ 1,434,166	¥ 1,331,785	¥ 1,311,479
Company-operated stores	183,236	232,459	124,614	83,321	75,151
Net sales by product category [(5)]					
Processed foods	¥ 897,426	¥ 902,306	¥ 844,324	¥ 726,750	¥ 705,155
Fast foods	321,865	324,197	332,894	327,501	324,993
Daily delivered foods	264,169	239,088	186,109	162,625	155,575
Non-food products	199,350	200,544	195,453	198,230	200,907
Net sales of all stores	¥ 1,682,812	¥ 1,666,136	¥ 1,558,781	¥ 1,415,106	¥ 1,386,630

Notes:
1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 28, 2011, of ¥81.71=$1.
2. Effective from annual report 2006, the composition of capital expenditure has changed to include leases, investments and advances, and construction assistance guarantees. Please refer to page 55 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 include sales figures reported by franchise stores and are unaudited.

Return on Equity (ROE)

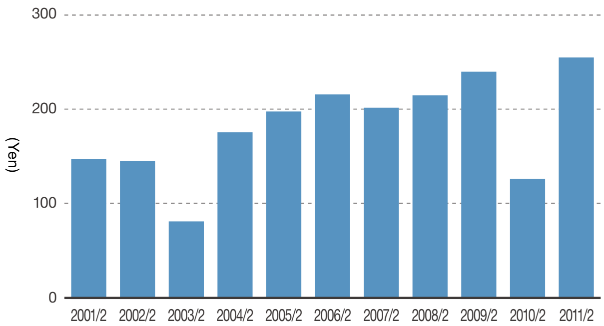


All Store Sales and Operating Income Ratio

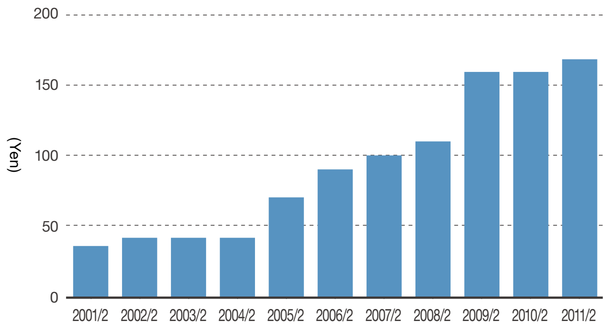


2006/2	2005/2	2004/2	2003/2	2002/2	2001/2 (Millions of Yen)	2011/2 (Thousands of U.S. Dollars [1])
¥ 170,785	¥ 162,963	¥ 153,910	¥ 149,032	¥ 141,621	¥ 135,237	$ 2,419,202
66,027	63,802	67,479	80,954	101,353	132,921	2,242,516
31,246	27,630	24,212	20,348	13,142	12,061	738,820
268,058	254,395	245,601	250,334	256,116	280,218	5,400,538
43,867	42,941	38,087	34,107	36,363	41,279	679,733
22,025	20,435	18,571	8,861	16,123	16,368	310,696
46,933	47,329	37,424	33,860	44,804	52,793	883,735
(55,282)	(33,297)	(40,621)	(3,787)	(44,031)	(54,696)	(373,541)
(7,795)	(13,836)	(14,364)	(7,247)	(58,236)	18,707	(352,454)
54,417	46,873	48,303	75,828	59,810	32,651	615,910
20,896	19,641	18,499	16,071	16,328	16,021	404,895
¥ 375,107	¥ 356,310	¥ 354,831	¥ 342,599	¥ 342,934	¥ 387,236	$ 5,825,934
175,184	160,282	154,317	151,864	149,827	178,448	2,551,304
46.7%	45.0%	43.5%	44.3%	43.7%	46.1%	
—	—	—	—	3,140	23,530	—
—	—	—	—	0.9%	6.1%	—
60,441	76,585	76,389	93,994	71,269	128,655	828,687
8,366	8,077	7,967	7,721	7,824	7,749	
3,585	3,391	3,402	3,462	3,817	4,170	
					Yen	U.S.Dollars [1]
¥ 216	¥ 198	¥ 176	¥ 82	¥ 146	¥ 148	$ 3.12
90	70	41	41	41	35	2.08
41.8%	35.3%	23.3%	49.8%	28.2%	23.7%	
13.1%	13.0%	12.1%	5.9%	9.8%	11.9%	
6.0%	5.7%	5.3%	2.6%	4.4%	4.5%	
¥ 1,295,704	¥ 1,265,275	¥ 1,220,819	¥ 1,213,088	¥ 1,184,204	¥ 1,144,717	$ 18,352,417
66,027	63,802	67,479	80,954	101,353	132,921	2,242,504
¥ 682,006	¥ 665,687	¥ 625,031	¥ 600,508	¥ 583,712	¥ 562,777	$ 10,983,062
312,289	297,369	302,568	303,098	297,030	362,979	3,939,114
150,917	148,134	139,506	138,353	150,862	90,569	3,233,007
216,519	217,887	221,192	252,083	253,953	261,313	2,439,726
¥ 1,361,731	¥ 1,329,077	¥ 1,288,297	¥ 1,294,042	¥ 1,285,557	¥ 1,277,638	$ 20,594,933

Earnings per Share (EPS)



Cash Dividends per Share



CEO Message To Shareholders

To Our Shareholders

President and
Chief Executive Officer

Takeshi Niinami

We aim to achieve sustainable earnings growth and make ongoing social contributions through our business.

Contribution to communities is just as important as sustainable earnings growth.

I would like to begin by expressing my profound condolences to all who have suffered from the Great East Japan Earthquake, which occurred on March 11, 2011, just after Lawson's fiscal year ended on February 28, 2011. We are determined to make our best effort to support recovery and restoration in the damaged areas, including the building of new communities.

The disaster has reminded me, as CEO of Lawson, how valuable is our corporate philosophy, "Happiness and Harmony in Our Community" which is the starting point of Lawson. After the earthquake, I organized an ad hoc team and told its members "This is an emergency that is threatening lives in many communities. Let's do our best in supporting damage-stricken areas, without worrying about expenses." Our top priority was uninterrupted supply of food, water, and daily necessities. I am grateful that all our employees, franchise owners, and suppliers quickly and voluntarily acted in ways consistent with our corporate philosophy.

I strongly believe that Lawson's best social contribution is to realize our mission of "Whatever you want, whenever and wherever you need" and this is how I manage the company. I equally emphasize the maintenance of sustained growth - which the company has achieved since I became CEO. Social contribution AND earnings growth are equally important and neither one is indispensable. In fiscal 2010, we increased operating income by 10.5% year-on-year to set a new record-high operating income for the eighth consecutive year. Contributions to this came from measures we took, such as the full-fledged activation of our new backbone IT system (called PRiSM), improved understanding of customer requirements and preferences through collection and analysis of card data, and product development based on our customer profiles and raw material purchasing capability. In addition to numerical achievement of goals, we succeeded in expanding our customer base by adding women and seniors, both of which are customer groups we have sought to serve better for many years.

While the earthquake of March will inevitably influence Lawson in fiscal 2011, we are not intimidated. We will aim to achieve sustained earnings growth which is our promise to our shareholders. Our human resources have been strengthened, by inviting competent people from outside to join our management team and by developing next-generation management candidates. We will defend and solidify our base in the disaster-stricken areas and manage in an aggressive manner in other regions. This is how we will take up the challenge to achieve record-high income for the ninth consecutive year.

Details on operating results are available in the Management's Discussion and Analysis section, starting on page 47.

How Lawson achieves its corporate philosophy

When the Great East Japan Earthquake occurred

Our role as a lifeline	Our meaning as a small format	Our value as a nationwide convenience store chain

Happiness and Harmony in Our Community

We reaffirmed our corporate philosophy, which is our starting point

We will realize

Whatever you want, whenever and wherever you need it

Our long-term challenge is to become the world's top SPA-type retail chain based on small catchment areas and achieve an ROE of 15-20%.

Becoming the world's top SPA*-type retailer based on small catchment areas is our long-term vision. This is a big challenge. But this can enable us to create significant corporate value.

Our target is to achieve operating income of ¥100 billion by fiscal 2020. We would like to achieve this target as early as possible by sales growth in our convenience store business in Japan, through expansion in customer base, and by the entertainment and e-commerce business and overseas expansion. We also plan to improve the operating margin for all chain store sales (including all franchise stores) from the present 3% to 5% through structural reforms at the Head Office and at the stores.

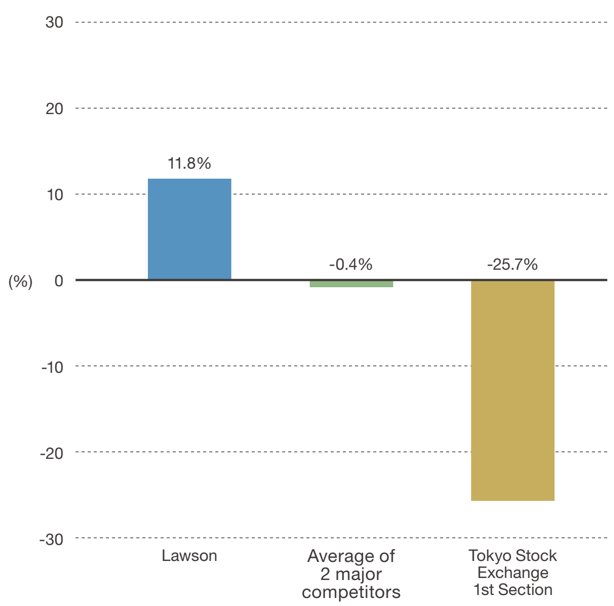
Then, we will adopt and carry out appropriate capital policies so as to achieve an ROE of 15-20%.

Sustainable growth, high ROE, and appropriate capital policies will be all-important elements to realize high total shareholder returns (TSR).

* SPA : Specialty store retailer of private label apparel. In this case we use SPA in a general sense to describe a business model where a single corporation carries out both production and retail operations for its products in food business.

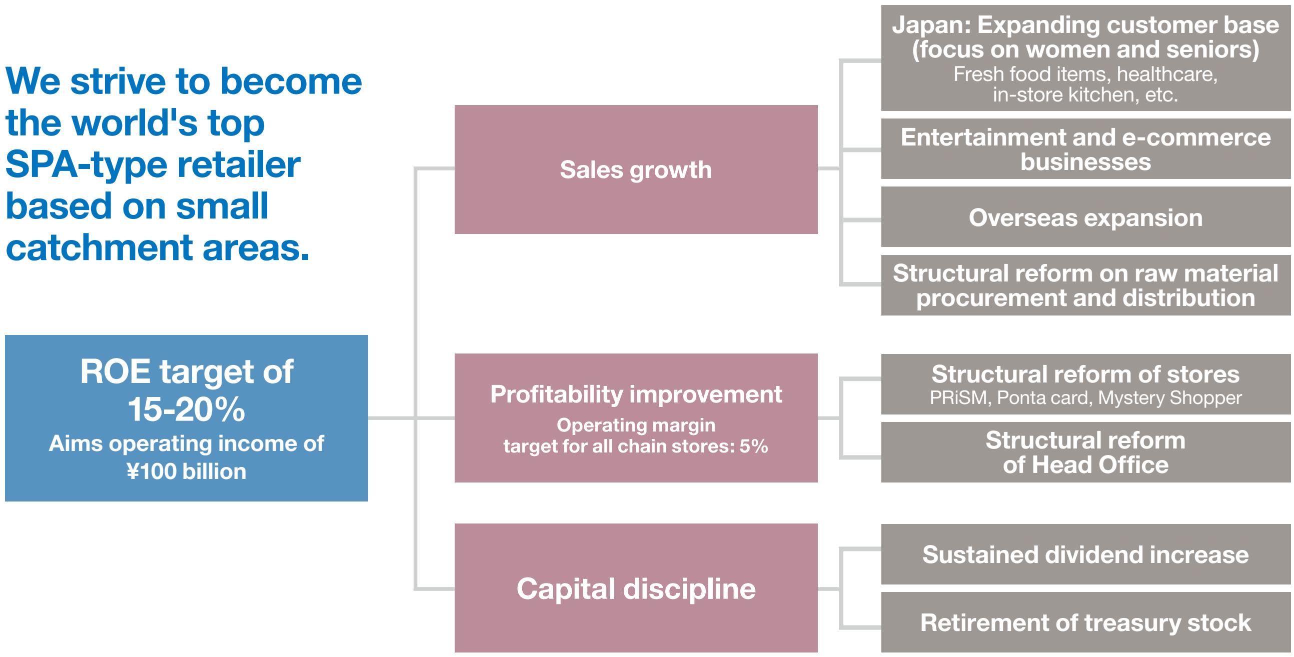
We realize high total shareholder returns (TSR).

Estimated for the period between March 2008 and February 2011



3-year TSR = Total return of a stock (capital gain plus dividends) over three years
Average of 2 major competitors = Simple average of Seven & i Holdings and FamilyMart (Company estimates)

We aim an ROE of 15-20%.



We will rebuild our value chain and evolve according to our SPA model to food business.

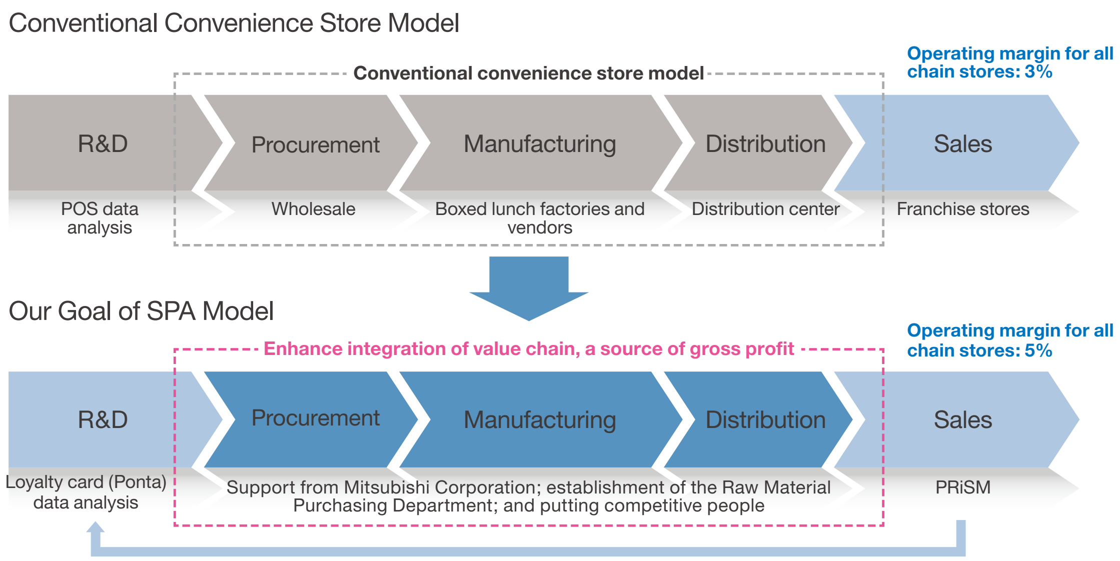
How can we raise the aggregate operating margin for all chain store sales to 5%? I believe that the key to achieve this target is to evolve from conventional convenience stores to SPA-type convenience stores supported by a restructured value chain. The conventional stores are primarily resellers who purchase their merchandise from manufacturers and wholesalers. This type of operation creates little added-value. Hence, there is limited room for margin improvement. The SPA-type stores that are our objective would be actively engaged in all processes from product development, raw material procurement, and manufacturing, to distribution. This would enable us to achieve a high operating margin.

We possess four points of strength, compared to other convenience store and supermarket companies. First, we were the frontrunner in establishing the Raw Material Purchasing Department in 2003 and have an unequalled track record of being engaged in manufacturers' raw material procurement at our initiative. Our accumulated experience and knowledge enable us to evaluate and take appropriate risks. Second, we have insight with regard to our customers, based on data from use of loyalty card "Ponta" for purchases. This is a multi-partner shopper loyalty points program that Lawson participates in (see next page). Third, we are able to sell out entire lines of merchandise through our sales channels, which have almost reached 10,000 group stores. Fourth, we can collaborate with Mitsubishi Corporation, our largest shareholder, which has strength in upstream operations.

By utilizing those points of strength, to give one example, we have developed the Premium Whipped Cream Roll through our participation in processes such as the purchasing of ingredients. The Premium Roll, which has become a huge success, has contributed to expansion of our customer base among women, and has improved our margin. Lawson is expanding the line of products in which we are involved through the value chain. Typical examples are 100 yen-priced "Oyatsu Goro" (literally meaning snack time), which is a private brand product of small-lot sweet and rice balls made using a premium brand rice called Niigata Koshihikari. This has helped to differentiate us from our peers.

Direct participation in the value chain should be further intensified, given the anticipated rising-price phase of raw materials in my view. In addition to the broad experience accumulated by Lawson's Raw Material Purchasing Department, I myself used to be engaged in procurement of raw materials when I worked at Mitsubishi Corporation. Based on these experiences, Lawson has established a check system to avoid taking excessive risks.

We promote supply chain management by integrating our value chain.



We aim to achieve a 5% operating margin in the medium- to long-term.

Use of IT enables our structure to be "visible."

I believe that supply chain management (SCM*) with an enhanced value chain as well as customer relationship management (CRM**) with enhanced insights regarding customers are indispensable for us to evolve into the SPA model based on small catchment areas which we envisage. The management that fully uses SCM and CRM is now possible because we have augmented the workforce in our IT Department and Marketing Department and have reduced IT-related expenses by improvement in CPU processing capabilities.

What we mean by enhanced insights regarding customers is to be capable of visualizing or ascertaining customer needs with high accuracy so that they can purchase "whatever they want, whenever and wherever they need." Many retail companies use point of sale (POS) data for analysis of customers. However, the POS data has limitations to its accuracy as store employees tend to make mistakes in entering customer age and other information in the database. This is why we have switched to analysis of purchasing data for multi partner loyalty program Ponta cardholders who have already registered their profile data.

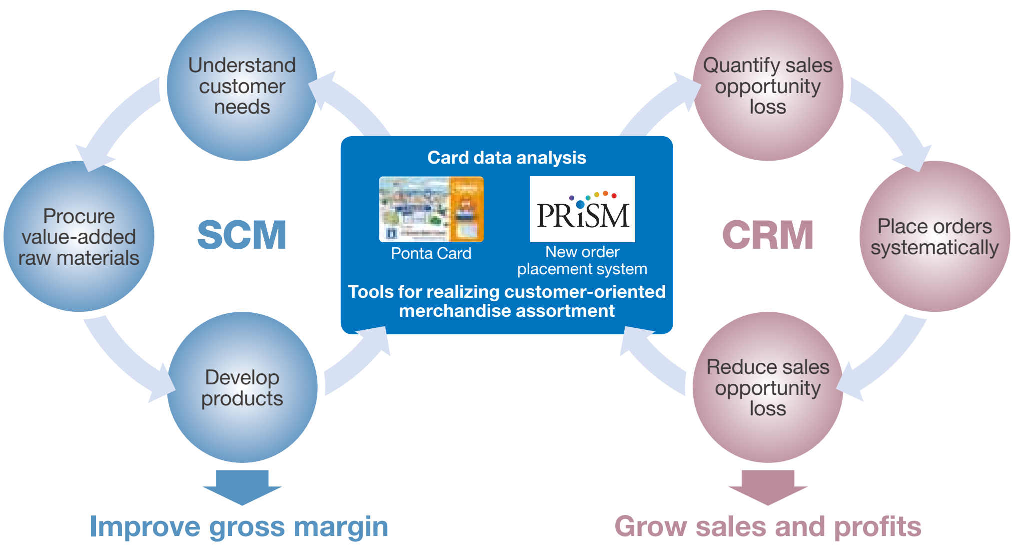
The number of Ponta members reached 34 million as of July 2011 and sales to these members represented more than 30% of Lawson's store sales. The number of data entries has become sufficient to analyze customer needs specifically in small catchment areas for each store. Ponta cards enable detailed analysis of customer attributes and their purchasing activities, resulting in visualization with high accuracy. This differs from general loyalty cards that other retailers and chain restaurant operators use for discounts disguised as sales promotion.

We find Ponta card data extremely valuable when planning merchandise assortment for stores. Since March 2009, we have gradually introduced the backbone IT system called PRiSM with the aim of realizing product ordering from the customer's perspective. We strive to improve accuracy in order placement by creating merchandise assortments that match the customer needs specific to each store and visualizing (or quantifying) opportunity loss caused by products being out of stock.

In addition, we have used the Mystery Shopper program*** which I have worked on since I became president. This helps us visualize the quality of store operation and improve store management. A structure to create value without relying only on store workers' experiences and hunches has been created. Although it may take time, I believe that this will be our unique strength in the industry.

* Supply Chain Management is the integrated management of processes from procurement to sales with the aim of realizing efficiency and optimization of the whole processes.
** Customer Relationship Management is the marketing method to provide products and services that fit to each customer needs.
*** The Mystery Shopper program is explained on the chapter on BestPractice Inc. on page 56.

We take up a challenge to become a customer-oriented SPA-type retailer with SCM and CRM being two pillars.



We fully utilize PRiSM and insights on the customers' purchasing behavior, based on Ponta card data (34 million members) to

Raise customer satisfaction and realize sustainable growth.

Expansion of customer base leads to sustained earnings growth.

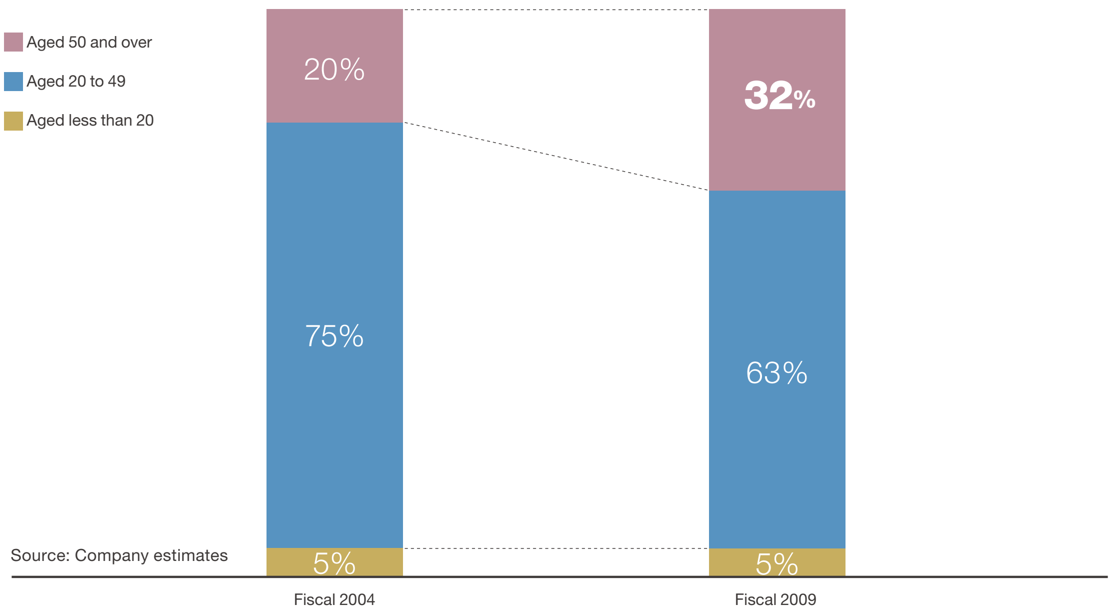
In recent years, many investors think that the Japanese Convenience store industry has matured and has arrived at a phase of decelerated growth rates. However, I strongly believe that the Convenience store industry is a growth industry. The Convenience store industry represents merely 5% of Japan's total sales of retail industry including the restaurant industry. This indicates that we still have the growth potential to fully capture customer needs in the substantially changing society. Considering higher demand in small catchment area formats, the Convenience store industry should be able to expand its share to over 10% in the retail and restaurant industries, as I see it.

Convenience stores in Japan typically have men up to their forties as the major customer group but are facing two significant demographic changes. First is the accelerating aging of the population. Seniors prefer to buy food and necessities in appropriately-sized small quantities and conveniently-sized packages at nearby stores, rather than going into a distant large store to buy in bulk. Thus, they can be a suitable customer base for convenience stores based on small catchment areas. Second is women's social advancement. As more baby boomers are retiring, women are increasingly counted on as an important part of the workforce. When women begin to work outside the home, they are likely to increase use of convenience stores where they can quickly buy ready made meals and other food items at whatever time which suits them. Lawson has made various decisions and investments for expanding its customer base in view of these changes. The ratio of customers in their fifties and above has risen from about 20% in 2004 to around 32% in 2009. As people aged fifties and over are projected to represent about 40% of Japan's population in the future, Lawson will take measures to raise this customer bracket to 40-50% of sales. Our female customers now account for 35% of the total, up from 27% in fiscal 2004. Raising the representation of women and seniors among our customers will be a driving force for our growth.

In my view, expansion of the customer base requires diversity in store formats and change in the direction of product development. With regard to store format, we have developed various formats including "LAWSON STORE100" where fresh food items are mainly sold in appropriately-sized small lots in order to respond to needs of housewives and seniors, "fresh food-type LAWSON," "healthcare-type LAWSON" to satisfy needs of elderly people, "Natural LAWSON" which targets health-conscious women, and "in-store kitchen-type LAWSON" which makes "freshly made lunch boxes" available, in response to needs of women and seniors. After passing through an experimental stage, we plan to implement those stores with the underlying aim of expanding the customer base. As for products, we will continue to develop Uchi Café SWEETS and other dessert items, private brand LAWSON select products for families, chilled lunch boxes called Lawson Tei (literally meaning Lawson Eatery), and other items.

We expand customer base.

Customer Breakdown by Age Group (Lawson in Japan)



Source: Company estimates

Lawson's future investment targets are overseas markets and e-commerce areas.

Overseas markets are also important. We export our know-how in small catchment area formats and franchise business that have been accumulated in Japan to other countries. I am convinced that our knowledge acquired in the fastest-aging country, Japan, will be a competitive edge when entering into other countries which will also face the challenge of an aging population in the future. Up to now, we have been rather cautious in expanding stores overseas due to three reasons. Profitless expansion impairs corporate value, overseas development imposes various risks, and overseas expansion results in low return. Going forward, we will accelerate our opening of stores in Asia, but do so based on our judgment that the time for this has arrived. In fiscal 2010, we opened stores in Chongqing, the largest commercial area in southwestern China, following our entry in Shanghai. In fiscal 2011, we plan to raise our equity share in our operation in Shanghai and spearhead efforts to rebuild store management and franchise models. In terms of human resources, non-Japanese were 30% of new hires from two years ago. We are thus strengthening our workforce. As for organization, we set up the Overseas Group in March 2011 and I became its Group CEO concurrently with President.

Growth potential does not exist only in stores. Penetration of smartphones is expected to lower or eradicate boundaries between the Internet and real stores. Lawson will tailor business to match changes in customers' purchasing behavior and invest in e-commerce and other businesses that utilize the Internet. In fiscal 2010, Lawson acquired equity stake in HMV Japan K.K. and Venture Republic Inc., invited competent experts from outside to our management, and formed a business alliance with Yahoo Japan Corporation in e-commerce areas. We have also advanced in other areas that are unique to Lawson. They include blending Lawson store with another store format, synergy effects with LAWSON ENTERMEDIA, INC., and utilization of Ponta card data.

With an aim to enhance our existing convenience store business and the above mentioned new initiatives, Genichi Tamatsuka, former President and COO of Fast Retailing Co., Ltd., was appointed as Senior Executive Vice President, Chief Operating Officer of Lawson, and Chief Executive Officer of its CVS Operating Group. Masaharu Kamo, former Executive Vice President of the former USEN Corporation, was appointed as Executive Vice President of Lawson and Chief Executive Officer of its Entertainment & e-Commerce Group. Since I became president of Lawson, investments in training and development of human resources have resulted in developing leaders on the frontline. Our plan is to best utilize the vast experiences in management of both managers as well as abilities of our people in the field. I am expecting Tamatsuka to manage the CVS Group and Kamo to make strategic planning and manage the Entertainment & e-Commerce Group. During the emergency situation after the Great East Japan Earthquake, both of them promptly acted and blended well in Lawson's operations. I myself will focus more on longer-term management issues, pursuit of alliances, and overseas development.

From Shanghai and Chongqing to all over Asia

We export our accumulated know-how in Japan to other countries. Overseas markets are a part of our "Communities."

- Setting up of the Overseas Group
- Close dialogues with local companies
- Hiring of non-Japanese new graduates

As CEO I am committed to sustained earnings growth of Lawson.

What I find most important as CEO is to achieve both sustainable earnings growth and make social contributions through our business operations. “Maximum economic return” and “maximum social contribution” can be attained at the same time. This is similar to the concept of “not OR but AND” by Jim Collins, an author of *Built to Last: Successful Habits of Visionary Companies.* It also resonates with *Rongo to Soroban (The Analects and the Abacus)*, written by Shibusawa Eiichi, a Japanese entrepreneur in the Meiji period whom Peter Drucker evaluates highly. I believe this is the only way to create our corporate value.

Since I became president and CEO, Lawson achieved record-high operating income for eight consecutive years. I will continue to accept the challenge of making sustained earnings growth. I may concede that short-term earnings growth can be achieved if investment for the future were cut back but I will not fall into this trap as I recognize that this would end up impairing corporate value. What I have endeavored most strongly as a key for future growth is training and development of human resources with Lawson University (see page 44) and transfer of authority to operational fronts. In the store management area, for example, roughly 80 leaders on the frontline (branch managers) have been developed as candidates for the next-generation managers of the company.

We have also changed our hiring policy so that women have represented more than half of new hires since 2005 and non-Japanese have accounted for 30% since 2009. This is based on our judgment that the optimum culture appreciates different perspectives, rather than to impose uniformity, as an indispensable belief for sustaining growth. Lawson’s aim is to reward shareholders who hold our shares for a long term, through high-level sustained dividend payment and medium-term stock price appreciation. We plan to raise the per-share dividend by ¥5 to ¥175 in fiscal 2011 and enhance rewarding shareholders by continual increase in the per share dividend from the ¥41 when I was appointed CEO.

I would like to ask our shareholders and other stakeholders for their continued support and understanding.

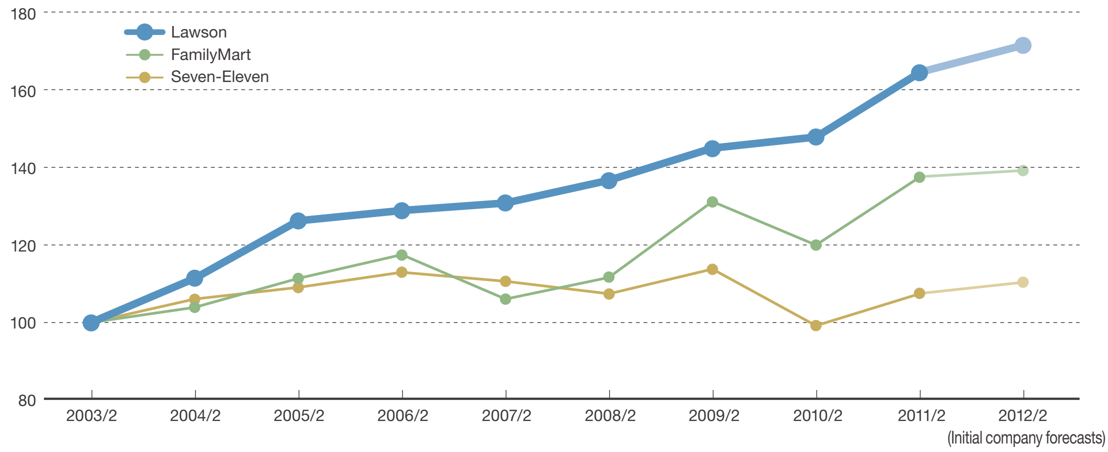
August 2011

Takeshi Niinami

President and
Chief Executive Officer

We emphasize sustained earnings growth.

Consolidated operating income in fiscal 2002 = 100



We take up the challenge to achieve consecutive earnings growth despite being in the difficult phase.

We will continue to invest for sustainable growth, at the same time.

Convenience Store Operating Group

I will help enhance management execution capability and raise corporate value.

My name is Genichi Tamatsuka, and I am Chief Executive Officer of the Convenience Store (CVS) Operating Group. I became Lawson's advisor in November 2010 and was appointed as Senior Executive Vice President and Chief Operating Officer in March 2011. I had decided to join Lawson as I felt a strong sense of empathy with Lawson's corporate philosophy "Happiness and Harmony in Our Community" as well as with Lawson's executives, who are genuinely working hard with their earnest desire to realize the corporate vision of becoming the world's top small catchment area SPA-type retailer.

After I joined Lawson, I talked extensively with the management and leaders on the frontline. I then became aware of Lawson's potential, which could not be seen from the outside. For example, the high level of IT driven tools such as PRiSM and Ponta cards, the evaluation structure based on the use of the Mystery Shopper program, and the quality of next-generation leaders exemplify Lawson's enormous capability, which was beyond my expectation. Lawson is not in the same league as the companies in whose corporate management or turnaround I had been involved. I have come to fully understand why Lawson achieved sustainable earnings growth of 6% on an annualized basis for eight consecutive years since Takeshi Niinami became CEO, while other convenience store chains recorded a decline in earnings in some of those years.

What impressed me at Lawson and my assignment

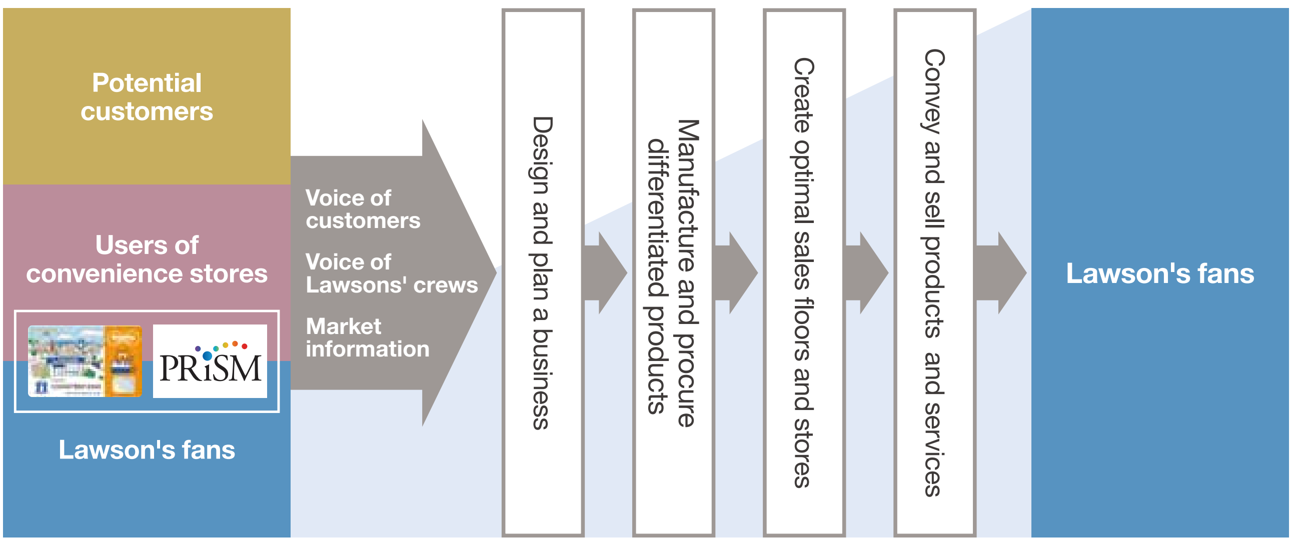
Lawson's assets that impressed me

- **The chain of 10,000 stores,**
- **The network of franchise stores,**
- **The system infrastructure, the Ponta card,**
- **The Mystery Shopper program,**
- **Suppliers and employees…**

My assignment

- **Make maximum use of Lawson's assets**
- **Create a structure that interlinks all group companies**
- **Enhance the relationships of trust with franchisees by strengthening business capabilities**
- **Develop independent employees and leaders**
- **Disseminate the corporate philosophy**

Connect all business processes and enhance management execution capability



At the same time, I also realized that Lawson's "intangible assets" that do not appear in its financial statements have not been fully utilized. I have become convinced that I can help to display such potential within Lawson by joining the management team.

My role at Lawson is clear. It is to help resolve Lawson's long-standing challenge of enhancing management execution capability and raising corporate value. I share the responsibility to implement Lawson's strategies that had all been borne by Mr. Niinami up to now. I will dedicate my best efforts to achieving maximum use of Lawson's accumulated assets and creating a structure to interlink all group companies.

I am particularly responsible for creating value in Lawson's convenience store business. I will spend time in the field and deepen the relationships of trust with franchise owners which have been nourished by Mr. Niinami. Together with our next-generation leaders who have been fostered at Lawson University or through on-the-job training (OJT), in particular those 80 branch managers in the field, I will instill our corporate philosophy of "Happiness and Harmony in Our Community" and accelerate business growth.

I am convinced that an SPA-type retailer's work of planning, manufacturing, making floor plans, and selling cannot function separately but will create value only when they are seamlessly interconnected. As I learned and understood this from my own experiences, I will be a link to enhance execution. By achieving this, Lawson will be able to provide good merchandise at appropriate prices, expand its customer base, gain more fans, and increase earnings. Let me repeat that enhanced execution through the interlinking of different processes and sections is Lawson's challenge as well as my assignment. I highly value the power of the frontline, the penetration of the corporate philosophy, the importance of preemptive action, and an increase in autonomous employees.

Genichi Tamatsuka

Senior Executive Vice President, Chief Operating Officer, Group CEO and Division Director of Fast Food Division of CVS Operating Group of LAWSON, INC.

April 1985	Joined ASAHI GLASS CO., LTD.
July 1998	Joined IBM Japan, Ltd.
December 1998	Joined FAST RETAILING CO., LTD.
November 2002	Appointed as FAST RETAILING's President and COO
September 2005	Founded Revamp Corporation Appointed as Revamp's representative director Appointed as directors of some retail companies
November 2010	Became an advisor to LAWSON, INC.
March 2011	Appointed as Senior Executive Vice President, Chief Operating Officer, Group CEO and Division Director of Fast Food Division of CVS Operating Group of LAWSON, INC.

The CVS Group, as the core business division, generates most of Lawson's profit. The Group is working to develop the use of PRiSM, bolster fresh foods, enhance the brand power of original products, and expand in-store kitchens.

Use PRiSM with the aim of minimizing sales opportunity loss

Sales opportunity loss represents missed sales opportunities arising when merchandise needed by customers is sold out. It is a situation that customers find inconvenience, which is undesirable in a harmonious society, in our view. Previously, purchase data analysis could not convey appropriate order quantity to franchisees, who tended to refrain from excessive order placement for fear of generating product disposal losses. This then generated sales opportunity loss. PRiSM was fully introduced in March 2010 and has enabled franchisees to visualize or quantify opportunity loss based on the analysis of sales data obtained through Ponta cards. This has made franchise owners become more conscious of reducing opportunity loss. If opportunity loss in ready-made meals and other products is reduced, sales of high gross margin products will increase and an improvement in sales as well as the overall gross margin can be expected.

Aggressively develop LAWSON STORE100 and fresh food-type LAWSON stores (hybrid type)

1. LAWSON STORE100

LAWSON STORE100, which is operated by our subsidiary Ninety-nine Plus, Inc., is raising its profile among customers in metropolitan areas as the No.1 store brand in fresh food-type convenience stores. It provides merchandise such as fresh foods (vegetables and fruits), daily delivered foods (delicatessen items), processed foods, and non-food products in small quantities and conveniently sized packages at ¥105 (tax included). It differs from discount stores and is supported by a wide range of customers including small families, housewives, and seniors. The stores are mainly located in residential districts of the three major metropolitan areas, namely Kanto, Kinki, and Chubu, as well as cities designated by government ordinance. The number of stores amounted to about 1,000 at the end of fiscal 2010, with the target set at a net increase of 150 or more stores in fiscal 2011 and medium-term growth potential of up to 3,000 stores.

2. Fresh food-type LAWSON stores (hybrid type)

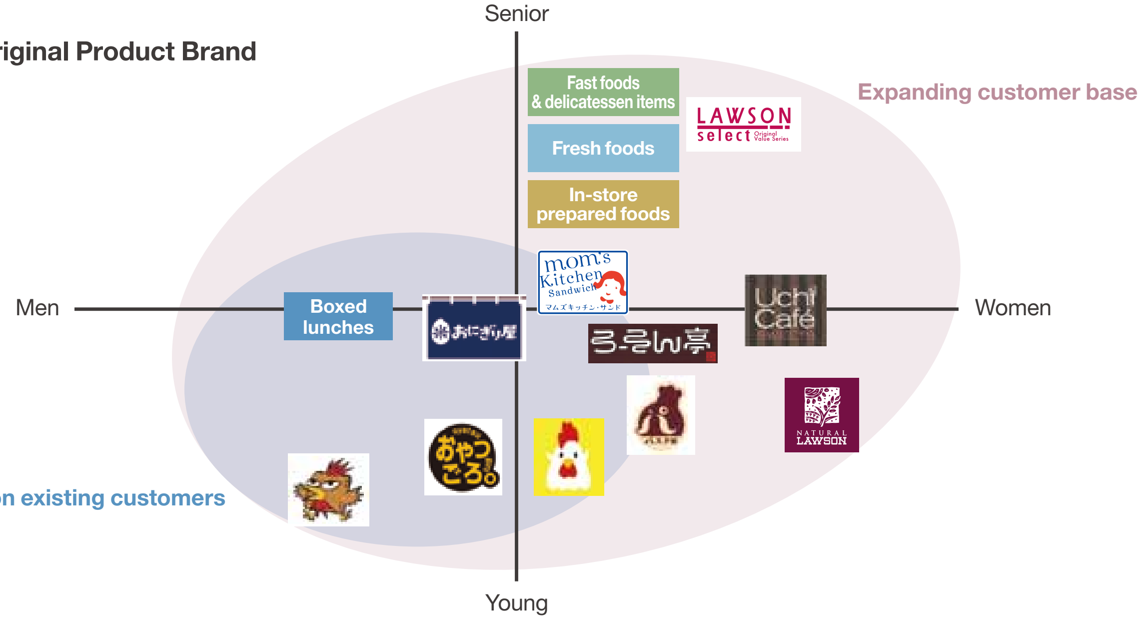
Fresh food-type LAWSON stores (hybrid type) are different from regular LAWSON stores in aspects ranging from shelf space to store design. They also differ from LAWSON STORE100, which is a pure fresh food-type convenience store, as they are converted or enhanced existing LAWSON stores with a stronger assortment of fresh foods and daily delivered foods. We began to develop this format in 2010, mainly by converting existing regular LAWSON stores. The number of hybrid type stores increased by 1,000 to a total of about 1,200 in fiscal 2010, and we plan to further increase the number of stores by 800 or more to exceed 2,000 by February 2012. This format will be introduced nationwide, primarily in residential areas. We plan to maintain regular LAWSON's strong customer base of men in their twenties to forties and to add seniors and women to its customer base.

Enhance brand power of Lawson original products

We find it important to develop products that are aligned with our growth strategy of expanding our customer base. Our original dessert called Uchi Café SWEETS and cooked pasta brand called Pasta-ya, which were renewed in fiscal 2009 and fiscal 2010, respectively, turned out to be a phenomenal success, partly thanks to an effective media mix. With the aim of creating the next consecutive brand category, we then launched chilled lunch boxes called Lawson Tei in fiscal 2010.

When developing these original brands, we design customer-oriented products based on the Ponta card purchasing data analysis. Then, in coordination with Mitsubishi Corporation, our unique Raw Material Purchasing Department arranges to procure high-quality ingredients and raw materials that can differentiate us from our competitors. We became closely involved in our vendors' manufacturing methods and processes, whereas we relied on them only to a certain degree in the past. These initiatives have proved to be effective in enhancing our corporate value.

Original Product Brand



In-store kitchen

Boxed lunches at Lawson and other convenience store chains are prepared at vendors' factories in compliance with strict quality management standards, distributed to stores two or three times a day under the dense distribution system, and are displayed on store shelves as fresh foods. However, contrary to restaurant or specialized box lunch operators, the image of our products not being prepared in-store remained in customers' minds, so we had not been able to capture demand from female and senior customers, who tend to care about freshness.

Since 2004, we have been experimenting with "freshly made lunch boxes" and other in-store kitchen items. We will continue to accumulate know-how in order to be prepared for full-fledged implementation.

Healthcare business

In July 2010, we opened a joint MatsumotoKiyoshi and LAWSON STORE100 store. In August 2010, we also opened the "Pharmacy Lawson" store, which combined a drug-dispensing pharmacy with a NATURAL LAWSON format, in conjunction with drug-dispensing pharmacy operator Qol Co., Ltd.

Lawson aims to establish a comprehensive entertainment business and grow its e-commerce business.

We will realize "360-degree entertainment services" through M&A and achieve ¥200 billion in trading volume in fiscal 2011.

My name is Masaharu Kamo, and I am Chief Executive Officer of the Entertainment and e-Commerce Group. Lawson has developed the entertainment business, identified as an important growth area, and launched Internet shopping services ahead of its competitors by installing Loppi, the multi-media kiosk terminals at stores since 1997, In fiscal 2010, we turned LAWSON ENTERMEDIA, Inc. (LEM) into a wholly-owned subsidiary.
We acquired HMV Japan, Inc., a retailer of CDs, DVDs, books and others, in December 2010 and we plan to merge it with LEM in September 2011. Going forward, we will establish an infrastructure where entertainment-related merchandise can be purchased at stores, on the Internet, and through other channels, and provide CDs, DVDs, books, magazines, event tickets, and goods in a packaged format. We will thus promote "360-degree entertainment services."

The mobile Ponta card business will be enhanced to expand our business domain from real stores to e-commerce market.

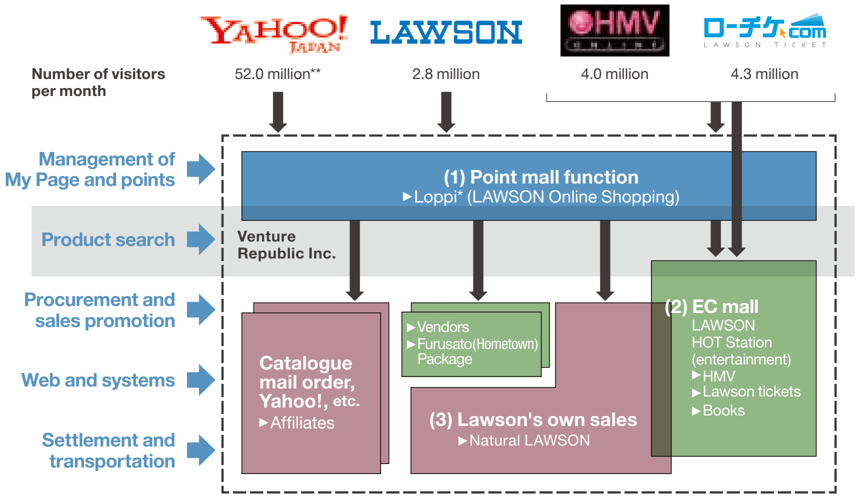
Regarding the card business, LAWSON PASS, which was introduced in 2002, was renewed to a multi-partner loyalty program called Ponta. Along with growth in partners, the number of Ponta members reached 34 million as of July 2011. Going forward, the mobile Ponta to be used with smartphone devices will be introduced to expand our business domain into the e-commerce market. We aim to increase the number of our card members to 40 million within fiscal 2011.

We will offer new Internet services through collaboration with Yahoo Japan.

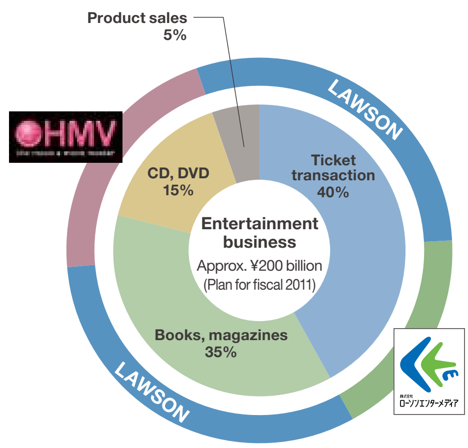
Convenience stores have accumulated strength in actual merchandise and convenience in being close to customers. The stores can further evolve by adding the Internet's search function and diversity in merchandise assortments. Up to now, Lawson has worked on increasing the number of items for transactions and servicing customers who do not visit our stores. Going forward, through business alliances with Yahoo Japan Corporation, both companies will collaborate to offer new services by utilizing the advantages of Yahoo's Internet platform and Lawson's stores.

In June 2011, we launched a service to provide useful and appealing information to customers near Lawson stores on "Yahoo! Local," Japan's biggest location-based service. In the future, items from Yahoo! Shopping online

Image of the EC mall business structure



Realize "360-degree entertainment services"



* Loppi used to mean multimedia terminals at stores but now indicates Lawson's overall e-commerce services.
** The access number from home or office in June 2011, based on data from Nielsen Online "NetView."

stores will become available for purchase by shoppers at Lawson's online mall, Loppi, while members of the Ponta card program will receive information on special prices and other opportunities when they do shopping on the online mall Loppi.

We are also considering enabling users to log-in to Loppi with their Yahoo! JAPAN ID. At the same time, we plan to send information that is personalized to match the interests of each customer by using their Yahoo! JAPAN ID-based records (i.e., browsing, searches, product purchases) or their purchase records as a Ponta member. Furthermore, the diffusion of smartphones, which have a high affinity with convenience stores, may present us a great opportunity, to offer Internet services that can be also appropriate to devices such as PCs and mobile phones. One example may be to develop a proprietary smartphone application and make it available to customers for free.

Developing the e-commerce mall business in three layers: loyalty point mall, e-commerce mall, and use of own distribution for more items.

Lawson's experts in product purchasing are renowned for their product knowledge and evaluating skills in the Convenience store industry, where it is said that the most severe quality standards in Japan are maintained. These professionals will identify items, mainly food products, for sale through Lawson's new online mall Loppi. We will use the product database owned by Venture Republic Inc., Lawson's capital and business alliance partner since January 2011, and provide advanced price comparison and product search functions to our customers. In addition, Lawson will launch a new assurance and guarantee system that allows products to be returned in the case of defects. This is how we will accelerate the online shopping mall business, where we can be relied upon as a partner by our customers in the age of the blending of real (at store) and virtual (online) services. We are also envisioning plans to distribute more items, starting with our competitive products such as rice, through our network, based on customers' purchasing information on the online mall. By fully utilizing our customer base, merchandise networks, and system infrastructure we have obtained through the above-mentioned alliances, we aim to create a ¥100 billion e-commerce business in three years.

Masaharu Kamo

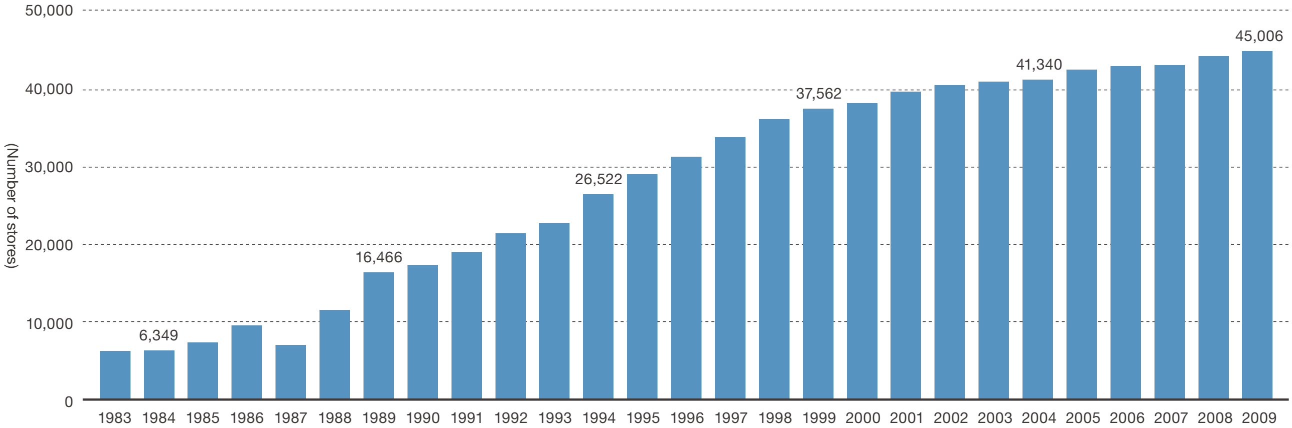
Executive Vice President,
Group CEO of Entertainment & e-Commerce Group,
Division Director of Marketing Office of LAWSON, INC.
President and CEO of HMV Japan, K.K.

April 1992	Joined McKinsey & Company, Inc., Japan
June 1996	Appointed Executive Vice President of Nikkodo Co., Ltd.
November 2000	Served as Executive Vice President of Yusen Broad Networks, Inc. (present USEN Corporation)
June 2004	Appointed as President of U's BMB Entertainment Co., Ltd. (Present XING INC.)
July 2010	Appointed as Executive Vice Chairman of XING INC.
August 2010	Appointed as Executive Vice President of LAWSON, INC., (present); General Manager of its Entertainment Service Department, and Sub-leader of its Marketing Strategy Group
December 2010	Appointed as President and CEO of HMV Japan, K.K. (present)
March 2011	Appointed as Group CEO of Entertainment & e-Commerce Group and Division Director of Marketing Office of LAWSON, INC. (present)

Key Indicators of Convenience Store Industry

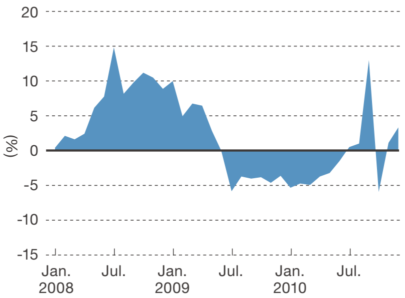
Industry Data (Japan)

Convenience Store Numbers



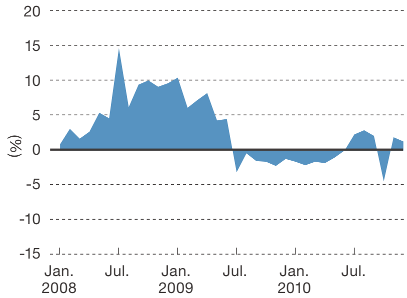
Source: 2009 FC Statistics, Japan Franchise Association (Announced in October 2010)

Change in Existing Store Sales (Year on Year)



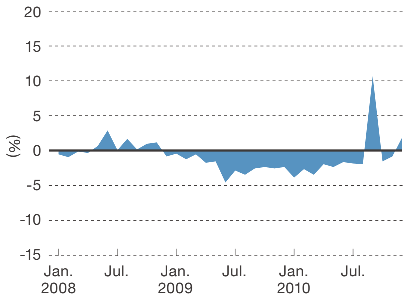
Source: Japan Franchise Association

Change in Number of Customers of Existing Stores (Year on Year)



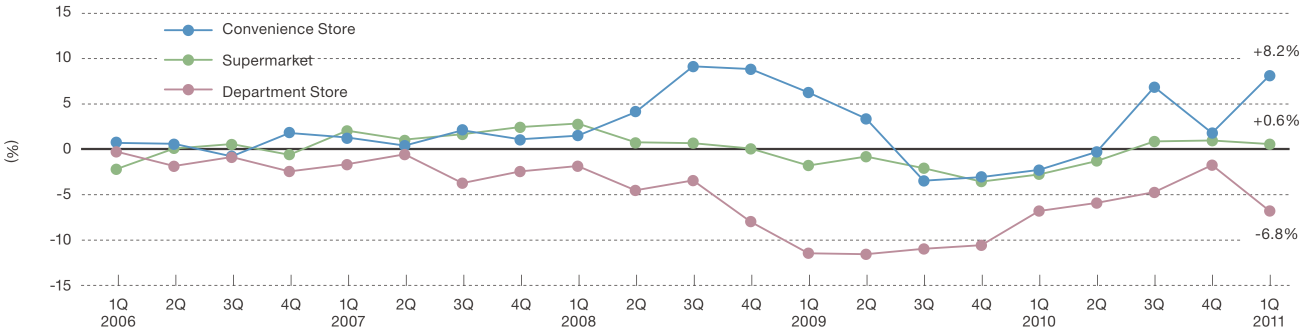
Source: Japan Franchise Association

Change in Spend per Customer of Existing Stores (Year on Year)



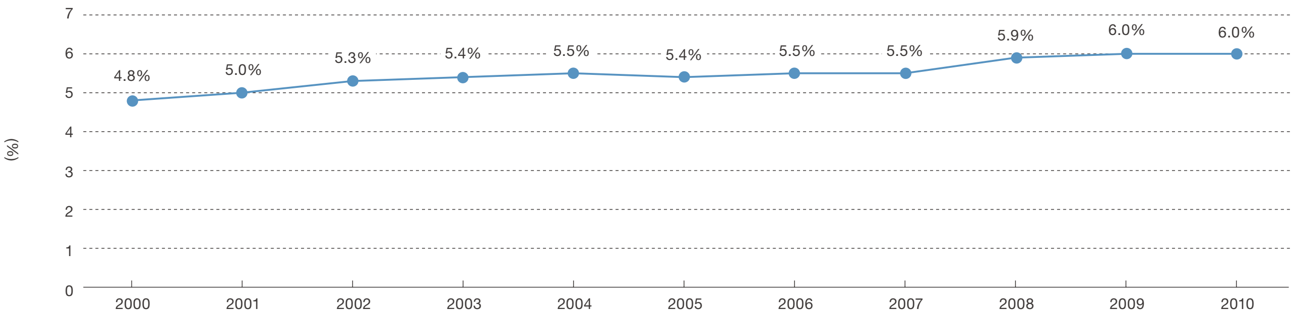
Source: Japan Franchise Association

Change in Retail Sales by Format



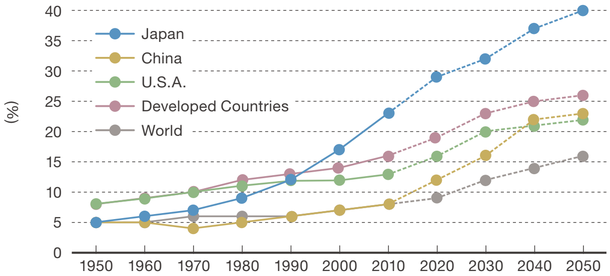
Source: "Survey of Commerce," Ministry of Economy, Trade and Industry

Convenience Store Sales Share of Japan's Retail Market



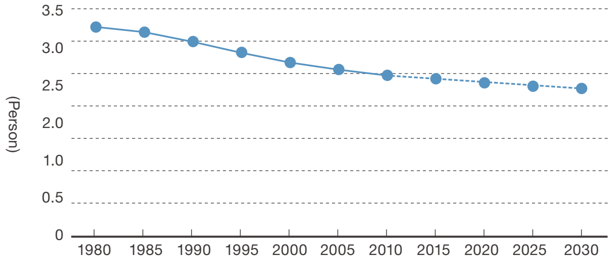
Source: "Survey of Commerce," Ministry of Economy, Trade and Industry

Percentage of Seniors (age 60 and over) in Population



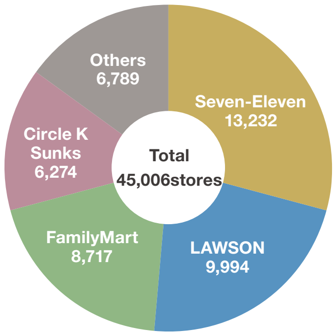
Source: UN, World Population Prospects: The 2008 Revision

Average Size of Household



Source: "Household Projections for Japan," National Institute of Population and Social Security Research, Estimated in March 2008 (Figures for and prior to 2005 are actual).

Number of Convenience Stores in Japan



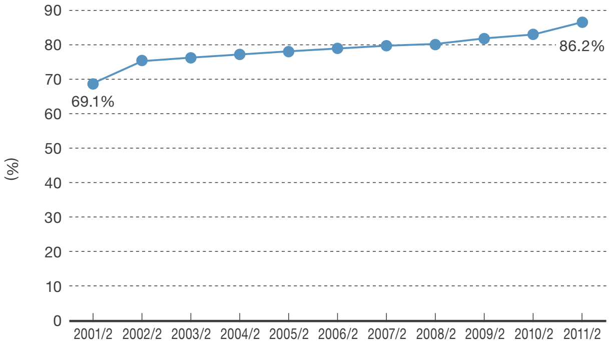
Source: Corporate data as of the end of February 2011 from each company's website; 2009 FC Statistics, Japan Franchise Association (Announced in October 2010)

Convenience Store Chains' Number of Stores and All Store Sales in Japan

	Number of Stores	All Store Sales (Millions of Yen)
Seven-Eleven Japan	13,232	2,947,606
LAWSON	9,994	1,682,812
FamilyMart	8,717	1,440,457
Circle K Sunks	6,274	923,185
Mini Stop	2,042	322,043
DAILY YAMAZAKI	1,634	216,713
Seicomart	1,102	171,106
Cocostore	837	115,367
POPLAR	700	90,725
Three F	704	103,414
SAVEON	567	60,870

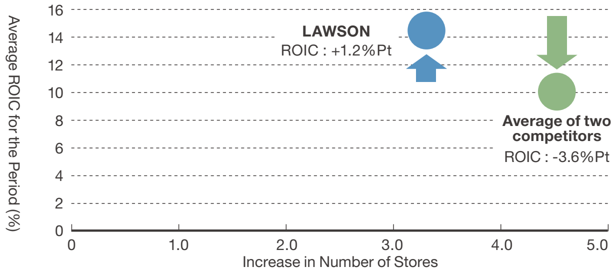
Note: Data as of the end of February 2011, published by each company.
FamilyMart's number of stores includes am/pm stores. Their sales amount is on a non-consolidated basis.
Lawson's number of stores includes 141 stores operated by LAWSON Okinawa, Inc.
Circle K Sunkus's number of stores includes stores operated by area franchisers but excludes those operated by 99 ICHIBA Co., Ltd.
Mini Stop's number of stores includes area franchise stores. Their sales amount is on a non-consolidated basis.
Data are for the fiscal year ended December 31, 2010 for DAILY YAMAZAKI and Seicomart, the year ended May 31, 2010 for Cocostore, and the year ended February 28, 2011 for other companies.

Combined Market Share of Top 4 Chains (All Store Sales)



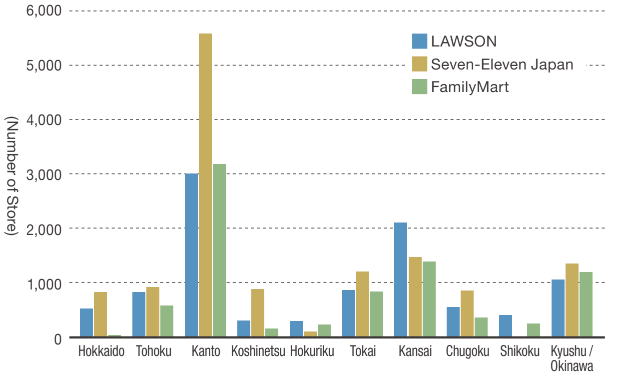
Source: Figures for the CVS sector are calendar-year based. Corporate data are published by each company. See details on Page 47.

Change in Return on Invested Capital (ROIC) in Comparison to Competitors



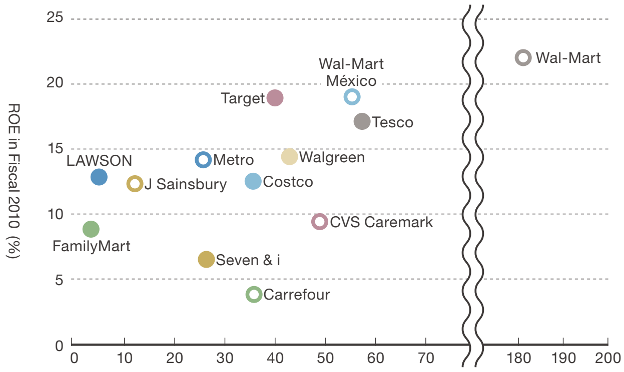
Note 1: ROIC = After-tax Operating Profit (@40% tax rate) / Averaged Invested Capital for the Period (Equity + Interest-bearing Debts)
Note 2: The horizontal axis indicates changes in number of stores (CAGR from fiscal year ended February 2003 to fiscal year ended February 2011).
Note 3: The arrows indicate changes in ROIC from fiscal year ended February 2003 to fiscal year ended February 2011.

Number of Stores by Region



As of the end of February 2011. FamilyMart's number of stores does not include am/pm stores.

ROEs of Retailers in the World



Market capitalization of February, 28, 2011 (Billions of US Dollars)

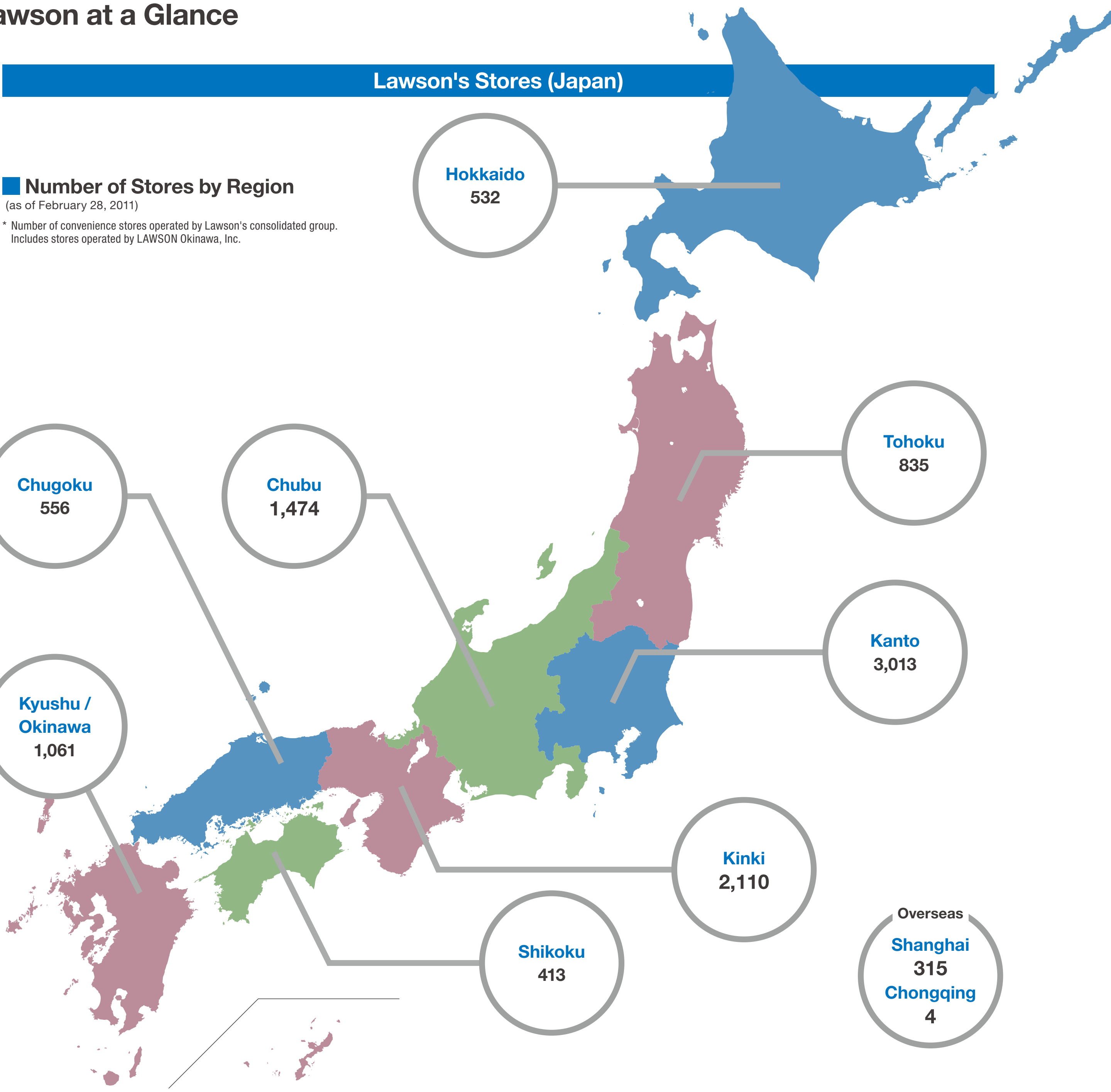
Lawson at a Glance

Lawson's Stores (Japan)

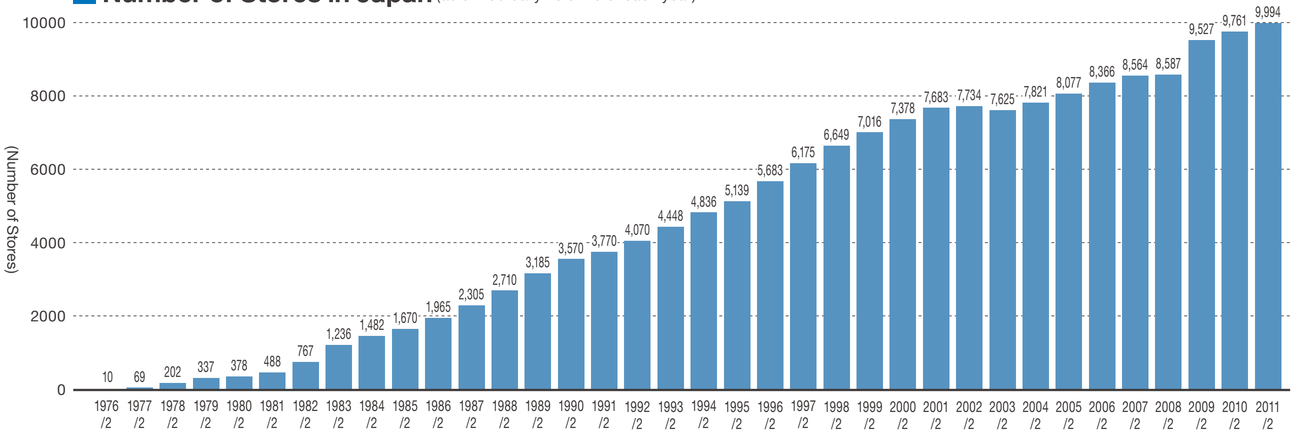
Number of Stores by Region

(as of February 28, 2011)

* Number of convenience stores operated by Lawson's consolidated group. Includes stores operated by LAWSON Okinawa, Inc.

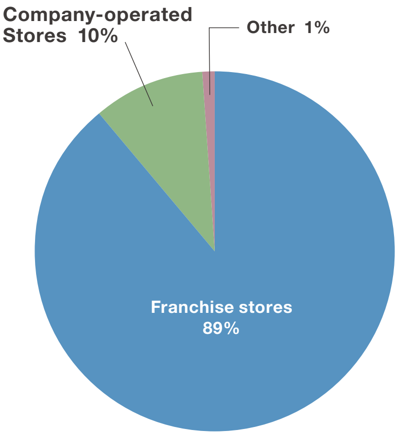


Number of Stores in Japan (as of February 28 or 29 of each year)

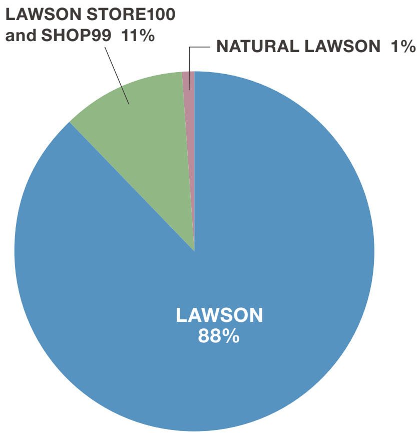


Lawson's Data (Japan)

Ratios of Company-Operated Stores and Franchise Stores

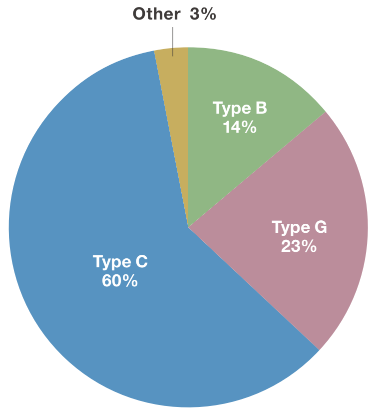


Breakdown of Stores by Format



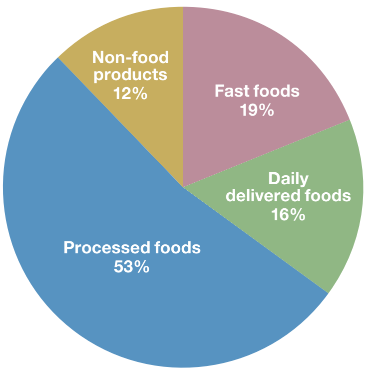
Breakdown of Stores by Franchise Contract Type

(See details on Management's Discussion and Analysis, page 50)

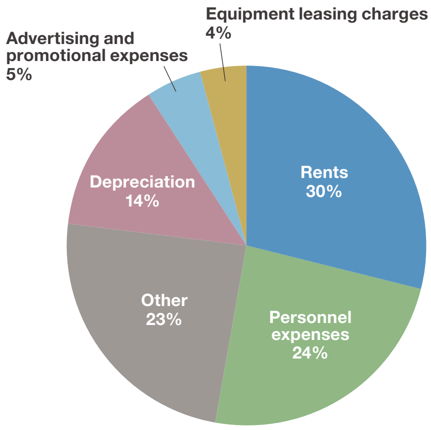


Notes: "Other" comprises stores of NATURAL LAWSON, LAWSON STORE100, and SHOP99. Overseas stores and those operated by LAWSON Okinawa are excluded.

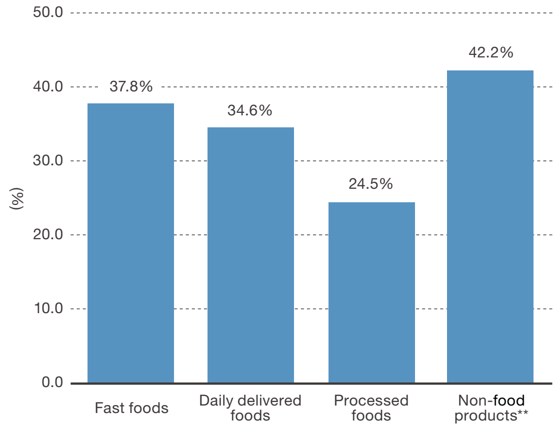
Sales by Product Segment



Breakdown of Selling, General and Administrative Expenses

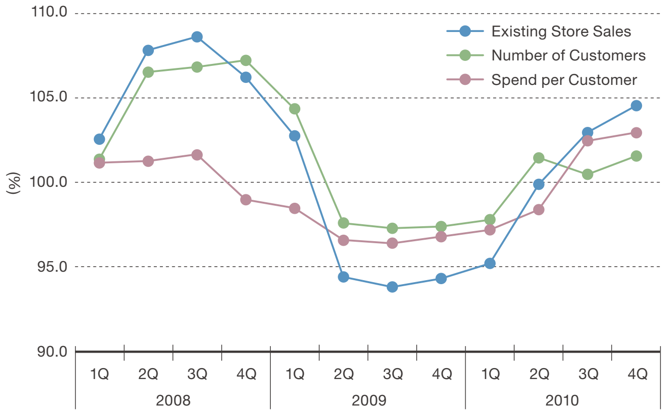


Gross Profit Margin by Merchandise Category (Non-consolidated)



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

Existing Store Sales



Notes: Year-on-year change, 3-month arithmetic average

Achieving Sustainable Growth

Lawson's All Chain Store Sales* in the Past 35 Years

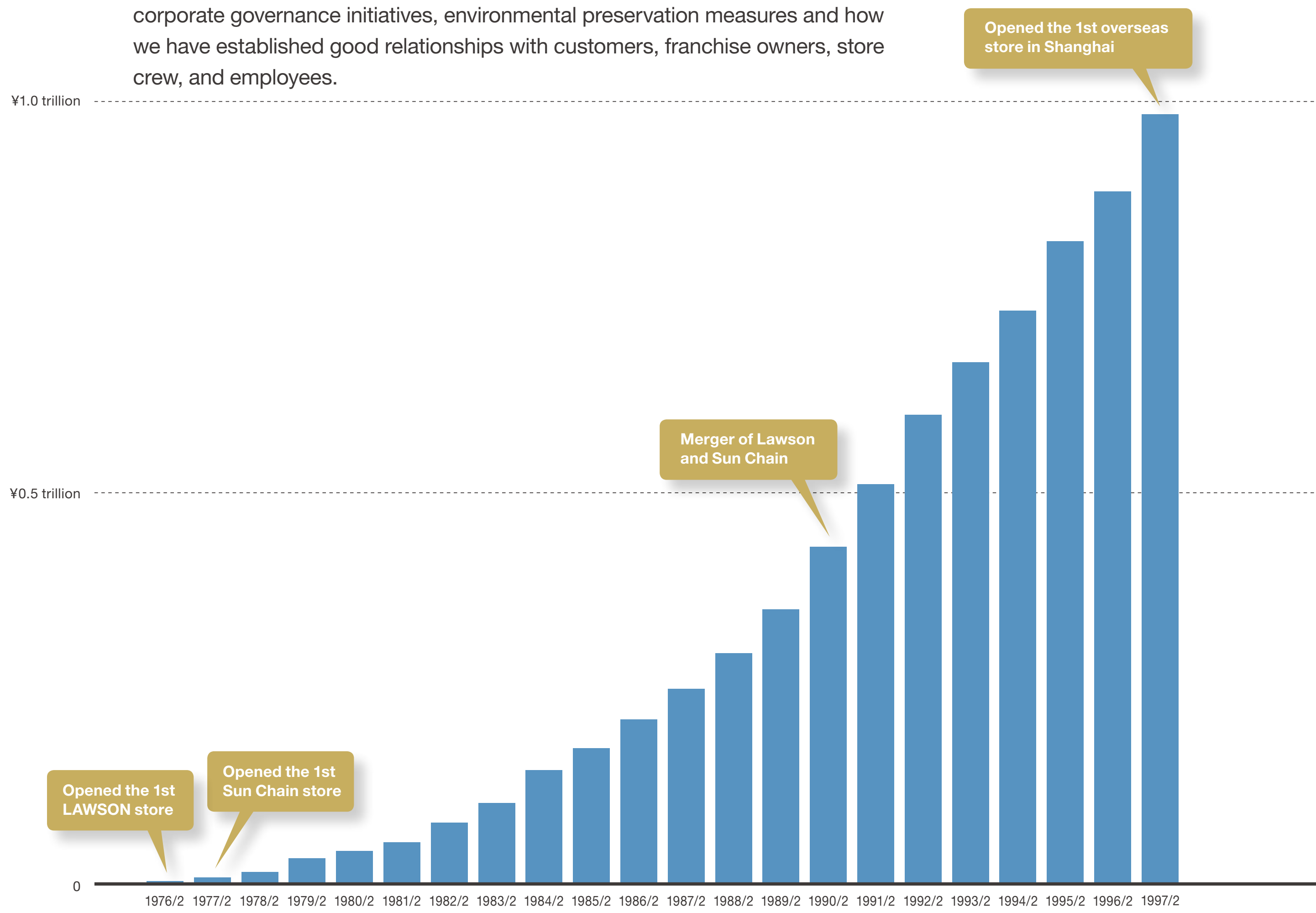
(Millions of Yen)

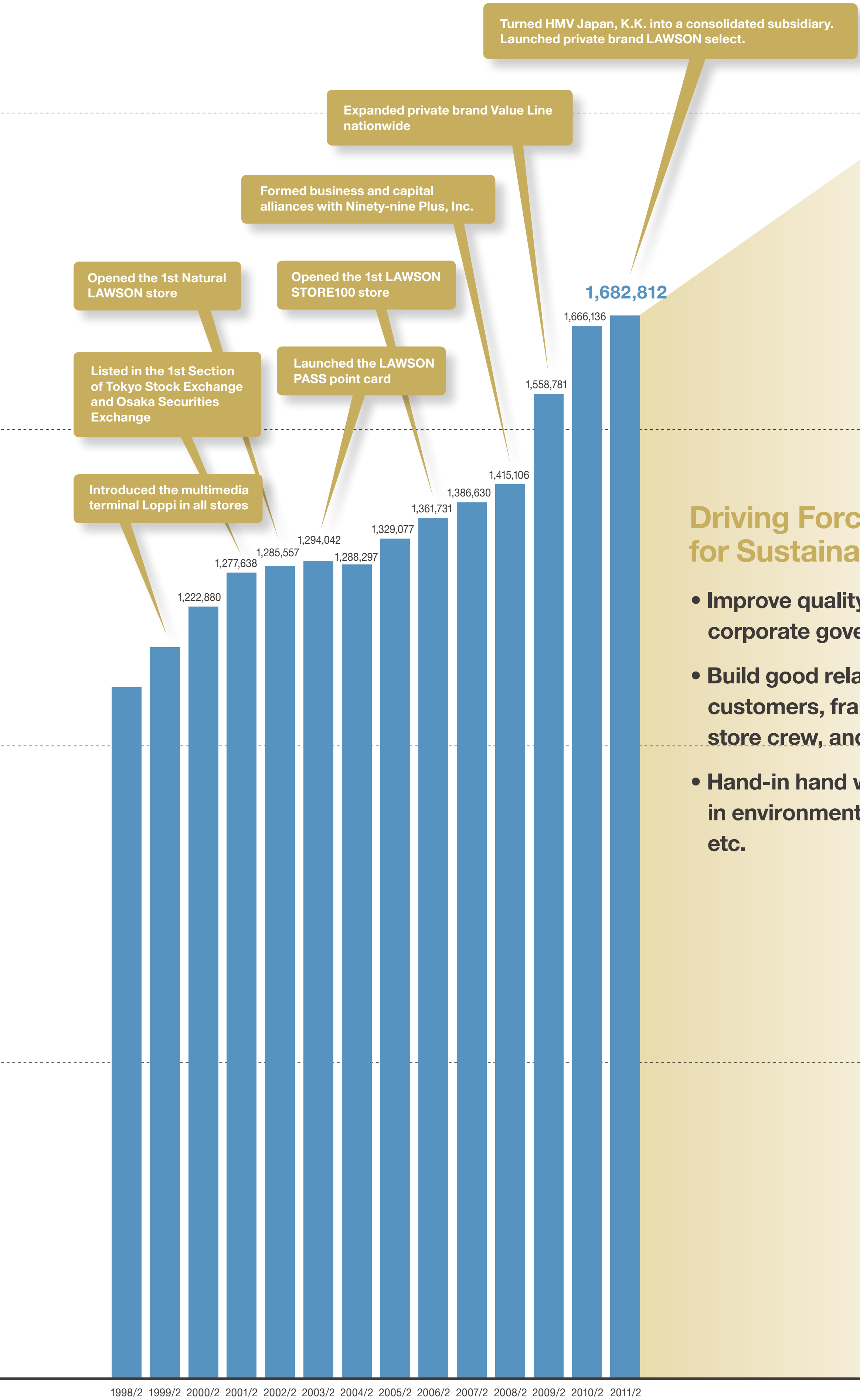
* "Future free cash flow is identified as an important element of corporate value. We believe that all store sales of the Lawson Group indicate the support from our customers and are also sources of cash flow at Lawson.

Lawson believes that sustainable earnings growth AND ongoing social contributions through our business are critically important.

Pursue our corporate philosophy "Happiness and Harmony in Our Community," build stronger relationships with customers, franchise owners, store crew (part-time and temporary workers), employees, and the community including the environment, and continuously improve the quality of our corporate governance. We believe that these practices lead us to realize sustainable earnings growth and raise our corporate value.

We publish the Environmental and Social Activities Report each year. Let us introduce some of those activities from this page to page 44. They encompass corporate governance initiatives, environmental preservation measures and how we have established good relationships with customers, franchise owners, store crew, and employees.





Driving Force for Sustainable Growth

- Improve quality of corporate governance
- Build good relationships with customers, franchise owners, store crew, and employees
- Hand-in hand with the community in environmental preservation, etc.

Directors and Corporate Auditors <As of May 26, 2011>

TAKESHI NIINAMI

President, Representative Director and CEO

- Years as a director 9 years
- Number of LAWSON shares held 7,200 shares

1981 Joined Mitsubishi Corporation
2002 President, Representative Director and Executive Officer, LAWSON, INC.
2005 President, Representative Director and CEO, LAWSON, INC. (Current position)
2006 Executive Director, Access Company, Ltd. (Current position)
2010 Outside Director, ORIX Corporation (Current position)

YOSHIYUKI YAHAGI

Director, Senior Executive Vice President and CFO

- Years as a director 4 years
- Number of LAWSON shares held 500 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 5 years
- Number of LAWSON shares held 3,600 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)

TORU MORIYAMA

Director

- Years as a director 5 years
- Number of LAWSON shares held 1,200 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)
2011 Executive Vice President, Group CEO, Living Essentials Group, Mitsubishi Corporation (Current position)

ATSUHIKO SEKI

Standing Corporate Auditor

- Years as a corporate auditor 1 year
- Number of LAWSON shares held 1,200 shares

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

Outside Directors and Corporate Auditors <As of May 26, 2011>

HIROSHI TASAKA

Director (Outside)

- Years as a director 11 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)

2011 Special Advisor to the Cabinet of Japan (Current position)

TAKEHIKO KAKIUCHI

Director (Outside)

- Years as a director 6 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)

2011 Senior Vice President, General Manager, Living Essentials Group CEO Office (Concurrently)
Division COO, Foods (Commodity) Division, Mitsubishi Corporation (Current position)

TETSUO OZAWA

Corporate Auditor (Outside)

- Years as a corporate auditor 8 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)

REIKO OKUTANI

Director (Outside)

- Years as a director 9 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 5 years
- Number of LAWSON shares held
  0 shares

1974 Joined Mitsubishi Corporation

2006 Corporate auditor, LAWSON, INC.(Current position)

EIKO TSUJIYAMA

Corporate Auditor (Outside)

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

1974 Registered as a certified public accountant

1991 Professor, Faculty of Economics, Musashi University

2003 Professor, Graduate School of Commerce, Waseda University (Current position)

2008 Outside corporate auditor, Mitsubishi Corporation (Current position)

2010 Outside corporate auditor, ORIX Corporation (Current position)

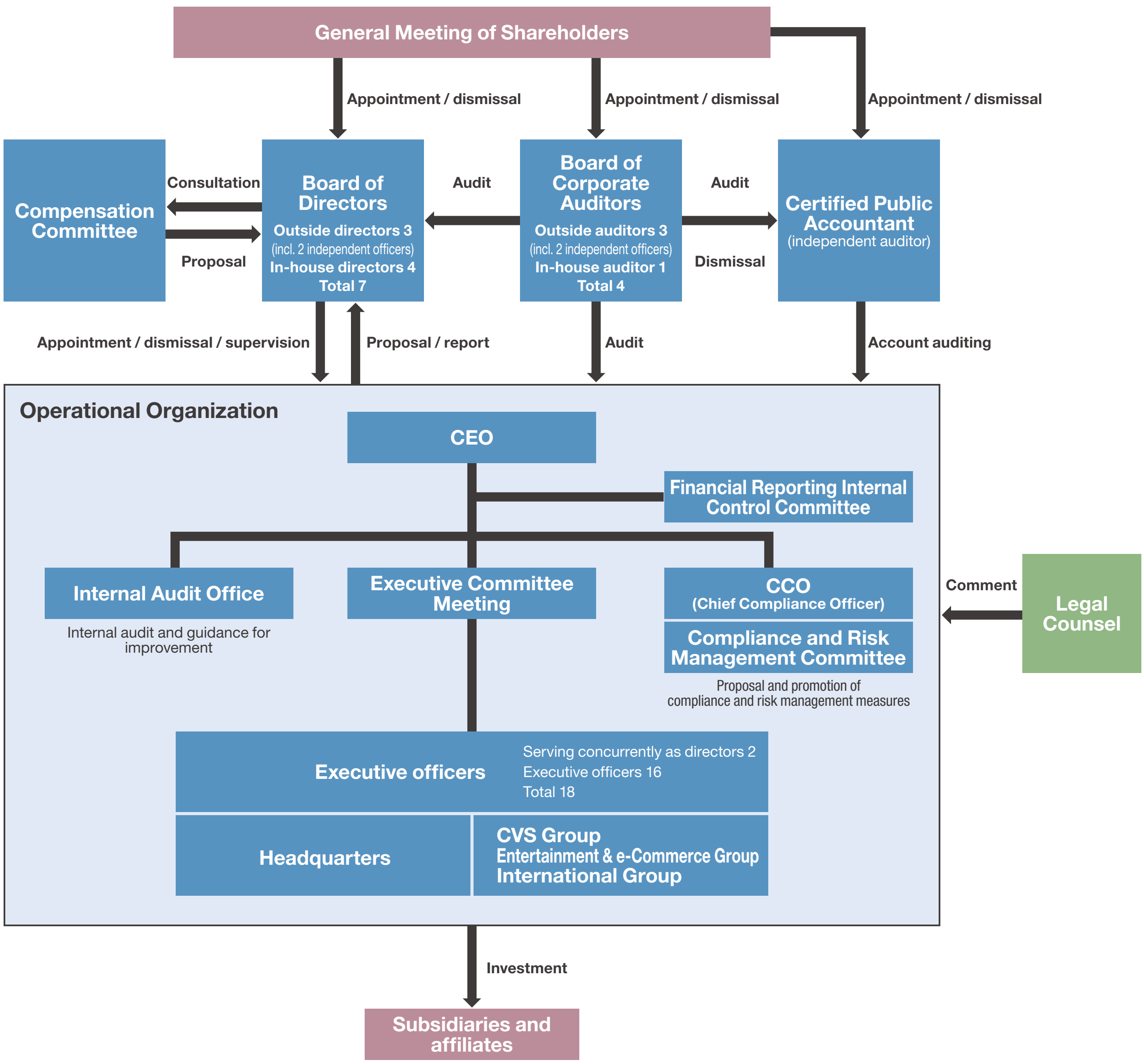
2011 Outside corporate auditor, LAWSON, INC. (Current position)

Basic Policy on Corporate Governance

We firmly believe that meeting the expectations of our stakeholders, which can be categorized in seven groups, namely, our customers, franchise owners, store crews, business partners, employees, shareholders, and the communities, will lead to maximize corporate value of the Lawson Group. With a solid understanding of this goal, we pledge to always act sincerely and considerately while adhering to all laws, our Corporate Philosophy, Corporate Conduct Charter, and Code of Ethics. We believe in the importance of enhancing the soundness and transparency of our management and further developing our corporate governance system.

Lawson's system to monitor and verify the execution of duties and management, and its internal control system are described in the following chart.

Corporate Governance System (As of May 25, 2011)



Corporate Governance System (As of May 25, 2011)

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 FY10:	13 (including 2 extraordinary meetings)
Outside Directors' attendance rate at Board of Directors' meetings in FY10:	Approximately 87% (including extraordinary meetings)
Number of Corporate Auditors:	4 (including 3 Outside Corporate Auditors)
Outside Corporate Auditors' attendance rate at Board of Directors' meetings in FY10:	Approximately 91.7% (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
Number of Board of Corporate Auditors' meetings in FY10:	15 (including 3 extraordinary meetings)
Outside Corporate Auditors' attendance rate at Board of Corporate Auditors' meetings in FY10:	Approximately 98%
Appointment of Independent Officers:	Appointed 1 Outside Director and 1 Outside Auditor
Average age of Directors and Corporate Auditors:	58
Independent Auditor:	Deloitte Touche Tohmatsu LL
Internal Audit Division	Internal Audit Office
Overview of the internal control system:	We are focusing on the following five areas, in accordance with the Fiscal 2011 Basic Policy on Development and Operation of the Internal Control System, as revised in February 2011: **1.** Improvement of supervising and auditing functions through continuous appointment of outside directors and outside auditors (independent officers) **2.** Enhancement of the Internal Audit Division corresponding to growth in the Sales Division, subsidiaries, and affiliates **3.** Ensuring that subsidiaries and affiliates are thoroughly familiar with the Lawson Corporate Conduct Charter and appointing persons responsible for promoting compliance risk management at major subsidiaries and affiliates **4.** Establishment of necessary systems to ensure proper financial reporting **5.** Early discovery of risk information regarding operations across the whole Lawson chain via expansion of the internal whistleblower and consulting system to franchise stores and trading partners
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 meetings of the Affiliated Company Compliance Officers Committee, to identify the 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, on 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 two times in fiscal 2010, 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 32.5% 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, 2011)
	Two subsidiaries, fresh food CVS operator Ninety-nine Plus Inc. and ticket sales business operator LAWSON ENTERMEDIA, INC. , were delisted from the JASDAQ market of the Osaka Securities Exchange Co., Ltd. in June 2010. Both subsidiaries became Lawson's wholly-owned subsidiaries through share exchange in order to realize more integrated organizational operation and faster decision-making processes in business operations.
Disclosure policy:	Basic Principles for Information Disclosure are presented on Lawson's IR site: http://www.lawson.co.jp/company/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:	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.
	Disaster Countermeasure Manuals have been prepared and placed at each office. In the event of a large disaster, a disaster headquarters will be established to promptly implement countermeasures.
Other initiatives:	Disclosure of voting results of the General Meeting of Shareholders http://www.lawson.co.jp/company/ir/library/pdf/ketsugi/ketsugi_36r.pdf

Evolving Corporate Governance

Measures to reinforce group management system

Lawson has been reinforcing its group management system, as the number of subsidiaries and affiliates has increased in recent years and their influence on the whole Lawson Group has risen. By taking serious lessons from the scandal at subsidiary LAWSON ENTERMEDIA, which was uncovered in fiscal 2009, Lawson has sincerely strived to establish measures to prevent the recurrence of a scandal at the company and its related companies. From the first half of fiscal 2010, we internally clarified internal allocation of the assignment of control and support to related companies, enhanced the support structure, and maintained continuous monitoring of the funds status of major subsidiaries and affiliates. In addition, from the second half, Lawson began to centrally manage the funds of major related companies. Moreover, we worked on enhancing guidance to improvement by checking the state of authority allocation and the risk management system, as well as groupwide internal auditing. We also embarked on establishing a structure that will facilitate communications between Lawson and related companies to ensure that the Group's management policies permeate those companies and are better implemented. We plan to continue to promote these measures.

Hiroshi Tasaka

Message from an outside director

Lawson's Board of Directors always holds extremely sophisticated discussions when they meet. In my view, one of the reasons is that outside directors, who have long first-hand experience in business management, do not hesitate to express their candid opinions even to the CEO. This practice is thoroughly accepted. It has been enabled by the management who make all the information available to outside directors and listen earnestly to all of their opinions, including harsh critical views. I sincerely hope this culture will continue to be honored.

Reiko Okutani

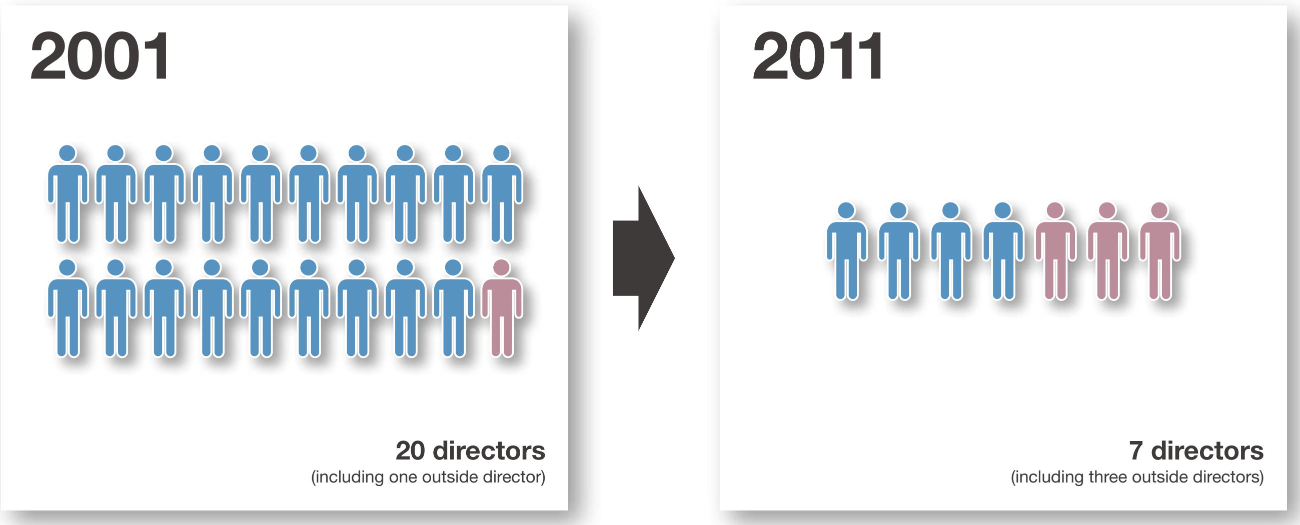
Message from an outside director

Lawson's management is always mindful of its social presence and has a challenging spirit to respond to changes in the times in areas such as how convenience stores should match people's lifestyles, how to provide merchandise, and how to create value in Lawson or develop human resources in the global society. At the same time, Lawson is committed to observe compliance thoroughly. I find that these two elements have been well adopted in its management in a balanced manner.

Adoption of executive officer system and change in number of directors

As of July 2011, the Board of Directors comprised a small team of seven members, of which three are outside directors. Two of those three are independent officers. We adopted the executive officer system in 2002 and reduced the number of directors significantly from 20 in 2001. In addition, from the viewpoint of promoting diversity, in line with our corporate policy, a female director and a female auditor have joined our Board of Directors and Board of Corporate Auditors, respectively.

Number of Directors



Contribution to Our Customers and Communities

The Great East Japan Earthquake of March 11, 2011 has reminded us of the important role of convenience stores in their communities. In Japan, among other attributes, Lawson has the nature of social infrastructure formed by the day to day activities of "mom and pop" stores throughout the nation. Retail shops, logistics depots, and our kitchens where we prepare box lunches are linked as a supply chain. This supply chain, we confirmed, is valuable not just for the well-being of the company but also that of the communities it serves.

What Lawson Did After the Earthquake

The first 10 days

The earthquake and tsunami struck the Tohoku region on March 11, 2011. They greatly damaged Lawson stores in the region and Ibaraki and Chiba prefectures as well. While public authorities had not yet been able to take immediate action to assist recovery efforts, we had just done that, partly because we were in the private sector. The first ten days were most crucial. What can we do and what shall we do, prior to the time that the government became active in collecting goods and materials, were the challenges we faced.

Specifically, the stricken communities were in need of foods that people could immediately eat. Our production facilities and distribution systems were vital to service those communities at the time of such calamity and emergency.

Fuel was desperately needed in the stricken areas but trucks, tank trucks, and drivers were all in short supply. Nevertheless, it did not deter the owner of one of our franchise stores in Kyoto, who used his own tank truck to deliver fuel. With the cooperation of Japan Post, one of our alliance partners, we were also able to make deliveries of goods to the people in the disaster-hit areas. Moreover, virtually our entire supply chain, from Hokkaido to Okinawa, cooperated to restock and support our stores in the afflicted areas.

We were thus able to overcome difficulties of the first ten days, with the help of our stakeholders.

Swift re-opening of a temporary store

LAWSON van in work in the disaster-stricken areas

The second 10 days

What was of paramount importance in the second ten days was to reopen many stores as quickly as possible. We devoted our best efforts to reopening those establishments to fulfill our intended function – to be “convenient neighborhood stores” filled with daily necessities. In doing this we became aware of the function of convenience stores, in the private sector, as a source of support for the public sector.

After that, while electric power supply was gradually restored, shortages of goods were not alleviated on a nationwide basis. This was because the Tohoku region was a center of production. Lawson was no exception and was hard pressed to obtain needed merchandise, but we mobilized the entire resources of the company in order to provide the stricken areas with the needed products, even if it meant a degree of sacrifice in serving other areas.

CEO Niinami serving customers in the disaster-stricken LAWSON store

Nuclear reactor problem

The next challenge we confronted was the problems created by the problems at the Fukushima No. 1 nuclear reactor. In a radius of 30-40 kilometers of the power plant, which is outside the government-imposed 20km exclusion zone and the 20 to 30km "stay indoors" zone, false rumors spread and residents were on the point of evacuating the areas, devastating their communities. Partly in response to the needs of the calamity-hit communities, we had decided to reopen stores. When we contacted franchise owners on this matter, we were encouraged by their willingness to cooperate with us to meet community needs, and we were able to reopen stores.

After that, our competitors also reopened stores in this 30-40km radius of the plant. Lights started to shine again along shopping streets and at local stores. As these areas were able to maintain functioning as the communities, we received appreciative words for our contribution from the government, the local municipalities, and our customers in the area.

Convenience stores as social infrastructure

At schools in the disaster-stricken areas, school lunches were in short supply. In order to fulfill our function as a part of social infrastructure, we delivered our box lunches to schools. Our response was favorably reported by social media, resulting in receiving appreciative words of “Let’s go to LAWSON” from local residents. Perhaps their appreciation was a factor in the double-digit year-to-year increase in May sales at existing Lawson stores in the Tohoku region. We thus had the first hand experience of social contribution resulting in economic benefits. We can engage in social activities such as this because we have a supply chain that starts with purchasing of materials, foods and other items, factory or kitchen processing, and logistics functions that deliver merchandise to our stores.

Energy-creating store, corresponding to needs to save electric power


Using light-emitting diodes (LEDs)

Social significance of convenience stores

Several matters came to our attention as a result of the earthquake. We learned that the social context of an aging society means it is increasingly important to be able to buy things close to, not far from, home.

Convenience stores have to change, so as to better match the needs of older persons and women. Convenience stores are at present not permitted to sell medicines. In the future, however, it is certainly possible that through deregulation and M&A activity this situation will change. We think that at that time convenience stores will well demonstrate their strength in terms of using supply chain functions to deliver to customers goods and services not now handled by us.

Conserving electric power

As a consequence of Fukushima nuclear reactor problems a summer shortage of power supply to the Tohoku and Tokyo Metropolitan regions was forecast, and how to conserve power became a critical issue. We came to think that the convenience of being opened around the clock, entailing a high level of power use for cooling and heating, refrigeration, ventilation and lighting, made it that much more important to conserve power. We are looking to innovation as a means of resolving that important social problem. We can greatly decrease our use of electricity by, for example, changing over to use of light-emitting diodes (LEDs) for lighting. This has the effect of reducing the generation of carbon dioxide, contributing to a better environment, and lowering our electric bill – a combination of social and economic benefits.

This in particular is one of the mandates imposed on Lawson – to do business for sustainable growth AND be socially responsible at the same time.

Lawson's Initiatives in Environmental Protection Activities

Lawson Group's environmental management

We find it indispensable to tackle environmental issues on a group-wide basis in order to create corporate value. In June 2010, we adopted the new Lawson Group Environmental Policy, in which we state our commitment to being environmentally conscious in all aspects of our business and to working with and for the local communities in which we operate. We will seek to help leave the Earth in a healthy state for future generations, with an emphasis on protecting biodiversity and mitigating global warming.

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.

Towards a low carbon society

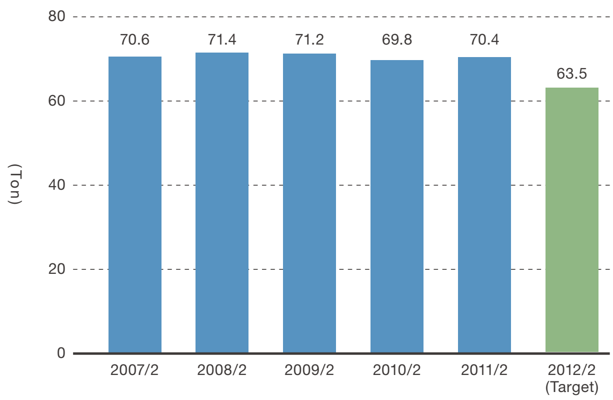
Lawson is taking two key approaches to environmental management. One of those approaches is the setting and achievement of voluntary targets for reducing CO_2 emissions from our business activities. The other is the provision of services that will help our customers to reduce CO_2 emissions. Through these two approaches, we are working together with our customers, franchise owners and store crews to help create a low carbon society.

Aim to reduce CO_2 emission by 10% per store

The voluntary target that we set ourselves in 2008 was to reduce CO_2 emissions by 10% per store over fiscal 2006 levels by fiscal 2012 based on electricity consumption. This amounts to a total yearly reduction of 60,000 tons in emissions compared with fiscal 2006. In fiscal 2010 the amount of CO_2 emissions was 70.4 tons per store.

Lawson Group's Environmental Management

Volume of CO_2 Emissions by Use of Electricity per Store



* The CO_2 emission coefficient used for power consumption was 3.68 tons-CO_2/ten thousand kWh for FY2006.

Lawson Group's Environmental Activities

FY2010 Environmental Activities Results

Item	Activity	Targets	Achievement Status	Achievement Levels[*2]
Saving energy	Reduce store air conditioning, refrigeration and lighting electricity consumption.	New stores: 100% installation of energy efficient equipment (1) LED lighting and automated lighting adjustment systems; (2) Combined refrigeration and air conditioning system; (3) Energy efficient signage; (4) Toilet sensors.	New stores: 100% installation of energy efficient equipment of (1) to (4)	
		Existing stores: implement energy conservation measures (1) Replace freezers; (2) Replace air conditioners; (3) Install condensation prevention heater control units.	Existing stores: (1) Freezers' deployment 103.4%; (2) Air conditioners' deployment 107.9%; (3) Condensation prevention heater control units' deployment 100.7%	
	[Delivery trucks] Reduce CO_2 emissions by promoting eco-driving and introducing eco tires.	Reduce CO_2 emissions per store by 15% compared with FY2007.	● Reduced per store CO_2 emissions by 16.9% compared with FY2007 to 7,550 kg-CO_2 . ● Raised eco-tire deployment targets from 363 trucks to 399 trucks.	
	[Company cars] (1) Promote eco-driving and introduce eco tires; (2) Reduce CO_2 emissions by introducing electric vehicles.	(1) Improve company car fuel efficiency by 3% by the end of FY2010 compared with FY2009; (2) Introduce 30 electric vehicles. The accumulated total target is 70 units.	(1) Improved fuel efficiency by 0.3% year-on-year; (2) Introduced 21 electric vehicles to total 61 (87.1% vs. the target).	
	Promote companywide mitigation of global warming (reduction of CO_2 emissions).	(1) Compile energy database; (2) Create energy efficient stores.	(1) Implemented database registration works and grouping; (2) Assessed additional measures and standardized specification planning.	
Saving resources	Reduce plastic shopping bag usage.	(1) Reduce by asking customers if they want shopping bags and by expanding the point system; (2) Promote Bring Your Own Bag program. A handout rate per store±0% vs. FY2009 (35% reduction in the weight of shopping bags used per store compared with FY2000).	Achieved a handout rate per store of 76.0%. (Weight of shopping bags used per store reduced by 25.1% compared with FY2000.) Convenience store eco-bags distributed: 2.6 million in total	
	(1) Reduce packaging weight; (2) Use non-petroleum based packaging materials (paper, biodegradable plastic).	Reduce CO_2 emissions from incineration of packaging by 8% compared with FY2006.	(1) Completed to make packaging for rice dishes and delicatessen and bakery items lighter and thinner and shopping bags thinner. (2) Continued to use thin-walled containers made from polylactic acid (PLA). Reduced CO_2 emissions from incineration of packaging by 24.8% compared with FY2006.	
	Eliminate handout of paper materials by stores.	Reduce paper consumption by using computer systems for the distribution of materials to stores.	Eliminated distribution of paper materials to stores.	
	Adhere to advertising display standards for sales promotion materials, and comply with disposal laws.	(1) Develop materials based on advertising display standards; (2) Check disposal volumes and comply with disposal laws.	(1) Developed materials in complaince with advertising display standards; (2) Checked disposal volumes and complied with disposal laws.	
Reducing waste	Increase food recycling ratio.	Increase food recycling ratio by at least 6 percentage points compared with FY2007 (22.5%).	Achieved food recycling ratio of 34.7%.[*3] (1) Used water recycling: 8,361 stores; (2) Recycling into feed and compost: 1,354 stores: (3) Thermal recycling: 142 stores	
Contributing to local communities	Continue collecting donations through the Lawson Green Fund.	(1) Collect donations for the Lawson Green Fund at all stores; (2) Promote participation in greening projects; (3) Promote, educate, and support projects by regional branches.	(1) FY2010 collections: 0.24 billion yen Total collections to date: 3.26 billion yen (2) Greening projects: 100 in FY2010	
Promoting use and education	Combat global warming through activities with customers. (Promote CO_2 Offset program).	FY2010 Co$_2$ offsets of 7,000 tons (1) Promote CO_2 Offset program (Use points and Loppi); (2) Continue selling products with CO_2 emissions credits.	FY2010 CO_2 offset volume: 3,389 tons Total CO_2 offset to date: 12,839 tons	

Notes
1. Including area franchise stores in Japan (excluding food recycling ratio, etc.)
2. Achievement Levels: Quantitative assessment: 100% , 70% or more , Less than 70%
Qualitative assessment: Implementation completed , Implementation in progress , Not implemented
3. Recycling ratio excluding curbing of food waste generation: 29.7%
4. Including stores operated by Ninety-nine Plus Inc. (LAWSON STORE100 and SHOP99)

Major Initiatives in Fiscal 2011

Energy saving : As a response to concerns over power shortages, LEDs will be used for in-store lighting at all of our stores (over 10,000) including existing stores in fiscal 2011. We will also promote delivery trucks' efficient driving (eco-driving) and aim to reduce the amount of CO_2 emissions in truck distribution by 18% per store over the fiscal 2007 level.

Resource saving : To reduce the use of plastic shopping bags and disposable chopsticks, Lawson store crews will continue the practice to ask customers whether they need them or not. We are also promoting Bring Your Own bags and chopsticks. Moreover, we will endeavor to reduce the weight of packaging and use containers made of eco-friendly materials. Our target is to reduce CO_2 emissions through reduced incineration of packaging by 10% over the fiscal 2006 level.

Reduction in waste : To reduce food waste, we will continue to strive to reduce oil used to fry fast foods as well as boxed lunches and other foodstuffs that have passed their sell-by dates. We target a food recycling ratio of 30.5% or more.

Environmental Preservation Initiatives at Stores

Introduction of “energy-creation” store with latest eco-friendly equipment

Lawson opened the latest eco-friendly store in Kyotanabe city, Kyoto on December 1, 2010. This store uses electricity generated by a solar power generation system for in-store lighting and cash registers and uses rainwater to cool down external air-conditioning units. Lithium-ion battery systems have also been installed for the storage of power that is generated from the solar power generation system so that the store can maintain its function as a lifeline in the community even in times of earthquakes, typhoons, or other natural disasters. In addition, various types of energy-saving equipment have been installed to help reduce CO_2 emissions in the store, with the target of reducing electricity consumption by about 20% over the fiscal 2006 level. The Kyotanabe store was constructed by rigorously selecting the construction materials and structure used in order to reduce the quantity of construction materials. At the same time, the store promoted the use of recycled materials at the procurement stage and has been implementing the reuse, reduce, and recycle policy.

Main features of an “energy creation” store (Lawson Kyotanabe-Yamate-Nishi Store)

01 Solar power generation panels
02 Glass facade with no eaves to facilitate cleaning
03 No excessive bare ceilings
04 Use of LED lighting, which reduces electricity consumption by about 50%
05 Skylights that enable sunlight to flow in
06 Lithium-ion battery systems for power storage and a backup power supply in times of emergency

Action plan for 25% reduction in power consumption

To respond to power shortage concerns in the summer of 2011, we are taking measures to save electricity while targeting a 25% reduction in electricity consumption during peak times (from 9 am to 8 pm, from July to September) at 3,400 stores that are located within the coverage areas of Tokyo Electric Power and Tohoku Electric Power. Specific measures implemented at stores since July 2011 are listed in the chart below. These comprehensive measures were determined based on knowledge and testing results on energy-saving stores that had been accumulated from May 2008 through joint research with the Yashiro Lab at the University of Tokyo’s Institute of Industrial Science. We conducted tests at eight stores in differing environments nationwide and accumulated data around the clock for 365 days, which enabled us to draw up a realistic plan with highly precise reduction targets. Since the Great East Japan Earthquake occurred on March 11, 2011, Lawson has implemented various measures to save electricity, such as suspending the use of air conditioning and turning off some lighting during the daytime. In April, we decided to install LED in-store lighting at all stores across Japan and we are currently in the process of implementing this policy. By combining measures such as changing the temperature settings for in-store air conditioning and turning off some lighting during the daytime, we aim to achieve the 25% reduction target. These efforts will also result in saving electricity expenses at franchise stores.

Measures to save power consumption at stores (Implemented from July 1, 2011 to September 30, 2011)

	Implemented items	Target reduction rates
Reduction by equipment installation (Target: Approx. 10,000 LAWSON stores in Japan)	**Install LED in-store lightings**	**Approx. 5%**
Reduction by store operations (Target: Approx. 3,000 LAWSON stores within the coverage areas of Tokyo Electric Power and Tohoku Electric Power) ◇ Common items	**Suspend use of a hot heater of cold temperature switchable cases**	**3%**
	Suspend lighting for refrigeration and freezer cases (9 am to 8 pm)	**2%**
	Change the temperature settings for in-store air conditioning (+2°c)	**2%**
	Turn off air conditioner and lighting in the backroom when not in use	**2%**
	Clean all kinds of filters (once a week)	**2%**
	Suspend use of water heaters and jet towel hand dryers	**1%**
	Check in-store ventilation air volume, etc.	**3%**
Items to implement, depending on the status of equipment	**Turn off some in-store lighting during the daytime (9 am to sunset)**	**2%**
	Change the temperature settings for freezers (+1°c)	**1%**
	Refrain use of electric fryers or pots during the peak time of other electric appliances	**2%**
Total		**Approx. 25%**

Major Indicators of CO_2 Emission Reduction

Logistics Efficiency Improvement: Reduction in CO_2 emissions per store by delivery trucks

Fiscal 2010 target	Fiscal 2010 result	Fiscal 2011 target
15.0%	16.9%	18.0%

Reduction in Use of Packaging: Reduction in CO_2 emissions from the incineration of packaging of boxed lunches, delicatessen items, etc. (compared with fiscal 2006)

Fiscal 2009 result	Fiscal 2010 result	Fiscal 2011 target
23.0%	24.8%	10.0%

CO_2 Offset Program: Fiscal 2010 result of 3,389 tons to total 16,228 tons

Fiscal 2009 result	Fiscal 2010 result	Fiscal 2011 target
5,647tons	3,389tons	5,000tons

Green fund donations for 20 years with customers

Twenty years have passed since we launched the Lawson Green Fund in 1992 to help ensure the survival of precious forest resources. Accumulated donations by customers amounted to ¥3,260 million by the end of February 2011. These donations have supported a great many forest improvement projects and school afforestation projects in Japan and abroad through the National Land Afforestation Promotion Organization.

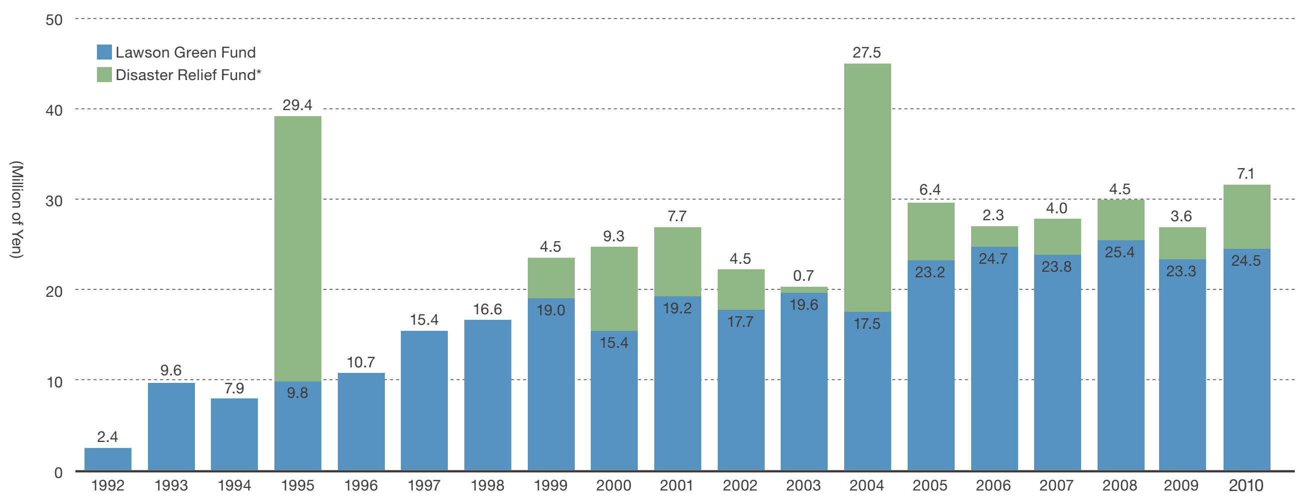
Lawson Green Fund Activities Overview

(from September 1992 to the end of February 2011)

Donations	¥3,260 million
Projects supported	2,603
Area covered*	6,038 ha
Number of trees in improved forest stands*	Approx. 15.09 million

* Area and number of trees are calculated from Lawson Green Fund donation totals and past results of Lawson Green Fund activities, based on certain assumptions.

Lawson Green Fund Donations



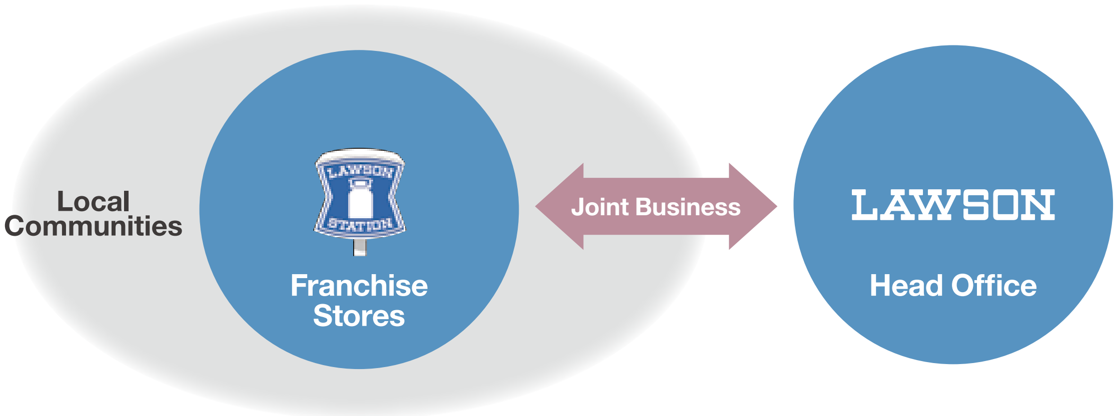
* Lawson Green Fund is replaced by Disaster Relief Fund in the event of a major disaster.

Hand in Hand with Franchise Owners and Crews

The franchise business is Lawson's core business. We believe that not only employees but also franchise owners and store crews (part-time and temporary workers) must share our philosophy and work with enthusiasm. This is the base for creating corporate value. Lawson's Head Office supports store management in various ways.

Franchise owners and Lawson are partners in conducting joint business.

Franchise owners and Lawson are partners on an equal footing who jointly develop business. We share the same philosophy and goals, and work together to share profits for the sake of mutual harmony and benefits.



Role of Franchise Owners

- Procure and manage merchandise (assortment, freshness, inventories), service customers, maintain cleanliness, safety, and amenity
- Employ, train, and manage store crews
- Manage sales and expenses

Role of Head Office

- Develop products and provide product information
- Provide information system
- Distribute merchandise
- Develop ads and promotional campaigns
- Store management guidance by supervisors
- Education and training
- Take care of accounting services
- Lease equipment and fixtures

Accounting services on stores' behalf

The Head Office handles accounting services on the stores' behalf so that franchise owners can focus on their store management.

Minimum guarantee system

The Head Office guarantees* the minimum amount of annual franchisee revenues.

* This does not guarantee franchisees' profit after operating expenses.

Owner support system

This is a system where an employee is dispatched from the Head Office to run a store when an owner has to be absent. This enables franchise owners take days off at ease.

Supervisors(SV)

Supervisors form a bridge between franchise owners and the Head Office and support owners in their store management. They understand the store's problems and issues, come up with proposals for solution, and share valuable internal and other information so as to gain the trust of the owner and work together to achieve sales and profit growth.

Lawson seminars

Lawson seminars are held once a year at eight locations across Japan. They serve as a forum for owners to exchange information relating to Lawson's management policies, product trends, and individual store data analysis. The CEO always participates in the seminars, an important occasion to interact with owners.

Franchise owners' meetings

The town meeting, an assembly in which nationwide franchise owners and Lawson's management exchange opinions, has evolved into the franchise owners' meeting. This is an occasion for frank heated debates on various themes such as Lawson's management, products, sales promotion, and recycling of food waste.

Direct line to the CEO

Lawson has established a direct channel of communications for owners, store managers, and crews to express their opinions and ideas to the CEO, who makes sure to check and respond to each comment. In fiscal 2010, the CEO received 315 valuable opinions and ideas.

Mystery Shopper program

This is an on-site inspection program carried out by an external agency. The undercover researcher actually uses a store, taking the role of a customer, and makes an objective and quantitative assessment of the merchandise assortment, hospitality, and cleanliness. The results are compared with those of competitors' stores and are fed back to franchise owners.

Training programs

When new stores are launched, Lawson arranges a basic management course to ensure understanding of basic store management. After opening, various training sessions continue at a branch office training center and in various other formats.

Recruitment and start-up support for store crews

Lawson has developed its own exclusive website for the recruitment of store crews, which is regarded as effective in connecting crew candidates with stores. We also have a system to support a start-up for crews who desire to have their own stores in the future.

Enable Employees to Work Vigorously with Enthusiasm

Our employees, who always aim to grow and work vigorously with enthusiasm, build the foundation of our corporate value. Lawson has strived to establish training programs, a good working environment, and a structure to encourage in-house communication, in order to develop a corporate culture in which each employee can fully exert his or her capability and express opinions freely. What we emphasize most during this process is to ensure all the workforce to share Lawson's corporate philosophy and code of conduct.

Hire non-Japanese students

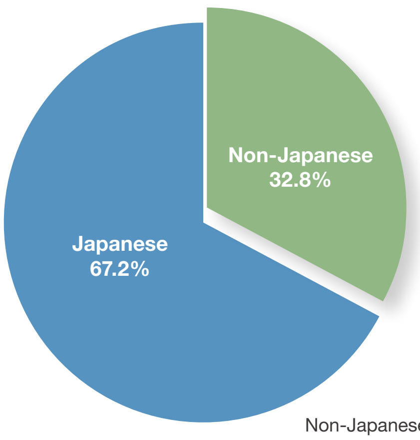
Lawson set a policy to recruit one-third of new hires from non-Japanese students in fiscal 2008, as we believe that Lawson's future should be confided to human resources with diverse characteristics and values. We also need personnel who will take the role of overseas development. In fiscal 2009, 17 non-Japanese joined Lawson as new hires. We had 68 non-Japanese employees as of May 2011. We will continue to welcome personnel with diverse cultural background and promote the creation of more flexible and vigorous workplaces.

Promote use of women workers

Women workers represented 15.2% of Lawson's employees at the end of May 2011 and we believe it is critically important to raise that ratio. The ratio of women among directors and auditors increased from 9% to 18%, while the ratio of women among executives needs to be raised more. We had hired primarily male workers for many years but have changed our policy to make women represent about one-half of new hires since fiscal 2005. We are creating more flexible and supportive work environments so that employees can realize a good balance between work and private life. We obtained the Kurumin certification, which was granted by the Ministry of Health, Labour and Welfare to companies that support employees' parenting of the next generation and a work-life balance.

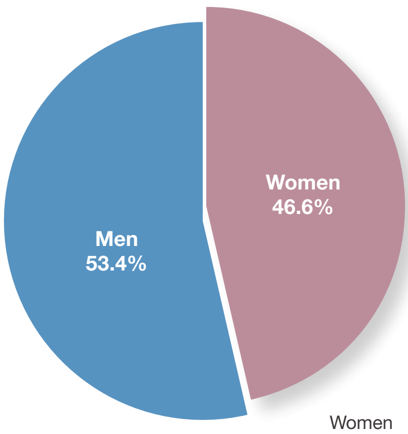
New Hires in Fiscal 2011

Ratio of Non-Japanese



Non-Japanese 19
Japanese 39 / out of 58

Ratio of Women



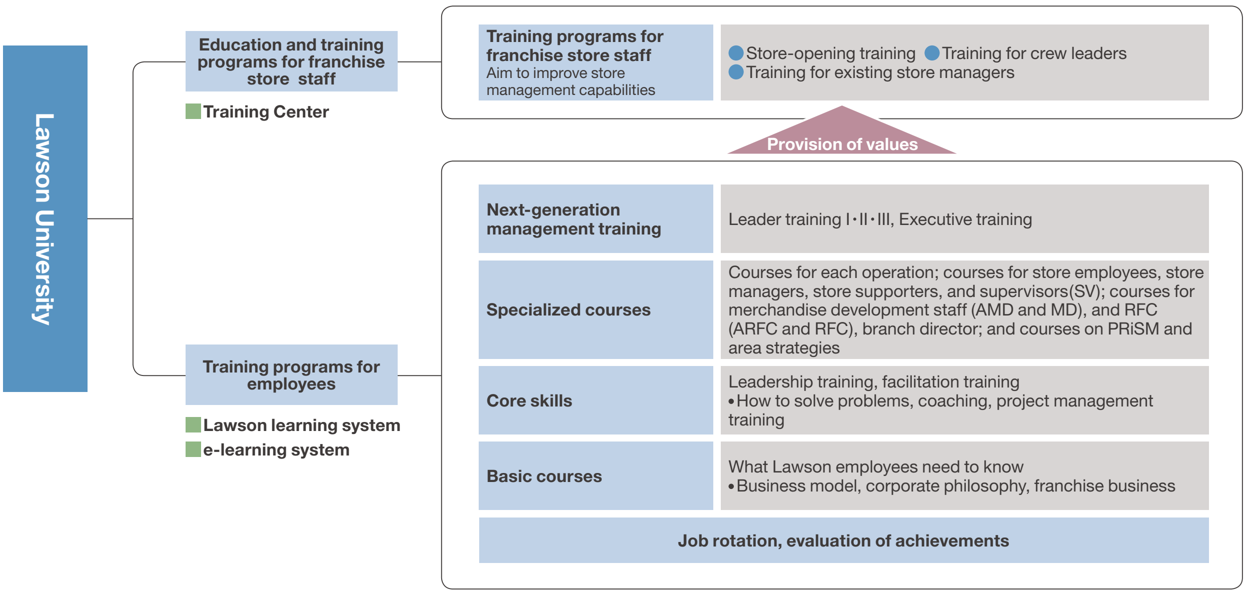
Women 27
Men 31 / out of 58

Encourage internal communications

In fiscal 2008, we launched the Lawson Genki Project, whose main activities are now aimed at motivating employees. (Genki literally means to be vibrant and cheerful in Japanese.) As one of these activities, a nationwide sports contest is held by teams from the Head Office and branches which have won preliminary matches. This is aimed at enabling employees to learn and understand about each other by doing sports together and to cultivate a sense of unity as a team. In fiscal 2009 and 2010, a softball contest was held and the matches were broadcast live via the in-house Intranet. From fiscal 2010, the Club Activity Campaign was launched in order to encourage more communication among colleagues. Lawson has also been using its portal site, which can be accessed by all employees, since fiscal 2009. On this site, employees can access timely information such as CEO messages, blogs, internal announcements, and banners. This is helping to keep people abreast of the integrated information, which helps to raise operational efficiency and encourages more communication.

Lawson University's unique training program

Lawson makes considerable investments in cultivating personnel. Its unique training program called Lawson University is based on an integrated training system for personnel of various jobs, ranks, and aims. Our objective is to cultivate a professional team of personnel with a high business promotion capacity melded with adherence to our corporate philosophy. The Lawson Learning Center (LLC) was established near the Head Office and offers various programs. The next-generation leader training program is regarded as one of the most important programs and the management frequently appears in front of the class as instructors. We have also introduced the e-learning system for employees to study by themselves with their PC. The Head Office employee training program is targeted at personnel ranging from new hires to management candidates in various careers and at various times, based on the objective of fostering autonomous thinkers and creating an organization which can keep learning.



Happiness and Harmony in Our Community

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Management's Discussion and Analysis

Industry Overview

In fiscal 2010, while the impact of consumers' preference for low-priced items lingered particularly in the first half due to persistent economic sluggishness, a hint of improvement in personal consumption emerged, as the summer was unusually hot and retailers' low-price competition ran its course. However, consumption recovered slowly and remained in the balance. Among retailers, supermarkets carried out a discount war even during the phase of surging prices for fresh foods in the spring of fiscal 2010, which eroded their profitability and resulted in intensified low-price competition, particularly in the first half. In the department store sector, the dynamism led by industry realignment came to a halt and the focus shifted to restructuring of stores and personnel.

In the Convenience store industry, a move to expand the customer base with the main targets being families, seniors, and housewives was proceeded, primarily through the aggressive introduction of private brands. The industry entered a phase where the strength of convenience stores as neighborhood stores is being reevaluated.

In this climate, the Convenience store industry struggled in the first half, due to the prolonged impact of deflation. However, in the calendar year 2010 (from January to December 2010), the top ten convenience store operators recorded a 0.8% year on year decrease in existing store sales, which represented a reduction of the rate of decrease, due to the following factors: 1) favorable sales of high-margin beverages resulting from the unusually hot weather in the peak demand season of summer and thereafter; 2) the beginning of a recovery in sales of rice dishes and other core products categories in the Convenience store industry stemming from the cooling of excessive price competition, improved consumer sentiment, and strong sales of high grade products with high unit prices; 3) significant growth in sales of cigarettes thanks to a smaller-than-expected loss of customers following the cigarette tax hike of October 1, 2010 and an increase in per-unit prices associated with the tax hike.

(Billions of Yen, %)

Retail Industry Market Size and Convenience Store Share*	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total retail industry annual sales	135,666	132,328	135,477	135,081	135,257	135,055	133,712	132,446	132,280	136,808	139,435
Convenience store sector annual sales	8,114	7,981	7,943	7,490	7,399	7,360	7,289	7,096	6,980	6,846	6,680
Convenience store share	6.0%	6.0%	5.9%	5.5%	5.5%	5.4%	5.5%	5.4%	5.3%	5.0%	4.8%

Source: "Current Survey of Commerce," Ministry of Economy, Trade and Industry
* Annual sales amounts of the retail industry and the Convenience store sector are calendar-year based.

(Billions of Yen, %)

Share of Convenience Store Market Held by Top Four* Chains (Net sales of all stores)	2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
LAWSON	1,683	1,666	1,559	1,415	1,387	1,362	1,329	1,288	1,294	1,286	1,278
Seven-Eleven Japan	2,948	2,785	2,763	2,574	2,534	2,499	2,441	2,343	2,213	2,114	2,047
FamilyMart	1,440	1,274	1,246	1,122	1,069	1,032	998	954	932	899	843
Circle K Sunkus*	923	902	940	902	911	920	934	902	892	860	448
Total	6,994	6,627	6,508	6,013	5,901	5,813	5,702	5,487	5,331	5,159	4,616
(Estimated market share of top 4 chains)	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%	78.2%	77.3%	76.4%	75.4%	69.1%
Convenience store sector	8,114	7,981	7,943	7,490	7,399	7,360	7,289	7,096	6,980	6,846	6,680

Source: Data published by each company
* Figures for the fiscal year ended February 28, 2001 are the combined figures of Circle K and Sunkus.
C&S Co., Ltd. for the fiscal years from 2001 to 2003
** Figures for top 4 chains are fiscal-year based and figures for the Convenience store sector are calendar-year based.

(Number of stores)

Convenience Store Numbers	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Convenience store numbers	45,006	44,391	43,228	43,087	42,643	41,340	41,114	40,644	39,809	38,274	37,562

Source: "2009 JFA Franchise Chain Statistics," Japan Franchise Association. The number of convenience stores is calendar-year based.

Management Measures in FY2010

Lawson executed the following management measures in the year ended February 28, 2011 with the aim of achieving sustainable medium- to long-term earnings growth by realizing stores that enable customers to experience "Whatever you want, whenever and wherever you need it."

I. Short-Term Measures

1. We implemented measures to enhance the quality (Q), service (S), and cleanliness (C) of franchise store owners. Those three elements are the keystone for all of Lawson's growth-oriented measures. As a result, the ratio of visits by Mystery Shoppers to top-rank stores increased.

2. We implemented measures to improve the gross margin, which is Lawson's highest-priority key performance indicator (KPI).
   (1) We executed structural reform initiatives to streamline raw materials and distribution.
   (2) The use of PRiSM, the backbone IT system, enabled the analysis of sales data gained from loyalty cards to be reflected in order placement, resulting in systematic order placement and a reduction in opportunity loss.
   The above two measures helped improve the gross margin on products excluding cigarettes by 0.5 percentage point. The 1.4% year on year growth rate

for existing store gross profit exceeded the 0.8% growth rate for existing store sales.

3. We implemented measures to promote sales and bolster merchandise assortment based on the use of Ponta cards, a multi-partner loyalty program. We also worked to acquire more card members and improve their rate of visits to our stores, in order to promote measures related to Ponta cards and enhance merchandise assortment at each store through customer relationship management (CRM). As a result, the number of Ponta card members exceeded 30 million by the end of fiscal 2010, and this is anticipated to further promote CRM by boosting the level of analysis of customer data.

4. By leveraging our advantages in raw material procurement and utilizing our data analysis of Ponta card holders, we developed and sold high-grade products that satisfy local needs and tastes in respective communities.

5. We promoted franchising of the LAWSON STORE100 fresh food convenience store format.
   Ninety-nine Plus Inc, which operates fresh food convenience stores as a Lawson consolidated subsidiary, is expanding its customer base by offering appealing products such as fresh foods and daily delivered foods to housewives and seniors. In order to promote franchise (FC) businesses that demonstrate strength in the small catchment area business, we promoted franchising of LAWSON STORE100 stores, by creating new LAWSON STORE 100 FC packages.

6. We strengthened governance within the Lawson Group.
   With the aim of preventing any recurrence of LAWSON ENTERMEDIA's alleged misconduct incident that was uncovered in February 2010, we executed proposals submitted by the third-party investigating committee that comprised outside experts. At the same time, we turned Ninety-nine Plus Inc. and LAWSON ENTERMEDIA, INC. into wholly-owned subsidiaries on July 1, 2010 in order to strengthen consistent governance from the Head Office of the parent company.

II. Medium- to Long-Term Measures

1. We implemented multi-format strategies to match each location with the aim of expanding the customer base.
   (1) Fresh food-type stores: Opening, remodeling, and promoting LAWSON STORE100 and fresh food-type LAWSON (hybrid-type)
   (2) Healthcare-type store: Opening Pharmacy LAWSON convenience stores that combine a drug dispensing pharmacy, and opening joint MatsumotoKiyoshi and LAWSON STORE100 stores
   (3) In-store kitchen-type LAWSON: On an experimental basis, we made freshly made lunch boxes and delicatessen items available in 41 stores.

2. We began preparation for our full-fledged entry into overseas markets by opening new stores in Chongqing, China, in addition to Shanghai.

Specific measures taken by each segment are described below.

Products and Services Overview

The consumer market in fiscal 2010 was a year characterized by a swing back from an extreme price-focused trend to a value-focused trend, with a correction from the excessive low-price wars that persisted from fiscal 2009 occurring from the second half of fiscal 2010. Lawson responded by developing and launching value-added products that leverage the inherent value of convenience stores. Specifically, we addressed these changes in customer needs and sourced high-quality ingredients in large quantities through bulk purchasing.

Rice category (rice balls, lunch boxes, and sushi)

1. Reinforcement of rice balls
   We lowered prices of popular items in the “Niigata Koshihikari Rice Ball Series” to make them more affordable to our customers. At the same time, we launched the high-priced “Zeitaku (Luxury) Niigata Koshihikari Rice Ball Series” by using high-grade ingredients.

2. Offering high value-added boxed lunches
   We launched a series of upscale boxed lunches called “Gohoubi-no-hitotoki” (Enjoy luxury time), based on the concept of “boxed lunches that offer customers extra satisfaction.” Without following low-priced competition, we implemented quality-focused product development strategies.

3. Launch of chilled lunch boxes
   In January 2011 we launched a series of chilled lunches with vegetables and various other ingredients, which satisfy the needs and tastes of female and senior customers.

In the dessert category, the renewal of our original brand called “Uchi Café SWEETS” in fiscal 2009 continued to show an outstanding performance, resulting in favorable growth of about 20% year on year in existing store sales of desserts (non-consolidated). In particular, the Premium Roll Cake Series was a phenomenal success, with a variety in types of cream and sponge cake. Its accumulated sales reached 86 million units by the end of February 2011.
In sales promotion activities, we focused on programs that were projected to yield a high return on investment (ROI). We ran campaigns chiefly on tie-ups with well-known characters such as the Rilakkuma Fair, the Miffy Campaign, the Evangelion Campaign, and the Keion!! Fair.

On the services front, our stores handled 169 million bill settlement transactions, including public utility charges; the chain handled transactions amounting to ¥1,639.2 billion on behalf of third parties in this way. Furthermore, ATM machines were installed in six more prefectures, bringing the number of prefectures with LAWSON stores that have ATMs to 46.
In the card business, we joined the Ponta multi-partner loyalty program in March 2010. Loyalty Marketing, Inc., a wholly owned subsidiary of Mitsubishi Corporation, operates the Program and various companies, including GEO Corporation, which rents DVDs and CDs, are participating in it. We strove to provide convenient and appealing services to cardholders, such as expansion of the range of products eligible for bonus points and campaigns to award more points for purchases. As of the end of February 2011, the number of cardholders exceeded 30 million and sales to card members represented over 30% of total sales.

Store Operations

In store operations, we worked on creating sales floors and merchandise assortments that suit customers' needs in local communities, based on an analysis of purchase data of Ponta card members, through the use of PRiSM. Our IT system has also enabled the visualization of sales opportunity loss (missed sales opportunities arising when merchandise needed by customers is sold out) and made franchise owners become more conscious of merchandise assortments. Furthermore, 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.

*The Three Challenge Practices are points that franchise store owners, employees and store crews (part-time and temporary 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) maintaining stores and surrounding areas clean.

Store Development and Store Formats

Development of LAWSON Stores

We took steps to open stores that are projected to generate high earnings relative to investment, based on the concept of Return on Investment (ROI) and 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, we pushed ahead with the opening of formats suited to each location, by leveraging our strength in multiple formats.

Initiatives with formats other than regular LAWSON stores that feature blue signs saying LAWSON in white letters during the past fiscal year were as follows.

I. Fresh Food-Type Convenience Stores

1. **LAWSON STORE100 Fresh Food Convenience Stores**

   We have been developing fresh food-type convenience stores to satisfy new customer groups such as housewives and seniors, whose needs are not fully captured by conventional convenience stores. This fresh food-type format is operated by our subsidiary, Ninety-nine Plus Inc.

   In fiscal 2010, we opened 124 stores in this format, fewer than the initial plan of 200 store openings. Our original plan was to fully utilize the capabilities of Lawson's Store Development Team by planning to turn it into a wholly owned subsidiary in February 2010. However, the LAWSON ENTERMEDIA incident delayed the creation of the subsidiary until July 2010 and more time was required to establish the group-wide store development structure. On the other hand, another strategic move in franchising has been developing as planned. We converted about 150 company operated stores to franchise stores as initially planned and we are transforming ourselves into a franchise business that is strong in small catchment area business. We had 1,044 LAWSON STORE100 stores on February 28. 2011.

   In fiscal 2011, our goals are to open about 200 new LAWSON STORE100 stores and to convert about 150 company operated stores to franchise ones.

2. **Fresh Food-Type LAWSON Stores (hybrid type)**

   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 (hybrid type) with stronger fresh food assortments. These enhanced LAWSON stores offer products targeting new customer segments (women and seniors), with a focus 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 and senior customers to expand Lawson's customer base, and to make conscious efforts to open stores in residential areas.

   Fresh food-type LAWSON stores differ from LAWSON STORE100 stores in the following way.

   (1) Fresh food-type LAWSON is based on the conventional LAWSON store and is a remodeled format that introduces fresh foods and daily delivered foods in the assortment (including some new stores). This format can therefore be introduced nationwide, primarily in residential areas with a small catchment area in the background.

   (2) LAWSON STORE100 stores are opened in areas with an extensive customer base within the small catchment area, such as in the three major metropolitan areas and cities designated by government ordinance.

   We reformed or opened about 1,000 fresh food-type LAWSON stores in fiscal 2010, resulting in a total of 1,186 stores. We plan to reform or open about 800 stores in fiscal 2011.

II. Healthcare-Type Convenience Stores

1. **NATURAL LAWSON for Health-Conscious Customers**

   NATURAL LAWSON is a convenience store format targeting mainly working women and health-conscious customers, based on the key words of "beauty," "health" and "comfort." 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 convenience store mold. With NATURAL LAWSON having achieved its initial goal of establishing a new brand strongly supported by female customers, Lawson integrated this company back into Lawson's Head Office in 2007. As the second stage, Lawson is continuing to develop the format to meet more needs of health-conscious consumers by developing unique products and making the format more distinctive from the conventional convenience store format.

   The number of NATURAL LAWSON stores amounted to 90 (including 35 franchise stores) at the end of February 2011.

2. **Measures to Enhance Healthcare Business**

   Following the June 2009 enforcement of amendments to the Pharmaceutical Affairs Law, we are taking the following measures, as opportunities to boost pharmaceutical businesses for convenience stores. In July 2010, we opened a joint MatsumotoKiyoshi and LAWSON STORE100 store. We expect that MatsumotoKiyoshi, with its strength in branding power for young women, and Lawson, with its strength in housewives and seniors, will create synergies that appeal to customers.

In addition, thanks to personnel exchanges with MatumotoKiyoshi Holdings Co., Ltd., we were able to increase the number of our personnel who hold Registered Pharmaceuticals Salesperson qualifications to 65 and the number of our stores which sell over-the-counter medications reached 35.

Lawson began trialing the Pharmacy Lawson format, which combines a drug-dispensing pharmacy with a convenience store and sells not only over-the-counter medications but also prescribed drugs and other pharmaceuticals in fiscal 2003. In fiscal 2008, we signed a business alliance with drug-dispensing pharmacy operator Qol Co., Ltd. to enhance our healthcare business. Since the opening of the first store with a dispensing pharmacy in August 2010, the number of stores with this format amounted to four by the end of February 2011.

3. **In-Store Kitchen**

Lawson stepped up initiatives to bolster the introduction of "freshly made lunch boxes and delicatessen items," which are in high demand among women and seniors, in order to increase one of the advantages of convenience stores as neighborhood stores, that is, being close to local communities (in customers' residential areas). The number of experimental stores that provide in-store prepared lunch boxes and delicatessen items to customers amounted to 41 stores by the end of February 2011.

In fiscal 2012, we will establish infrastructure to ensure full-scale medium-term growth by using the knowledge and expertise we have gained through such operations and solving issues such as the control of personnel expenses.

Future Store-Opening Strategy

Lawson will open the optimal format for an area by fully leveraging the distinctive features of multiple formats to meet area needs and customer needs: "LAWSON," "NATURAL LAWSON," "LAWSON STORE100," and "Fresh Food-Type LAWSON" stores. The last one is a remodeling format of the conventional LAWSON store.

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 began to open stores in Chongqing, China in July 2010 in order to make use of its 15 years of experience in Shanghai.

Number of Stores in the Lawson Network in Japan (Consolidated)	**2011/2****	**2010/2****	**2009/2***	**2008/2**	**2007/2**	**2006/2**
Number of stores	9,994	9,761	9,527	8,587	8,564	8,366
Openings*	550	607	501	452	700	717
Closings*	317	373	414	429	502	428
Net increase (decrease)	233	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 years ended February 28, 2011 and February 28, 2010 include 141 and 136 stores operated by LAWSON Okinawa, Inc., in the respective fiscal year.

(Number of stores, %)

Number of Stores by FC Contract Type (Consolidated, Japan)	**2011/2**		**2010/2**		**2009/2***		**2008/2**		**2007/2**		**2006/2**	
Franchise stores	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)	Stores	Share (%)
B	1,216	12.2	1,258	12.9	1,322	13.9	1,369	15.9	1,512	17.7	1,674	20.0
G	2,057	20.6	2,001	20.5	2,041	21.4	2,123	24.7	2,209	25.8	2,272	27.2
C	5,284	52.9	5,074	52.0	4,863	51	4,641	54	4,367	51	4,011	47.9
NATURAL LAWSON	35	0.4	27	0.3	22	0.2	15	0.2	5	0.1	1	0
LAWSON STORE100 / SHOP99	268	2.7	167	1.7	114	1.2	–	–	–	–	–	–
Subtotal	**8,860**	**88.7**	**8,527**	**87.4**	**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 (%)	Stores	Share (%)
LAWSON	129	1.3	207	2.1	283	3	291	3.4	296	3.5	323	3.9
NATURAL LAWSON	55	0.6	62	0.6	71	0.7	76	0.9	95	1.1	50	0.6
LAWSON STORE100 / SHOP99	809	8.1	829	8.5	811	8.5	72	0.8	80	0.9	35	0.4
Subtotal	**993**	**9.9**	**1,098**	**11.2**	**1,165**	**12.2**	**439**	**5.1**	**471**	**5.5**	**408**	**4.9**
Area FCs**	141	1.4	136	1.4								
Total	**9,994**	**100**	**9,761**	**100**	**9,527**	**100**	**8,587**	**100**	**8,564**	**100**	**8,366**	**100**

* 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.

** Stores operated by LAWSON Okinawa, Inc.

Outline of Store Contracts (Conventional LAWSON Stores)

Contract type		C	G	B
Contract term		10 years from store opening day		
Owner conditions		At least 20 years old, 2 full-time store workers		
Land and buildings		Provided by Lawson		Prepared by franchisee
Investment in store construction and interior decoration expenses		Borne by Lawson		Borne by franchisee
Signage and business fixtures		Provided 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 amount is paid by the franchisee to the 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.

** The 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-S	VL-B
Land and buildings		Provided by Ninety-nine Plus		Use land and buildings owned by franchisee
Contract stores		Stores already being operated by Ninety-nine Plus as LAWSON STORE100		Land and buildings owned by franchisee
Contract term		10 years since the opening	5 years since the opening	10 years since the opening
Necessary expenditure	Payment by franchisee at time of contract*	¥2.55 million (consumption tax included) Breakdown Franchise fee ¥1.05 million (consumption tax included) Contract fee ¥262,500 Training expenses ¥262,500 Store opening preparation comission ¥525,000 Investment ¥1.5 million (including payment for some merchandise purchased on behalf of the store)		
	Other expenses	Store opening expenses: Approx. ¥500,000 (i.e., supply of changes for cash registers, licensing fee for operation)		
Investment	Store construction and interior decoration	Borne by Ninety-nine Plus		Borne by franchisee
	Business fixtures	Borne by Ninety-nine Plus		
Minimum guarantee*		¥21 million per year		¥22.2 million per year
Head Office income		[Franchisee's percentage of sales fees] On gross profit (monthly) ¥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%	[Franchisee's percentage of sales fees] On gross profit (monthly) ¥1–2,500,000 Gross profit x 26% ¥2,500,001–3,000,000 Gross profit x 48% ¥3,000,001–3,500,000 Gross profit x 58% Over ¥3,500,001 Gross profit x 68%	Gross profit X 27%

* The amount is paid by the franchisee to the 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.

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

Overview of Results

I. Sales Figures

Total Net Sales (Consolidated)

Consolidated net sales of LAWSON stores in fiscal 2010, ended February 28, 2011, exceeded the initial plan of ¥1,663,000 million by ¥19,812 million and rose 1.0% year on year, to ¥1,682,812 million. Net sales were above plan mainly because sales at existing stores were favorable, as described from the following. The year-on-year increase was small, as net sales in fiscal 2009 consolidated Ninety-nine Plus Inc.'s net sales for a period of 14 months (from January 2009 to February 2010). On a non-consolidated basis, sales increased 2.1% to ¥1,502,754 million.

Existing Store Sales (Consolidated)

Consolidated existing store sales (including sales of Ninety-nine Plus Inc.) increased 0.7% year on year, while existing store sales on a non-consolidated basis exceeded the initial plan by 2.3 percentage points and were up 0.8% year on year. By region, the Chubu area was comparatively weak because of the effects of a lackluster manufacturing sector, while the Tohoku area was strong.

Growth Rate of Existing Store Sales, Average Number of Customers and Average Spend per Customer in Existing Stores (Non-Consolidated)	2011/2	2010/2	2009/2	2008/2	2007/2
Growth rate of existing store sales (YoY)	+0.8%	-4.1%	+6.5%	-0.8%	-1.8%
Growth rate of average number of customers and average spend per customer at existing stores					
Number of customers	+0.4%	-1.0%	+5.7%	-1.1%	-1.8%
Average spend per customer	+0.4%	-3.1%	+0.8%	+0.4%	+0.0%

Sales by Product Category (Consolidated, total net sales)

On a consolidated basis, daily delivered foods were the only product category that posted year-on-year sales growth but the comparison was distorted due to the inclusion of 14 months of sales at Ninety-nine Plus Inc. in total net sales for the previous year.

On a non-consolidated basis, daily delivered foods and processed foods recorded year-on-year growth of 13.6% and 1.9%, respectively. The following details below are on a non-consolidated basis.

Sales of daily delivered foods were affected by the transfer to this category of items such as delicatessen items from fast foods following a change in categorization. Excluding this factor, sales increased 8.3% year on year. Such significant growth was driven by sales growth of over 20% in desserts on an all-store basis, stemming from the phenomenal success of original desserts, and favorable sales of ice cream products resulting from the unusually hot summer.

Sales of processed foods increased from the previous year, thanks to a 6% increase in cigarette sales on an all-store basis, as a decrease in sales volume caused by higher tax rates was offset by a rise in unit prices.

In the fast foods category, sales decreased from the previous year but increased 2.2% year on year on an actual basis when excluding the impact of the change in categorization with the daily delivered foods category. In addition to significant growth recorded by the pasta category, due to strong sales of the renewed brand line of Pasta-ya, sales of sandwiches were also favorable thanks to the effects of the loyalty point program campaign. The non-food category posted a 3.5% year-on-year decrease in sales because of sluggish sales of structurally depressed products such as books and magazines.

(Millions of Yen, %)

Sales by Product Category (Consolidated, total net sales)	2011/2	2010/2	2009/2	2008/2	2007/2
Fast foods	321,865	324,197	332,894	327,501	324,993
Share	19.1%	19.5%	21.4%	23.1%	23.4%
Daily delivered foods	264,169	239,088	186,109	162,625	155,575
Share	15.7	14.3	11.9	11.5	11.2
Processed foods	897,426	902,306	844,324	726,750	705,155
Share	53.3	54.2	54.2	51.4	50.9
(Cigarettes)	382,167	358,600	342,450	249,745	238,406
(Share)	22.7	21.5	22.0	17.6	17.2
Total food sales	1,483,462	1,465,592	1,363,328	1,216,876	1,185,724
Share	88.2	88.0	87.5	86.0	85.5
Non-food products	199,350	200,544	195,453	198,230	200,907
Share	11.9	12.0	12.5	14.0	14.5
Net sales of all stores	**¥1,682,812**	**¥1,666,136**	**¥1,558,781**	**¥1,415,106**	**¥1,386,630**
Share (%)	**100**	**100**	**100**	**100**	**100**

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 (Non-Consolidated, total net sales)

The overall gross profit margin was 30.6%, 0.2 percentage point higher than in fiscal 2009 but 0.3 percentage point below plan. As mentioned earlier, the lower margin than initial plan was caused by the cigarette tax hike on October 1, 2010. The positive impact of the unit price hike outweighed the negative impact of a reduction in sales volume, but as sales of low-margin cigarettes were higher than initially estimated, the product mix deteriorated.

The gross profit margin for all products excluding cigarettes was in line with the initial plan and rose significantly, ending up 0.5 percentage point higher than in fiscal 2009. This was mainly supported by structural reform initiatives aimed at improving the gross profit margin, such as streamlining of raw materials procurement and distribution.

In the fast foods category, the margin improved by 0.5 percentage point year on year because of the aforementioned raw materials procurement initiatives aimed at enhancing added value (refer to page 10). Improvement was particularly striking in fast foods on the counter and cooked noodles.

In the daily delivered foods category, the margin improved 0.3 percentage point year on year, thanks to the effect of improved markup terms for each product, especially bakery items, and strong sales of high-margin ice cream products during the unusually hot summer.

In the processed foods category, the gross profit margin declined 0.1 percentage point year on year due to the greater share of cigarette sales in the product mix. Their share increased by 0.9 percentage point, from 24.0% in fiscal 2009 to 24.9% in fiscal 2010. Margins on processed foods other than cigarettes improved year on year due to the optimization of manufacturer inventories, resulting from more systematic ordering linked to product development (linking the merchandise assortment at stores with product development), and the benefits of improved distribution efficiency.

In the non-food products category, the margin improved significantly, rising 1.4 percentage points year on year, due to margin improvement for daily necessities, resulting from more systematic ordering and a limited number of products in the merchandise assortment, as well as growth in commission business including ticket sales and bill settlement.

(%)

Gross Profit Margin by Product Segment (Non-Consolidated)	2011/2	2010/2	2009/2	2008/2	2007/2
Fast foods	37.8%	37.3%	36.1%	36.3%	36.5%
Daily delivered foods	34.6	34.3	33.7	33.6	33.8
Processed foods*	24.5	24.6	24.8	26.3	26.4
Non-food products**	42.2	40.8	39.5	38.5	38.0
Gross profit margin	30.6	30.4	30.1	31.2	31.3

* 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 (Non-Consolidated)	2011/2	2010/2	2009/2	2008/2	2007/2	2006/2
Bill settlements (millions of yen)	¥1,639,203	¥1,553,832	¥1,506,531	¥1,412,335	¥1,294,004	¥1,165,255
Number of transactions (millions)	169.8	162.2	156.6	149.9	140.9	130.6
Commission income (millions of yen)	9,027	8,651	8,415	8,275	8,141	7,507

II. Consolidated Income Statement Items

Total Operating Revenues

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

Total operating revenues decreased by ¥25,914 million, or 5.5%, to ¥441,278 million, but these exceeded the initial plan by ¥6,278 million. The main reasons for the decrease were a reaction to the inclusion of 14 months of sales at Ninety-nine Plus Inc. in total net sales for the previous year and a shift in some company-operated stores to franchise stores in the parent company. Operating revenues exceeded the initial plan mainly because of favorable existing store sales, good daily sales at new stores in the parent company, and a ¥12,017 million increase in franchise commission from franchise stores thanks to progress in conversion to franchise stores.

As a breakdown, net sales from company-operated stores amounted to ¥183,236 million, while franchise commission from franchise stores and other operating revenues were ¥197,673 million and ¥60,369 million, respectively.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses decreased by ¥558 million, or 0.2% year on year, to ¥242,636 million. SG&A expenses were approximately ¥1,900 million less than planned. The main reason for the year-on-year decrease was that SG&A expenses of Ninety-nine Plus Inc. decreased by ¥4,200 million from the previous year, when 14 months of SG&A expenses were accounted for. Rents rose by ¥2,661 million, or 3.8%, thanks to an increase in the opening of mainly C-type franchise stores.

Personnel expenses decreased by ¥1,210 million, or 3.3%, on a non-consolidated basis due to a decrease in personnel expenses for store crews (part-time and temporary workers) associated with 85 fewer company-operated stores than the previous fiscal year. On a consolidated basis, personnel expenses decreased by ¥2,813 million, or 4.6% year on year, to ¥58,020 million. This reflects a decrease of ¥2,000 million due to a reaction to the inclusion of 14 months of personnel expenses at Ninety-nine Plus Inc. in total personnel expenses for the previous year.

Advertising and promotional expenses decreased by ¥1,188 million, or 9.8% year on year, to ¥10,977 million. Lawson introduced the concept of return on investment (ROI) in advertising and sales promotion and focused on a limited number of more efficient promotional activities (i.e., campaigns which focused on a particular target customer group). We also rationalized the use of loyalty points program.

IT-related costs on a non-consolidated basis amounted to ¥14,700 million, up ¥1,000 million from the previous year. This increase reflected a reaction to the previous year's efforts to rationalize expenses for existing IT systems, which were implemented at the time of system replacement, as well as the full-year operation and depreciation of software used in the PRiSM.

(Millions of Yen, %)

Breakdown of Main SG&A Expenses	2011/2	2010/2	2009/2	2008/2	2007/2	2006/2
Personnel expenses*	¥58,020	¥60,833	¥46,203	¥39,927	¥37,888	¥35,450
Share	23.9%	25.0%	21.8%	20.6%	20.7%	20.2%
Advertising and promotional expenses	10,977	12,166	13,781	9,385	9,693	9,177
Share	4.5	5.0	6.5	4.9	5.3	5.2
Rents	73,231	70,570	62,323	58,562	55,318	51,236
Share	30.2	29.0	29.4	30.3	30.2	29.1
Equipment leasing charges	10,229	13,443	14,988	18,414	17,475	16,734
Share	4.2	5.5	7.1	9.5	9.5	9.5
Depreciation and Amortization	33,084	27,468	20,879	21,445	21,348	20,893
Share	13.6	11.3	9.9	11.1	11.7	11.9
Depreciation expenses**	24,529	21,053	16,752	16,630	16,185	15,859
Share	10.1	8.7	7.9	8.6	8.8	9.0
Amortization expenses	8,554	6,414	4,126	4,815	5,163	5,034
Share	3.5	2.6	1.9	2.5	2.8	2.9
Other	57,093	58,711	53,755	45,653	41,446	42,402
Share	23.5	24.1	25.4	23.6	22.6	24.1
Total	**¥242,636**	**¥243,194**	**¥211,932**	**¥193,390**	**¥183,169**	**¥175,894**
Share	**100.0%**	**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 ¥5,265 million, or 10.5% year on year, to ¥55,541 million and was ¥5,041 million, or 10.0% higher than initially planned. It also incorporated ¥1,711 million in income from Ninety-nine Plus Inc. Operating income relative to total net sales was 3.3%.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests increased by ¥14,536 million, or 48.7%, to ¥44,411 million. Extraordinary losses of ¥10,184 million were recorded. Major items were a ¥1,304 million loss mainly on sales of a guest house for training franchise owners, a ¥4,990 million charge for impairment of long-lived assets, including close to a ¥2,000 million loss on the existing IT system of Ninety-nine Plus Inc. accompanying its introduction of the PRiSM, and a ¥3,018 million charge for loss on disposal of property and store equipment. However, these factors were offset by the absence of an impropriety-related loss of ¥12,616 million related to the alleged misappropriation of funds by two former directors of the consolidated subsidiary LAWSON ENTERMEDIA, INC. of the previous year.

Net Income

As a result of the above, net income increased ¥12,825 million, or 102.1%, to ¥25,387 million. Net income per share was ¥254.61.

Financial Position

I. Consolidated Balance Sheets

Current Assets

Total current assets increased by ¥12,811 million, or 9.7%, from the end of fiscal 2009 to ¥145,010 million. This was mainly attributable to an improvement in operating cash flow, primarily due to a ¥14,536 million increase in income before income taxes and minority interests as a reaction to the previous fiscal year's booking of an impropriety-related loss caused by the alleged misappropriation of funds by two former directors of the consolidated subsidiary LAWSON ENTERMEDIA, INC. Hence, cash and cash equivalents increased ¥12,869 million, or 23.5% year on year, to ¥67,712 million.

Property and Store Equipment, Investments and Other Assets

Net property and store equipment rose by ¥13,525 million, or 9.3% from a year ago, to ¥158,834 million. This was mainly attributable to an increase in lease assets such as fixtures associated with store openings and IT investments, stemming from the application of new lease accounting standards.
Investments and other assets increased by ¥1,569 million to ¥172,193 million.

Current Liabilities

Total current liabilities increased by ¥8,099 million, or 4.4%, to ¥192,596 million. The main factors were an ¥8,210 million, or 11.2%, increase to ¥81,399 million in accounts payable due to an increase in total net sales excluding cigarettes and the impact of a ¥3,312 million increase stemming from the application of new lease accounting standards.

Long-Term Liabilities

Total long-term liabilities rose ¥9,475 million, or 14.5%, to ¥74,974 million. There was a ¥1,572 million decrease in guarantee deposits received from franchise stores due to a decrease in the number of G-type franchise stores, which operate under franchise agreements requiring the payment of a guarantee deposit. On the other hand, there was a ¥8,843 million increase stemming from the application of new lease accounting standards.

Total Equity

Total equity, including minority interests, amounted to ¥208,467 million at the end of February 28, 2011, representing a ¥10,331 million, or 5.2%, year-on-year increase. Net income amounted to ¥25,387 million and cash dividends of ¥16,422 million were paid, resulting in an increase of ¥5,436 million in retained earnings to ¥99,608 million.

II. 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 franchise stores and calculates and pays amounts payable for these to the vendors on their stores' behalf. Lawson records the cost of the merchandise in the “Accounts receivable—Due from franchised stores” account since such costs are recovered from franchise stores. “Due from franchised stores” represents mainly the obligations of franchise stores to the Head Office for these amounts at the balance sheet date. As of February 28, 2011, this asset account was ¥16,159 million, ¥4,632 million lower than a year ago. This was a reaction to a temporary increase in “Due from franchised stores,” as the end of February 2010 was a bank holiday and deposits by many franchise stores were delayed for a day.

Accounts Receivable—Other

Other accounts receivable such as income due from vendors is incorporated in “Other” in “Accounts receivable” on the balance sheet. This includes income due (i.e., the amount of card sales by franchise stores). With regard to trade, trade for franchise stores and trade for company-operated stores are accounted for in separate account items. However, payments due to card issuing companies are all due from Lawson, a contracted party with card companies. “Other” in “Accounts receivable” is displayed in one account item.
The constituent elements of this item stood at ¥29,286 million at February 28, 2011, an increase of ¥2,840 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 the Head Office to franchise stores. Funds pledged to landlords for opening stores used to be booked in the lease deposits account but are now booked under “Long-term loans receivable.” As of February 28, 2011, this account was ¥2,102 million higher than a year ago at ¥31,826 million, because of 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, 2011, this account was ¥81,655 million, a decrease of ¥1,551 million.

Due to Franchised Stores

This account represents Head Office obligations to franchise stores. All franchise stores make remittances of cash proceeds from daily sales to the Head Office. If franchise store remittances of cash proceeds from daily sales to Lawson exceed the balance of “Accounts receivable—Due from franchised stores,” the excess is shown on the balance sheet as “Accounts payable—Due to franchised stores.” As of February 28, 2011, this account was ¥1,179 million, up ¥154 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. “Money held as agent” continued to increase, up 5.5% year on year to ¥1,639,203 million because of a rise in the number of transactions and the number of companies for which settlement services were provided. However, because of the calendar, there was one additional monthly payment to third-party companies in February 2011, which resulted in a year-on-year decrease of ¥3,517 million to ¥62,341 million in this account at February 28, 2011.

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, 2011, this account was ¥37,139 million, ¥1,572 million less than the previous year, due to the repayment of guarantee deposits to franchise stores, associated with contract renewals or terminations, despite an increase of 56 in the number of FC-G contract stores.

Capital Expenditure, Etc.

In fiscal 2010, capital expenditure on a consolidated basis totaled ¥50,326 million, down ¥21,073 million from a year ago. New store investments decreased by ¥6,212 million to ¥13,675 million as a result of decreased store openings (down from 607 in the previous fiscal year to 550). Existing store investments increased by ¥831 million to ¥8,934 million, reflecting an increase in conversions to fresh food-type LAWSON stores (hybrid type). IT-related investments decreased by ¥1,930 million to ¥7,479 million, mainly because a series of investments in the backbone IT system PRiSM was completed. Leases decreased by ¥19,685 million to ¥16,691 million mainly because IT-related investment (Loppi and electronic ordering system) peaked out.
Details of major capital expenditures are as follows:

(Millions of Yen)

Breakdown of Capital Expenditure	2011/2	2010/2	2009/2	2008/2	2007/2
New store investments	¥13,675	¥19,887	¥15,635	¥12,387	¥23,444
Existing store investments	8,934	8,101	6,747	7,493	5,887
IT-related investments	7,479	9,409	12,064	7,733	4,662
Other	1,003	629	3,886	2,260	(1,395)
Investments subtotal	**31,091**	**38,026**	**38,331**	**29,873**	**32,598**
Investments and advances	2,544	(3,004)	(14,564)	19,690	3,013
Leases*	16,691	36,376	19,140	14,850	14,211
Total	**¥50,326**	**¥71,399**	**¥42,907**	**¥64,413**	**¥49,822**

* The amount equivalent to the acquisition cost of leased property acquired during each fiscal year. The amount of repayments of lease obligations is ¥8,785 million in fiscal 2010.

Breakdown of Depreciation	2011/2	2010/2	2009/2	2008/2	2007/2
Depreciation expenses*	¥24,529	¥21,053	¥16,752	¥16,630	¥16,185
Amortization expenses	8,554	6,414	4,126	4,838	5,167
Total depreciation and amortization	**33,083**	**27,468**	**20,879**	**21,469**	**21,352**

* 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 ¥72,210 million, ¥31,514 million more than in the previous fiscal year. This was mainly attributable to a significantly higher year-on-year result for income before income taxes and minority interests due to a substantial increase in operating income on favorable sales during fiscal 2010 and a reaction to the previous fiscal year's booking of an impropriety-related loss caused by the alleged misappropriation of funds by two former directors of the consolidated subsidiary LAWSON ENTERMEDIA, INC.
Investing activities used net cash of ¥30,522 million, ¥12,074 million less than in the previous fiscal year. The main reasons were an increase in proceeds from the withdrawal of time deposits that exceeded a decrease in payments into time deposits and a decrease in store openings that resulted in a decrease in payments accompanying purchases of property and store equipment.
As a result of changes in cash flows from operating and investing activities, free cash flow—the difference between the two figures—increased by ¥43,588 million to ¥41,688 million.
Financing activities used net cash of ¥28,799 million, ¥1,560 million more than in the previous fiscal year. This reflects an increase in cash dividends paid of ¥556 million and payments of ¥3,510 million for the purchase of the company's own shares in association with turning Ninety-nine Plus Inc. and LAWSON ENTERMEDIA, INC., into wholly-owned subsidiaries.
As a result, cash and cash equivalents at the end of the fiscal year increased by ¥12,869 million from a year earlier to total ¥67,712 million.

Capital Policy: Dividends and Purchase of Treasury Stock

Lawson regards returning profits to shareholders as one of its most important management policies, and is run with recognition that the level of capital cost should reflect the profit expectations of investors toward Lawson. 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 to long term 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 to long term goal is ROE of 15% to 20%. Our dividend yield on February 28, 2011 was 4.2%. (Please refer to page 6 for details on our cash dividends per share). For fiscal 2011, we plan to increase the cash dividend per share by ¥5 to ¥175.
Regarding dividend policy, we have not employed a specific target for the payout ratio. Rather, as a way to improve capital efficiency, we intend to efficiently manage the ample free cash flow we are creating by rewarding shareholders.
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.

Overview of Consolidated Subsidiaries and Equity-Method Affiliates

Consolidated results for fiscal 2010 include the performance of nine members of the Lawson Group—seven consolidated subsidiaries and two affiliates accounted for under the equity method. These subsidiaries and affiliates are broadly engaged in four categories of business: convenience store operations, entertainment and e-commerce operations, financial services, and overseas operations. The business operations and fiscal results of companies included within the scope of consolidation are presented below.

Convenience Store Operations

Ninety-nine Plus Inc. (Consolidated subsidiary)

Established in October 2000, Ninety-nine Plus operates the fresh food convenience store format "LAWSON STORE100," and has grown rapidly as a pioneer in Japan of a fresh foods store format that provides everything from fresh food and other daily food items, to sundries at a single price. Lawson signed a business and equity alliance agreement with Ninety-nine Plus in 2007. Fresh food convenience stores have won strong acceptance from housewives and seniors by strengthening the merchandise assortment of fresh and daily delivered foods at stores in small 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 a third-party allotment of shares to Lawson. In January 2008, Ninety-nine Plus increased its capital by another 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's shares, raising its equity interest to 76.8%.

On May 1, 2009, VALUE LAWSON, INC., a Lawson subsidiary that developed the "LAWSON STORE100" format and ran a fresh food convenience store operation, and Ninety-nine Plus merged, with the latter as the surviving company. The goal of the merger was to generate even greater alliance benefits and become the unrivalled leader in the fresh food convenience store 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 ended its fiscal year on March 31 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 included 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 was delisted in June 2010 and became a wholly owned subsidiary of Lawson by a share exchange in July 2010. Lawson's investments to Ninety-nine Plus have amounted to ¥16,700 million since fiscal 2007.

In fiscal 2010, Ninety-nine Plus recorded a decrease in sales for a technical reason, namely a reaction to the previous year's 14-month business result. It also posted extraordinary losses of ¥2,800 million for impairment loss on the old IT system associated with a switch to the PRiSM. As a result, the Ninety-nine Plus recorded an ¥800 million net loss.

(Millions of Yen)

Ninety-nine Plus Inc.	2011/2	2010/2*	2009/3	2008/3
Total operating revenues	¥142,228	¥135,410	¥134,246	¥122,997
Operating income	1,772	1,792	261	401
Net income (loss)	(840)	1,673	(504)	47
Number of stores	1,077	996	856	837

* Fiscal 2009 was an 11-month transitional fiscal year due to a change in fiscal year closing to the end of February.
Lawson's consolidated operating profit for fiscal 2009 included 14-month operating profit of Ninety-nine Plus, amounting to ¥2,160 million, the sum of the 4th quarter of fiscal 2008 and 11 months of fiscal 2009.

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)

BestPractice Inc.	2011/2	2010/2	2009/2	2008/2	2007/2
Total operating revenues	¥1,131	¥991	¥982	¥919	¥885
Operating income	235	91	50	8	82
Net income (loss)	130	59	(1)	1	45

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 highly popular 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.

LAWSON Okinawa recorded operating income of ¥600 million in fiscal 2010, driven by favorable business results in the second half of the year.

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)

LAWSON Okinawa, Inc.	2011/2	2010/2	2009/2	2008/2
Total operating revenues	¥3,347	¥733	–	–
Operating income	601	109	–	–
Number of stores	141	136	–	–

Entertainment and E-commerce Operations

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, theaters, 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 base and i-Convenience's expertise in the e-commerce business. In July 2009, LAWSON TICKET was renamed LAWSON ENTERMEDIA, INC.

The main source of revenues is sales commission on ticket sales. The total operating revenue account which is mainly comprised of commissions is recorded in other operating revenues in Lawson's consolidated financial statements.

In fiscal 2010 strong sales in tickets related to events and leisure contributed to record operating income of ¥1,100 million, which was a little better than planned and a slightly higher than in fiscal 2009.

The company was listed on the JASDAQ market but was delisted in June 2010 and became a wholly owned subsidiary of Lawson by means of a share exchange in July 2010.

*Japanese popular music generally popular among the relatively younger generation

(Millions of Yen)

LAWSON ENTERMEDIA, INC.	2011/2	2010/2	2009/2	2008/2	2007/2
Total operating revenues	¥9,864	¥10,022	¥7,620	¥6,960	¥6,533
Operating income	1,111	1,099	791	636	836
Net income (loss)	1,870	(11,887)	(1,445)*	423	507

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

HMV Japan K.K. (Consolidated subsidiary)

HMV Japan is a music/video software retailer under the HMV brand. It was established in 1990, opened its first store in Shibuya, Tokyo in the same year, and became the Internet- based HMV Online electronic commerce business in 1999. In 2007, HMV Japan Holdings Co., Ltd, which is wholly owned by Daiwa Securities SMBC Principal Investments Co., Ltd., including indirect holdings, acquired all shares of the company. Lawson acquired all shares of HMV Japan K.K. from HMV Japan Holdings in December 2010, with an aim to strengthen its entertainment related business. Lawson will use HMV's branding power and infrastructure for electronic commerce business, seek to bring synergy impacts by blending with LAWSON ENTERMEDIA, INC., and promote the Lawson Group's entertainment business.

In fiscal 2010, HMV Japan's restructuring of unprofitable stores resulted in generating approximately ¥100 million profit for its three-month contribution to Lawson's consolidated results (from November 2010 to January 2011).

Cross Ocean Media, Inc. (Consolidated subsidiary)

In March 2010, this company was jointly established by Lawson, ASATU-DK Inc., and NTT DOCOMO, Inc. to promote electronic advertising business via digital signage. It generated about ¥400 million operating loss in fiscal 2010 due to initial costs related to start-up of operations.

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, 2011, LAWSON ATM Networks had formed alliances with a total of 42 partner banks, that encompass the major city bank groups, regional banks, and Internet banks. The company's main source of revenue is fees from banks for the commissioned operation of ATMs, that are included in the “Operating Revenues: Other” account of Lawson's consolidated statements of income. Its main expenses are operating center outsourcing fees, ATM line charges and ATM leasing charges.

LAWSON ATM Networks recorded a significant growth in operating income, up 29.3% year on year to ¥3,100 million, as a result of nationwide installation of ATMs in fiscal 2010.

LAWSON ATM Networks installed 1,548 ATMs in fiscal 2010 to make a total of 8,526 ATMs in 47 prefectures as of February 28, 2011. Lawson holds a 44.0% stake in LAWSON ATM Networks.

LAWSON ATM Networks, Inc.	2011/2	2010/2	2009/2	2008/2	(Millions of Yen) 2007/2
Total operating revenues	¥20,825	¥18,570	¥16,964	¥14,900	¥11,907
Operating income	3,159	2,444	1,439	1,201	866
Net income	1,788	1,412	589	718	509

Number of ATM Machines Installed	2011/2	2010/2	2009/2	2008/2	(Units) 2007/2
Number of ATM machines installed	8,526	6,978	5,970	5,643	4,245

Overseas Business

CHONGQING LAWSON CO., LTD. (Consolidated subsidiary)

With the aim of opening the first Japanese convenience store in inland China, by responding to invitation by the Chongqing City's government, Lawson established this company in April 2010 and opened its first store, equipped with a training facility, in Chongqing in July 2010. The number of stores reached four by the end of February 2011, with a further milestone of 30 stores within 2011 and 200 stores within 5 years. Chongqing City is one of the largest cities in the world, with a population of 32 million inhabitants, and is the fourth largest directly governed city in China after Beijing, Shanghai, and Tianjin. Chongqing's economy has enjoyed six consecutive years of double-digit growth, outperforming the overall growth rate for China and that of the coastal centers such as Shanghai. Latent demand for convenience stores is mounting in Chinese inland cities as they continue their remarkable growth.

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

This company has been developing a chain of LAWSON stores in Shanghai, 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 2010, there were 317 stores in operation, of which 248 were franchise stores.

SHANGHAI HUALIAN LAWSON CO., LTD.	2010/12	2009/12	2008/12	2007/12	(Millions of Yen) 2006/12
Total operating revenues	¥5,402	¥6,313	¥6,670	¥7,265	¥6,355
Operating income	14	2	13	77	20
Number of stores	317	300	300	287	291

* 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 convenience store operations under "Overview of Consolidated Subsidiaries and Equity-Method Affiliates" on page 56 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 32.5% (including indirect holdings) as of February 28, 2011. The two firms have built a cooperative relationship in areas such as 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, specific examples are installment of mailboxes in LAWSON stores (2003), opening of convenience stores inside post offices (2003) and handling of You-Pack parcels (2004). In 2008, Lawson signed an agreement for a comprehensive business alliance with Japan Post Holdings. 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 began opening stores that combined 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, such as buying power and infrastructure. The two groups also carried out personnel exchanges, assigning staff members 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. In fiscal 2010, the first joint stores of MatsumotoKiyoshi and LAWSON STORE100 were opened.

Looking ahead, the two companies plan to begin opening pilot stores in a new format that combines a drugstore with a convenience store. Both companies also plan to do research on experimental stores of a new format that combine a drugstore and a convenience store.

Outlook for Fiscal 2011

In fiscal 2011, the overall Japanese economy is expected to make a gradual recovery. Although uncertain factors such as sluggish recovery of the consumer market, the summer power shortage caused by aftereffects of the Great East Japan Earthquake and the nuclear power problem are likely to persist, the post-earthquake consumption appears to show a sign of recovery much stronger than being concerned. On the other hand, prices of resources and various raw materials continued to surge in the overseas commodity markets, while risk of inflationary pressure is gradually emerging even in the Japanese market.

With regard to the Convenience store industry operating environment, if Lawson focuses on 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 convenience 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 that faces 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 2011 we plan to improve consolidated operating income 3.5% year on year to ¥57,500 million, but to decrease consolidated net income by 22.0% year on year to ¥19,800 million, due to extraordinary loss associated with the earthquake and extraordinary loss caused by asset retirement obligations.

Create customer-oriented merchandise assortments

Aiming to offer floor space that meets the needs of customers in each local community, Lawson will continue to utilize data from the Ponta cards and create customer-oriented merchandise assortments that satisfy customer needs. We will also improve accuracy in placing orders for products, in order to reduce sales opportunity loss and product disposal loss. We will further enhance product development capabilities, which are indispensable for creating customer-oriented merchandise assortments and improving ordering accuracy.

Provide appealing services through the Ponta loyalty program

The number of participating companies in Ponta is expected to rise to make it more convenient to customers. Jointly with other partners, Lawson plans to implement broader-based marketing analysis and sales promotion measures in order to provide more appealing services for customers.

Promote fresh food-type convenience store

In the growth business of fresh food-type convenience store, Lawson will continue to expand LAWSON STORE100 and fresh food-type convenience store operations, primarily to serve residential areas. In particular, we will meet customers' needs in dining-in (cooking and eating at home) and expand the customer base to include more seniors and women, in addition to men in their 20's and 30's, who are the main customers in conventional convenience stores.

Respond to demand for pharmaceuticals and healthcare

We will expand sales of pharmaceuticals and strengthen development and sales of health-oriented foods by utilizing know-how accumulated at NATURAL LAWSON for helping to realize healthy and pleasant lifestyle that customers are seeking for. Based on the concept of "food is medicine," we will keep contributing to customers' healthy and enriched living.

Full-scale development of entertainment and e-commerce related business

We aim to provide entertainment-related merchandise and other merchandise assortment that meet customer needs both in actual stores and on the Internet. Leveraging business alliances with other companies, we will provide new services in the e-commerce area.

Expand overseas aggressively

The Lawson Group has been opening LAWSON stores in Shanghai and Chongqing, China. As China has high economic growth prospects, we will consider more store openings and expansion into other major cities. Furthermore, we will consider expanding into other countries after carefully studying local situations.

Reinforce group internal controls

By taking serious lessons from LAWSON ENTERMEDIA's scandal, which was uncovered in fiscal 2009, Lawson has sincerely worked on preventive measures against recurrence of a scandal at the company and its subsidiaries and affiliates. From the first half of fiscal 2010, we have internally clarified internal allocation of assignment of control and support to those related companies, enhanced the support structure, and maintain continuous monitoring of the funds situation of major related companies. In addition, from the second half, Lawson began to centrally manage the funds of those major companies. Moreover, we worked on enhancing guidance for improvement by checking the authority

allocation situation and the risk management system, and auditing within the group.
Lawson has also revised and implemented its Related Companies Management Regulations in order to strengthen guidance on managing risks and establishing internal control in its subsidiaries and affiliates. In addition, we began to establish a structure that facilitates communications between Lawson and related companies so that the Group's management policies permeate the companies and are better implemented. We plan to continue to promote these measures. 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 arrangement for ensuring legal compliance, information storage and control and risk management.

Business Risk Factors

The seven major risks that may influence 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 in case a risk materializes. 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 changes in consumer behavior triggered by weather conditions, calamitous disasters, as well as changes in competition with other companies in the convenience store 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 convenience store business, the Lawson Group's core business, we sell food products to customers. From the manufacturing process to sales in stores, in cooperation with suppliers, the Lawson Group strictly observes high 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, ingredients or raw materials used, 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 influence 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 and improper access to personal information are serious risks. Consequently, we have devised what we believe to be 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 Shanghai and Chongqing, 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 Convenience store 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 franchise 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 franchise 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 affect 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 Tokyo Metropolitan area, could delay the delivery of products to stores and cause the suspension of store services. Such developments could influence the Lawson Group’s performance or financial position.

Consolidated Balance Sheets

LAWSON, INC. and Consolidated Subsidiaries
February 28, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	**2011**	**2010**	**2011***
CURRENT ASSETS:			
Cash and cash equivalents	¥ 67,712	¥ 54,843	$ 828,687
Marketable securities (Note 4)		2,500	
Time deposits	10,104	9,174	123,657
Accounts receivable:			
Due from franchised stores (Notes 3 and 8)	16,159	20,791	197,760
Other	29,286	26,446	358,414
Allowance for doubtful accounts	(98)	(156)	(1,199)
Inventories	7,012	4,447	85,816
Deferred tax assets (Note 13)	4,944	4,587	60,507
Prepaid expenses and other current assets	9,891	9,567	121,049
Total current assets	**145,010**	**132,199**	**1,774,691**
PROPERTY AND STORE EQUIPMENT (Note 5):			
Land (Note 6)	6,610	6,527	80,896
Buildings	193,512	184,446	2,368,278
Furniture, fixtures and equipment	61,156	57,241	748,452
Lease assets (Notes 2.m and 15)	51,055	31,435	624,832
Total	312,333	279,649	3,822,458
Accumulated depreciation	(153,499)	(134,340)	(1,878,583)
Net property and store equipment	**158,834**	**145,309**	**1,943,875**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	642	512	7,857
Investments in associated companies	2,943	2,042	36,018
Long-term loans receivable	31,826	29,724	389,499
Goodwill	7,717	4,249	94,444
Software	27,902	29,674	341,476
Lease deposits	81,655	83,206	999,327
Deferred tax assets (Note 13)	13,253	15,274	162,196
Claims in bankruptcy and reorganization	15,372	13,631	188,129
Other assets	6,930	6,948	84,812
Allowance for doubtful accounts	(16,047)	(14,636)	(196,390)
Total investments and other assets	**172,193**	**170,624**	**2,107,368**
TOTAL	**¥ 476,037**	**¥ 448,132**	**$ 5,825,934**

See notes to consolidated financial statements.

* U.S. dollar amounts are translated from Japanese yen, solely for the convenience of readers, at the rate of ¥81.71 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on February 28, 2011.

LIABILITIES AND EQUITY	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars 2011*
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 7 and 16)	¥ 81,399	¥ 73,189	$ 996,194
Due to franchised stores (Note 8)	1,179	1,025	14,429
Other	21,135	22,423	258,660
Current portion of long-term debt (Note 9)	8,017	4,730	98,115
Income taxes payable	10,673	9,852	130,620
Money held as agent	62,341	65,858	762,954
Accrued expenses and other current liabilities	7,852	7,420	96,096
Total current liabilities	**192,596**	**184,497**	**2,357,068**
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	7,530	6,207	92,155
Allowance for retirement benefits to executive officers and corporate auditors	235	217	2,876
Guarantee deposits received from franchised stores and other	37,139	38,711	454,522
Allowance for impairment loss on leased property(Note 15)	667	471	8,163
Long-term debt (Note 9)	28,778	19,492	352,197
Other	625	401	7,649
Total long-term liabilities	**74,974**	**65,499**	**917,562**
EQUITY (Notes 11 and 20):			
Common stock—authorized, 409,300,000 shares in 2011 and 2010; issued, 100,300,000 shares in 2011 and 99,600,000 shares in 2010	58,507	58,507	716,032
Capital surplus	47,696	41,520	583,723
Stock acquisition rights	406	346	4,969
Retained earnings	99,608	94,172	1,219,043
Net unrealized (loss) gain on available-for-sale securities	(5)	14	(61)
Land revaluation difference (Note 6)	(634)	(634)	(7,759)
Foreign currency translation adjustments	1	66	12
Treasury stock—at cost, 433,040 shares in 2011 and 432,190 shares in 2010	(1,694)	(1,714)	(20,732)
Total	203,885	192,277	2,495,227
Minority interests	4,582	5,859	56,077
Total equity	**208,467**	**198,136**	**2,551,304**
TOTAL	**¥ 476,037**	**¥ 448,132**	**$ 5,825,934**

* U.S. dollar amounts are translated from Japanese yen, solely for the convenience of readers, at the rate of ¥81.71 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on February 28, 2011.

Consolidated Statements of Income

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	**2010**	**2011***
OPERATING REVENUES:			
Franchise commissions from franchise stores	¥ 197,673	¥ 185,656	$ 2,419,202
Net sales from Company-operated stores	183,236	232,459	2,242,516
Other	60,369	49,077	738,820
Total	441,278	467,192	5,400,538
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 16)	143,101	173,722	1,751,328
Selling, general and administrative expenses	242,636	243,194	2,969,477
Total	385,737	416,916	4,720,805
Operating income	**55,541**	**50,276**	**679,733**
OTHER INCOME (EXPENSES):			
Interest (expense) income—net	(322)	303	(3,941)
Equity in earnings of associated companies	312	62	3,818
Loss on disposal of property and store equipment	(3,018)	(3,899)	(36,935)
Loss on sales of property and store equipment	(1,304)	(30)	(15,959)
Impairment of long-lived assets (Note 5)	(4,990)	(3,904)	(61,070)
Impropriety-related loss		(12,616)	
Gain on sale of investment in subsidiaries		1,629	
Other—net	(1,808)	(1,946)	(22,126)
Other expenses—net	**(11,130)**	**(20,401)**	**(136,213)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**44,411**	**29,875**	**543,520**
INCOME TAXES (Note 13):			
Current	16,552	18,393	202,570
Deferred	1,668	(1,152)	20,414
Total	**18,220**	**17,241**	**222,984**
MINORITY INTERESTS IN NET INCOME	**(804)**	**(72)**	**(9,840)**
NET INCOME	**¥ 25,387**	**¥ 12,562**	**$ 310,696**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.q and 18):	**2011**	**2010**	**2011**
Net income—basic	¥ 254.61	¥ 126.67	$ 3.12
Net income—diluted	254.31	126.54	3.11
Cash dividends applicable to the year	170.00	160.00	2.08

* U.S. dollar amounts are translated from Japanese yen, solely for the convenience of readers, at the rate of ¥81.71 = US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on February 28, 2011.

Consolidated Statements of Changes in Equity

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2011 and 2010

	Thousands of Shares/Millions of Yen						
	Common Stock		Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference
	Shares	Amount					
BALANCE, MARCH 1, 2009	99,600	¥ 58,507	¥ 41,520	¥ 275	¥ 97,811	¥ (41)	¥ (969)
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	335
BALANCE, FEBRUARY 28, 2010	99,600	58,507	41,520	346	94,172	14	(634)
Net income					25,387		
Year-end cash dividends, ¥80 per share					(7,933)		
Interim cash dividends, ¥85 per share					(8,489)		
Increase by share exchanges	1,602		6,176				
Treasury stock—at cost—purchase of treasury stock							
Disposal of treasury stock							
Retirement of treasury stock	(902)				(3,529)		
Others—net				60		(19)	
BALANCE, FEBRUARY 28, 2011	**100,300**	**¥ 58,507**	**¥ 47,696**	**¥ 406**	**¥ 99,608**	**¥ (5)**	**¥ (634)**

	Thousands of Shares/Millions of Yen					
	Foreign Currency Translation Adjustments	Treasury Stock		Total	Minority Interests	Total Equity
		Shares	Amount			
BALANCE, MARCH 1, 2009	¥ 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	7			468	141	609
BALANCE, FEBRUARY 28, 2010	66	(432)	(1,714)	192,277	5,859	198,136
Net income				25,387		25,387
Year-end cash dividends, ¥80 per share				(7,933)		(7,933)
Interim cash dividends, ¥85 per share				(8,489)		(8,489)
Increase by share exchanges				6,176		6,176
Treasury stock—at cost—purchase of treasury stock		(903)	(3,510)	(3,510)		(3,510)
Disposal of treasury stock			1	1		1
Retirement of treasury stock		902	3,529			
Others—net	(65)			(24)	(1,277)	(1,301)
BALANCE, FEBRUARY 28, 2011	**¥ 1**	**(433)**	**¥ (1,694)**	**¥ 203,885**	**¥ 4,582**	**¥ 208,467**

Consolidated Statements of Changes in Equity

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2011 and 2010

	Thousands of U.S. Dollars					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference
BALANCE, FEBRUARY 28, 2010	$ 716,032	$ 508,139	$ 4,234	$ 1,152,515	$ 171	$ (7,759)
Net income				310,696		
Year-end cash dividends, $0.98 per share				(97,087)		
Interim cash dividends, $1.04 per share				(103,892)		
Increase by share exchanges		75,584				
Treasury stock—at cost—purchase of treasury stock						
Disposal of treasury stock						
Retirement of treasury stock				(43,189)		
Others—net			735		(232)	
BALANCE, FEBRUARY 28, 2011	**$ 716,032**	**$ 583,723**	**$ 4,969**	**$ 1,219,043**	**$ (61)**	**$ (7,759)**

	Thousands of U.S. Dollars (Note 1)				
	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28, 2010	$ 808	$ (20,977)	$ 2,353,163	$ 71,705	$ 2,424,868
Net income			310,696		310,696
Year-end cash dividends, $0.98 per share			(97,087)		(97,087)
Interim cash dividends, $1.04 per share			(103,892)		(103,892)
Increase by share exchanges			75,584		75,584
Treasury stock—at cost—purchase of treasury stock		(42,957)	(42,957)		(42,957)
Disposal of treasury stock		13	13		13
Retirement of treasury stock		43,189			
Others—net	(796)		(293)	(15,628)	(15,921)
BALANCE, FEBRUARY 28, 2011	**$ 12**	**$ (20,732)**	**$ 2,495,227**	**$ 56,077**	**$ 2,551,304**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

LAWSON, INC. and Consolidated Subsidiaries
Years Ended February 28, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 44,411	¥ 29,875	$ 543,520
Adjustments for:			
Income taxes paid	(15,677)	(17,723)	(191,861)
Depreciation and amortization	33,084	27,468	404,895
Impairment of long-lived assets	4,990	3,904	61,070
Provision for allowance for doubtful accounts	1,352	10,309	16,546
Loss on disposal of property and store equipment	1,468	1,981	17,966
Loss on sales of property and store equipment	1,304	30	15,959
Equity in earnings of associated companies	(312)	(62)	(3,818)
Other—net	1,382	79	16,913
Changes in assets and liabilities:			
Increase in claims in bankruptcy and reorganization	(1,789)	(12,637)	(21,895)
Decrease in accounts receivable	3,394	651	41,537
(Increase) decrease in prepaid expenses and other current assets	(215)	1,451	(2,632)
Decrease in inventories	57	840	698
Increase (decrease) in accounts payable	3,678	(9,133)	45,013
(Decrease) increase in money held as agent	(3,560)	5,197	(43,569)
(Decrease)increase in accrued expenses and other liabilities	(744)	609	(9,105)
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	959	1,172	11,737
Decrease in guarantee deposits received from franchise stores and other	(1,572)	(3,315)	(19,239)
Total adjustments	27,799	10,821	340,215
Net cash provided by operating activities	**72,210**	**40,696**	**883,735**
INVESTING ACTIVITIES:			
Payments into time deposits	(26,304)	(12,584)	(321,919)
Proceeds from withdrawal of time deposits	25,374	3,414	310,537
Purchases of marketable securities		(2,800)	
Proceeds from redemption of marketable securities	2,500	4,100	30,596
Acquisition of a subsidiary, net of cash acquired	455		5,568
Acquisition of a subsidiary, net of cash paid	(809)		(9,901)
Purchases of property and store equipment	(22,883)	(26,144)	(280,051)
Purchases of software and other intangible assets	(7,511)	(9,042)	(91,923)
Decrease in lease deposits—net	2,299	290	28,136
Increase in long-term loans	(2,069)	(2,041)	(25,321)
Acquisition of associated companies	(650)	(110)	(7,955)
Proceeds from sale of investment in subsidiaries	225	3,224	2,754
Other—net	(1,149)	(903)	(14,062)
Net cash used in investing activities	**(30,522)**	**(42,596)**	**(373,541)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	(8,867)	(11,311)	(108,518)
Cash dividends paid	(16,422)	(15,866)	(200,979)
Purchase of treasury stock	(3,510)		(42,957)
Cash dividends paid to minority shareholders		(62)	
Net cash used in financing activities	**(28,799)**	**(27,239)**	**(352,454)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(20)**		**(244)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**12,869**	**(29,139)**	**157,496**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**54,843**	**83,982**	**671,191**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 67,712**	**¥ 54,843**	**$ 828,687**

See notes to consolidated financial statements.

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 2010 financial statements to conform to the classifications used in 2011.

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 ¥81.71 to $1, the approximate rate of exchange at February 28, 2011. 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 32,399 thousand shares of common stock of the Company (including indirect holdings) as of February 28, 2011, which represent 32.5% 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 seven (four in 2010) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

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 (two in 2010) 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.

HMV JAPAN K.K. became consolidated subsidiary this fiscal year, after the acquisition of all of HMV JAPAN K.K.'s common shares issued and outstanding held by HMV Japan Holdings Co., Ltd. (5,001 shares) through a transfer of shares on December 1, 2010.

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. ***Business Combination***—In October 2003, the Business Accounting Council (the “BAC”) issued a
Statement of Opinion, “Accounting for Business Combinations”, and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No.7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No.10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.” The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business

combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: **(1)** The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. **(2)** The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination is capitalized as an intangible asset. **(3)** The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation.

The Companies applied this accounting standard for business combinations undertaken on or after April 1, 2010.

c. ***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 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.

d. ***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.

e. ***Inventories***—Substantially all inventories are stated at the lower of cost, determined by the retail method as generally applied in the retail industry, or net selling value. Inventories of certain consolidated subsidiaries are stated at the lower of cost, determined by the specific identification method, or net selling value.

f. ***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.

g. ***Property and Store Equipment***—Property and store equipment are stated at cost except for land (see Note 6). Depreciation is computed mainly 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.

h. ***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.

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

j. ***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.

k. ***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.

l. ***Stock Options***—In December 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 this accounting standard for stock options to those granted on and after May 1, 2006.

m. ***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 was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was 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 continues to 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.

All other leases are accounted for as operating leases.

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

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

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

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

The number of shares used in computing net income per share was 99,705 thousand shares for 2011 and 99,167 thousand shares for 2010.

Diluted net income per share for the years ended February 28, 2011 and 2010 is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

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

r. ***New Accounting Pronouncements***

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In March 2008, the ASBJ issued ASBJ Statement No.16, “Accounting Standard for Equity Method of Accounting for

Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: **(1)** amortization of goodwill; **(2)** scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; **(3)** expensing capitalized development costs of R&D; **(4)** cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; **(5)** recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and **(6)** exclusion of minority interests from net income, if contained.

The Companies will adopt the new standard for equity method of accounting for investments newly incurred after March 1, 2011.

***Asset Retirement Obligations*—**In March 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 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.

***Accounting Changes and Error Corrections*—**In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in Accounting Policies* - When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. **(2)** *Changes in Presentations* - When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. **(3)** *Changes in Accounting Estimates* - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. **(4)** *Corrections of Prior Period Errors* - When an error in prior period financial statements is discovered, those statements are restated.

The Companies will adopt the new standard and guidance for accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after March 1, 2012.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

The Companies will adopt the new standard and guidance for segment information disclosures 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, 2011 and 2010, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	**2010**	**2011**
Current—Bonds		¥ 2,500	
Non-current—Marketable and other equity securities	¥ 642	512	$ 7,857

The costs and aggregate fair values of marketable and investment securities at February 28, 2011 and 2010, were as follows:

	Millions of Yen			
February 28, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as— Available-for-sale— equity securities	¥166		¥ 22	¥144
February 28, 2010				
Securities classified as:				
Held-to-maturity	¥ 2,500	¥ 1		¥ 2,500
Available-for-sale—equity securities	56		¥ 13	43

	Thousands of U.S. Dollars			
February 28, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as— Available-for-sale— equity securities	$ 2,031		$ 269	$ 1,762

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2010 were as follows. The similar information for 2011 is disclosed in Note 17.

	Carrying Amount
	Millions of Yen
	2010
Available-for-sale—Equity securities	¥ 469

Proceeds from sales of available-for-sale securities for the years ended February 28, 2011 and 2010 were ¥54 million ($661 thousand) and ¥0 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥1 million ($12 thousand) for the year ended February 28, 2011. Gross realized losses on these sales for the years ended February 28, 2011 and 2010 were ¥13 million ($159 thousand) and ¥2 million, respectively.

5. LONG-LIVED ASSETS

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

The Companies recognized an impairment loss in the following asset categories for the years ended February 28, 2011 and 2010:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	2011	2010	2011
Stores	Buildings and	Tokyo	¥ 1,223	¥ 427	$ 14,968
	Furniture, fixtures	Osaka	192	191	2,350
	and equipment	Others	2,130	2,786	26,068
Other	Software		1,439		17,611
	Goodwill			500	
	Others		6		73
Total			**¥ 4,990**	**¥ 3,904**	**$ 61,070**

The above-noted assets, which incurred impairment losses for the years ended February 28, 2011 and 2010, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Fixed assets and lease assets:			
Land		¥ 395	
Buildings	¥ 2,043	2,125	$ 25,003
Furniture, fixtures and equipment	381	273	4,663
Lease assets	1,095	442	13,401
Software	1,439		17,611
Goodwill		500	
Others	32	169	392
Total	**¥ 4,990**	**¥ 3,904**	**$ 61,070**

The recoverable amount of these 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 3.3% and 4.9% for the years ended February 28, 2011 and 2010, 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, 2011, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥269 million ($3,292 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, 2011 and 2010, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Accounts payable—trade for franchised stores	¥ 68,384	¥ 61,765	$ 836,911
Accounts payable—trade for Company-operated stores	13,015	11,424	159,283
Total	**¥ 81,399**	**¥ 73,189**	**$ 996,194**

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, 2011 and 2010.

The annual interest rates applicable to the current portion of long-term debt ranged from 2.24% to 3.28% at February 28, 2011 and ranged from 1.51% to 3.59% at February 28, 2010.

Long-term debt less the current portion at February 28, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans from banks and leasing companies, due serially through 2017 with interest rates ranging from 1.00% to3.28% (2011) and from 1.51% to 3.59% (2010)—Unsecured	¥ 36,795	¥ 24,222	$ 450,312
Less current portion	(8,017)	(4,730)	(98,115)
Long-term debt, less current portion	**¥ 28,778**	**¥ 19,492**	**$ 352,197**

Annual maturities of long-term debt as of February 28, 2011 for the following five years (and thereafter) are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 8,017	$ 98,115
2013	8,544	104,565
2014	7,972	97,565
2015	5,609	68,645
2016 and thereafter	6,653	81,422
Total	**¥ 36,795**	**$ 450,312**

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, 2011 and 2010 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	**2010**	**2011**
Projected benefit obligation	¥ 13,676	¥ 12,528	$ 167,372
Fair value of plan assets	(5,577)	(5,576)	(68,253)
Unrecognized prior service cost	(527)	(702)	(6,450)
Unrecognized actuarial loss	(42)	(43)	(514)
Net liability	**¥ 7,530**	**¥ 6,207**	**$ 92,155**

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, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	**2010**	**2011**
Service cost	¥ 1,029	¥ 972	$ 12,593
Interest cost	249	242	3,047
Amortization of prior service cost	175	176	2,142
Recognized actuarial loss	85	137	1,040
Contribution to defined contribution plan	271	272	3,317
Net periodic benefit costs	**¥ 1,809**	**¥ 1,799**	**$ 22,139**

Assumptions used for the years ended February 28, 2011 and 2010, were as follows:

	2011	2010
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
4th Stock Option	9 directors and 24 executive officers	114,000 shares	2005.10.12	¥4,160 ($50.91)	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 ($49.60)	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 ($48.33)	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 ($63.32)	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
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 ($0.01)	From February 26, 2010 to February 10, 2031

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 ($1,101.46)	From September 4, 2005 to September 3, 2010

The stock option activity is as follows:

	4th Stock Option	5th Stock Option	6th (a) Stock Option	6th (b) Stock Option	7th (a) Stock Option	7th (b) Stock Option	8th (a) Stock Option	8th (b) Stock Option	9th Stock Option	10th Stock Option	Ninety-nine Plus Inc.'s 2nd Stock Option
						(Shares)					
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	100,600	15,000	21,300	80,000	18,000		26,400				976
Vested						42,000			21,500		
Exercised											(848)
Canceled											(24)
February 28, 2010—Outstanding	100,600	15,000	21,300	80,000	18,000	42,000	26,400		21,500		104
Year Ended February 28, 2011											
Non-vested											
February 28, 2010—Outstanding								36,000			
Granted										18,900	
Canceled											
Vested								(36,000)		(18,900)	
February 28, 2011—Outstanding											
Vested											
February 28, 2010—Outstanding	100,600	15,000	21,300	80,000	18,000	42,000	26,400		21,500		104
Vested								36,000		18,900	
Exercised											
Canceled	(100,600)										(104)
February 28, 2011—Outstanding		15,000	21,300	80,000	18,000	42,000	26,400	36,000	21,500	18,900	
Exercise price	¥4,160	¥1	¥1	¥4,053	¥1	¥3,949	¥1	¥5,174	¥1	¥1	¥90,000
	($50.91)	($0.01)	($0.01)	($49.60)	($0.01)	($48.33)	($0.01)	($63.32)	($0.01)	($0.01)	($1,101.46)
Average stock price at exercise											
Fair value price at grant date			¥3,178	¥618	¥2,852	¥397	¥3,477	¥582	¥2,652	¥2,689	
			($38.89)	($7.56)	($34.90)	($4.86)	($42.55)	($7.12)	($32.46)	($32.91)	

The assumptions used to measure the fair value of the 9th stock options (2010) and 10th stock option (2011) were as follows:

	9th Stock Option	10th Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	34.43%	31.33%
Estimated remaining outstanding period	10 years	10 years
Estimated dividend	¥160 per share	¥165 per share
Risk-free interest rate	1.35%	1.25%

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, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2011 and 2010, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Accrued enterprise taxes	¥ 935	¥ 906	$ 11,443
Accrued employees' bonuses	1,562	1,135	19,116
Excess of depreciation	6,832	5,371	83,613
Excess of amortization of software	788	919	9,644
Employees' retirement benefits	5,333	4,797	65,267
Allowance for doubtful accounts	3,377	5,807	41,329
Impairment loss	3,288	2,396	40,240
Loss on replacement of computer system		412	
Tax loss carryforwards	5,421	1,523	66,344
Other	3,305	3,671	40,450
Less valuation allowance	(10,304)	(7,076)	(126,105)
Total	20,537	19,861	251,341
Deferred tax liabilities—Affiliates' stock(paid-in capital decrease)	2,340		28,638
Net deferred tax assets	**¥ 18,197**	**¥ 19,861**	**$ 222,703**

At February 28, 2011, certain domestic subsidiaries have tax loss carryforwards aggregating to approximately ¥13,217 million ($161,755 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
2013	¥ 1,267	$ 15,506
2014	1,158	14,172
2015	220	2,692
2016	934	11,431
2017	1,386	16,962
2018	8,252	100,992
Total	**¥13,217**	**$161,755**

14. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2011 amounted to ¥19,518 million ($238,869 thousand).

(2) Consolidated subsidiaries, Ninety-nine Plus Inc. and LAWSON ENTERMEDIA, INC., became wholly owned subsidiaries of the Company through a share exchange during the year ended February 28, 2011. Capital surplus increased by ¥6,176 million ($75,584 thousand) as a result of this share exchange.

(3) HMV JAPAN K.K. became consolidated subsidiary this year, after an increase in the number of shares owned on December 1, 2010.

The breakdown of assets and liabilities of the acquired company, at the time of acquisition was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2011	**2011**
Current assets	¥ 5,417	$ 66,295
Non-current assets	2,716	33,240
Goodwill	608	7,441
Current liabilities	(5,475)	(67,005)
Non-current liabilities	(1,369)	(16,755)
Acquired price of stock	1,897	23,216
Cash and cash equivalents of acquired company	1,088	13,315
Difference: Acquisition of a subsidiary, net of cash acquired	**¥ (809)**	**$ (9,901)**

15. LEASES

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

Obligations under finance leases and future minimum payments under noncancelable operating leases at February 28, 2011 and 2010 were as follows:

	Millions of Yen				Thousands of U.S.Dollars	
	2011		2010		2011	
	Finance leases	Operating leases	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	¥ 7,953	¥ 785	¥ 4,641	¥ 782	$ 97,332	$ 9,607
Due after one year	28,254	1,321	19,410	1,606	345,784	16,167
Total	**¥ 36,207**	**¥ 2,106**	**¥ 24,051**	**¥ 2,388**	**$ 443,116**	**$ 25,774**

Pro forma Information of Leased Property Whose Lease Inception Was before February 28, 2009

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Companies applied ASBJ Statement No. 13 effective March 1, 2009 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before February 28, 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
Furniture, Fixtures and Equipment and Other Assets	**2011**	**2010**	**2011**
Acquisition cost	¥ 44,128	¥ 53,955	$ 540,056
Accumulated depreciation	27,881	29,057	341,219
Accumulated impairment loss	1,128	1,149	13,805
Net leased property	**¥ 15,119**	**¥ 23,749**	**$ 185,032**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	**2010**	**2011**
Due within one year	¥ 6,970	¥ 8,944	$ 85,302
Due after one year	10,077	16,909	123,326
Total	**¥ 17,047**	**¥ 25,853**	**$ 208,628**

Allowance for impairment loss on leased property of ¥760 million ($9,301 thousand) and ¥452 million as of February 28, 2011 and 2010 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
	2011	2010	2011
Depreciation expense	¥ 8,973	¥ 11,161	$ 109,815
Interest expense	631	912	7,722
Lease payments	9,290	11,697	113,695
Reversal of allowance for impairment loss on leased property	553	512	6,768
Impairment loss	861	439	10,537

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.

16. RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with subsidiaries of Mitsubishi as of and for the years ended February 28, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
RYOSHOKU LIMITED:			
Accounts payable—trade	¥ 5,560	¥ 5,810	$ 68,046
Purchases	77,994	85,960	954,522
Food Service Network Co., Ltd.:			
Accounts payable—trade	20,119	16,455	246,224
Purchases	237,581	221,588	2,907,612

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 years ended February 28, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
RYOSHOKU LIMITED:			
Accounts payable—trade	¥ 5,002	¥ 4,553	$ 61,216
Purchases	59,324	72,569	726,031

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

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Companies applied the revised accounting standard and the new guidance effective February 28, 2011.

(1) Policy for Financial Instruments

The Companies primarily use short-term deposits, etc. to manage its funds and raise funds as necessary through borrowings from financial institutions and leasing according to the financial plan. The Companies do not engage in derivative transactions.

(2) Nature, Extent of Risk and Risk Management System for Financial Instruments

Trade receivables such as other accounts receivable are exposed to credit risk from business counterparties.

Long-term loans receivable (primarily referring to construction cooperation funds which are loaned to the owners when a store opens and loans to franchised stores) and lease deposits are exposed to credit risk from the owners, etc. The department responsible manages liabilities regarding these risks on a daily basis with the aim of early detection and reduction of concerns associated with the collectability of debt due to deterioration in the financial conditions of the owners.

Marketable securities are government bonds which are financial instruments with low risk and high liquidity. Investment securities are primarily shares of companies with business relationships and listed shares of which are exposed to the risk of market price fluctuations. With regard to this risk, the Company monitors the financial conditions of bond issuers and business counterparties on a regular basis.

Among trade payables, most of the accounts payable—trade and deposits held as a result of bill settlement services have payment due dates within one month, while most deposits held as a result of ticket sales transactions have payment due dates within six months.

The primary purpose of long-term debt and lease obligations related to finance lease transactions is securing the operating capital and funds required for capital investments, and their maximum redemption dates are two years and seven years after the balance sheet date, respectively.

Deposits received from franchisees and lessees are primarily operational deposits received from franchised stores based on franchise contracts are returned to franchised stores after the expiry of the franchise contract term (contract term is 10 years in principle).

With regard to the liquidity risk associated with fund raising (risk for which payment cannot be executed on the payment due date), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures including maintaining liquidity on hand.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on the quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were taken.

February 28, 2011	Millions of Yen Carrying Amount	 Fair Value	 Unrealized Gain/Loss
Cash and cash equivalents	¥ 67,712	¥ 67,712	
Time deposits	10,104	10,104	
Accounts receivable	45,363	45,363	
Investment securities	642	642	
Long-term loans receivable	31,706	31,783	¥ 77
Lease deposits	81,130	71,795	(9,335)
Claims in bankruptcy and reorganization	19	19	
Total	**¥ 236,676**	**¥ 227,418**	**¥ (9,258)**
Accounts payable	¥ 103,713	¥ 103,713	
Money held as agent	62,341	62,341	
Long-term debt (include current portion of long-term debt)	36,795	36,969	¥ 174
Guarantee deposits received from franchised stores and other	37,139	32,761	(4,378)
Total	**¥ 239,988**	**¥ 235,784**	**¥ (4,204)**

February 28, 2011	Thousands of U.S. Dollars Carrying Amount	 Fair Value	 Unrealized Gain/Loss
Cash and cash equivalents	$ 828,687	$ 828,687	
Time deposits	123,657	123,657	
Accounts receivable	555,171	555,171	
Investment securities	7,857	7,857	
Long-term loans receivable	388,031	388,973	$ 942
Lease deposits	992,901	878,656	(114,245)
Claims in bankruptcy and reorganization	233	233	
Total	**$ 2,896,537**	**$ 2,783,234**	**$ (113,303)**
Accounts payable	$ 1,269,283	$ 1,269,283	
Money held as agent	762,954	762,954	
Long-term debt (include current portion of long-term debt)	450,312	452,442	$ 2,130
Guarantee deposits received from franchised stores and other	454,522	400,942	(53,580)
Total	**$ 2,937,071**	**$ 2,885,621**	**$ (51,450)**

Cash and cash equivalents, time deposits and accounts receivable

The carrying values of cash and cash equivalents, time deposits and accounts receivable (include allowance for doubtful accounts) approximate fair values because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments.

Long-term loans receivable

The fair values of long-term loans receivable (include allowance for doubtful accounts) are determined by discounting the cash flows related to the loans at the interest rate deemed to be applied for similar loans.

Lease deposits

The fair values of lease deposits (include allowance for doubtful accounts) are determined by discounting future cash flows which reflect the collectability with the yield rate of government bonds during the remaining period.

Claims in bankruptcy and reorganization

The fair values of claims in bankruptcy and reorganization (include allowance for doubtful accounts) are stated at book value because the estimated amount of bad debt is calculated based on collectability, and fair values are close to the amount which can be calculated by deducting the estimated amount of current bad debt from the carrying value on the consolidated balance sheets on the balance sheet date.

Accounts payable and money held as agent

The carrying values of accounts payable and money held as agent approximate fair value because of their short maturities.

Long-term debt (including current portion of long-term debt)

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate discount rate.

Guarantee deposits received from franchised stores and other

The fair values of guarantee deposits received from franchised stores and other are determined by discounting future cash flows based on the estimated repayment amount with the yield rate of government bonds during the remaining period.

(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined

	Carrying Amount	
February 28, 2011	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 391	$ 4,785
Investments in unconsolidated subsidiaries and affiliated companies	1,875	22,947
Others	106	1,297

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
February 28, 2011	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 67,712			
Time deposits	10,104			
Accounts receivable	45,445			
Long-term loans receivable	3,280	¥ 10,781	¥ 11,027	¥ 6,738
Lease deposits	4,529	18,047	20,559	38,520
Total	**¥ 131,070**	**¥ 28,828**	**¥ 31,586**	**¥ 45,258**

February 28, 2011	Thousands of U.S. Dollars Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 828,687			
Time deposits	123,657			
Accounts receivable	556,174			
Long-term loans receivable	40,142	$ 131,942	$ 134,953	$ 82,462
Lease deposits	55,428	220,867	251,609	471,423
Total	**$ 1,604,088**	**$ 352,809**	**$ 386,562**	**$ 553,885**

18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2011 and 2010 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 28, 2011	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 25,387	99,705	¥254.61	$ 3.12
Effect of dilutive securities—Stock options		121		
Diluted EPS—Net income for computation	¥ 25,387	99,826	¥254.31	$ 3.11
Year Ended February 28, 2010				
Basic EPS—Net income available to common shareholders	¥ 12,562	99,167	¥126.67	
Effect of dilutive securities—Stock options		102		
Diluted EPS—Net income for computation	¥ 12,562	99,269	¥126.54	

19. BUSINESS COMBINATION

Transactions under Common Control
For the year ended February 28, 2011

(A share exchange making Ninety-nine Plus Inc. a wholly owned subsidiary of the Company on July 1, 2010)

1. **Name and businesses of combined companies, legal framework of business combination, name of company subsequent to the combination, and overview of the transaction, including its objectives**

(1) Names and business description of the company under business combination

Names of company under business combination: Ninety-nine Plus Inc.

Business description: Single-price store LAWSON STORE 100, direct management of SHOP99 and roll out of the franchise chain

(2) Legal framework of the business combination
Through share exchange, the Company became the parent company, and Ninety-nine Plus Inc. became the wholly owned subsidiary.

(3) Name of company subsequent to the combination
There was no change in the name of the company.

(4) Overview of the transaction, including its objectives
A mid increasingly fierce competition in the store opening and product development areas in the convenience store industry, it has become inevitable for medium- to long-term growth to open more stores in the optimal format based on the area strategy and provide products to protect life which exceed customers' expectation more promptly than ever in order to sustain and expand the franchise commission from franchised stores.
To achieve this, the Company conducted this share exchange with the belief that it is the best policy to reinforce the competitiveness of the LAWSON Group as a whole by establishing a system that will enable functional decision-making, the further unification of both companies, sharing know-how, and further enhancing the collaborative structure to improve productivity with effective utilization of the Companies' operational capital.

2. Overview of accounting treatment of transaction

This acquisition was treated as transaction under common control in accordance with "Accounting for Business Combinations" (issued by the BAC on October 31, 2003) and "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures" (issued by the ASBJ on December 26, 2008).

3. Information concerning the additional acquisition of shares in the subsidiaries

(1) The acquisition cost and its breakdown

Equivalent value of the acquisition:	¥5,069 million ($62,036 thousand)
Costs directly incurred for the acquisition:	¥108 million ($1,322 thousand)
Total:	¥5,177 million ($63,358 thousand)

The Company's shares are valued based on the share price on the shares issued.

(2) The exchange ratio for each class of share, the approach to calculating the share exchange ratio, the number of shares distributed, and their valuation

(a) The class of shares and the exchange ratios
Common stock: The Company 1, Ninety-nine Plus Inc. 33

(b) Approach to calculating the share exchange ratio
To ensure the fairness and appropriateness of the share exchange, the Company appointed Mitsubishi UFJ Securities Co., Ltd. and Ninety-nine Plus Inc. appointed Ernst & Young Transaction Advisory Services Co., Ltd. as independent third party appraisers and requested them to calculate share exchange ratios. The two parties to the combination negotiated based on those calculations and decided that the above share exchange ratio was appropriate.

(c) Number and valuation of the shares issued

Shares issued:	1,314,951 shares of the Company's common stock
Value of shares delivered:	¥5,069 million ($62,036 thousand)

(3) Amount of goodwill, reason for the recognition and method and period of amortization

(a) Amount of goodwill: ¥2,324 million ($28,442 thousand)

(b) Reason for the recognition of goodwill
Difference between the increase in equity of the combined company held by the Company and the acquisition cost

(c) Method and period of amortization
Straight-line amortization for 20 years

(A share exchange making LAWSON ENTERMEDIA, Inc. ("LEM") a wholly owned subsidiary of the Company on July 1, 2010)

1. Name and business of combined companies, legal framework of business combination, name of company subsequent to the combination, and overview of the transaction, including its objectives

(1) Name and business description of the company under business combination

Name of company under business combination:	LEM
Business description:	Ticket sales, e-commerce, advertising, Web marketing, other information distribution and management business, etc.

(2) Legal framework of the business combination

Through share exchange, the Company became the parent company, and LEM became the wholly owned subsidiary.

(3) Name of company subsequent to the combination

There was no change in the name of the company.

(4) Overview of the transaction, including its objectives

As entertainment is seen as more attractive as content and recognition of the influence of entertainment in attracting customers to the stores increases in the convenience store industry, movement in competitors including business alliances and capital alliances with ticket sales agencies has become marked since last year. This share exchange was conducted as a result of the Company's belief that the acquisition of LEM as a wholly owned subsidiary of the Company will lead to improved operational efficiency through unified organizational management, prompt decision-making and redeployment of management resources while leveraging the strengths of LEM, and that this will ultimately contribute to reinforcing the LAWSON Group's competitiveness and enhancing the corporate value.

2. Overview of accounting treatment of transaction

This acquisition was treated as transaction under common control in accordance with "Accounting for Business Combinations" (issued by the BAC on October 31, 2003) and "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures" (issued by the ASBJ on December 26, 2008).

3. Information concerning the additional acquisition of shares in the subsidiaries

(1) The acquisition cost and its breakdown

Equivalent value of the acquisition:	¥1,107 million ($13,548 thousand)
Costs directly incurred for the acquisition:	¥143 million ($1,750 thousand)
Total:	¥1,250 million ($15,298 thousand)

The Company's shares are valued based on the share price on the shares issued.

(2) The exchange ratio for each class of share, the approach to calculating the share exchange ratio, the number of shares distributed, and their valuation

(a) The class of shares and the exchange ratios
Common stock: The Company 1, LEM 21

(b) Approach to calculating the share exchange ratio
To ensure the fairness and appropriateness of the share exchange, the Company appointed Mitsubishi UFJ Securities Co., Ltd. and LEM appointed PricewaterhouseCoopers Co., Ltd. as independent third party appraisers and requested them to calculate share exchange ratios. The two parties to the combination negotiated based on those calculations and decided that the above share exchange ratio was appropriate.

(c) Number and valuation of the shares issued
Shares issued: 287,238 shares of the Company's common stock
Value of shares delivered: ¥1,107 million ($13,548 thousand)

(3) Amount of goodwill, reason for the recognition and method and period of amortization

(a) Amount of goodwill: ¥1,250 million ($15,298 thousand)

(b) Reason for the recognition of goodwill
Revenue surplus to be expected as a result of business expansion and enhanced efficiency of operations

(c) Method and period of amortization
Straight-line amortization for five years

20. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders meeting held on May 24, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥85 ($1.04) per share	¥ 8,489	$ 103,892

Damage of the Earthquake Off the Pacific Coast of Tohoku

As a result of the earthquake which occurred on March 11, 2011, off the Pacific coast of Tohoku, some of the LAWSON Group stores in the Tohoku region and the Kanto region (mainly Ibaraki Prefecture) have been affected. Some merchandise and fittings fell, tipped over or broke and buildings have been damaged or suffered from power outages. Some of the stores, mainly in Iwate and Miyagi Prefectures, remained closed or opening hours were shortened. In addition, due to the influence of the planned power outages mainly in the Kanto region, opening hours have been shortened for some stores and there has been a delay in the delivery of goods.

The extent of the damage to the Companies caused by this earthquake is currently being studied. The influence on the Companies' operational activities, etc., the outlook for recovery and the amount of damage including the cost of repairs are about ¥5,000 million ($61,192 thousand).

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Independent Auditor's Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
LAWSON, INC.:

We have audited the accompanying consolidated balance sheets of LAWSON, INC. (the "Company") and consolidated subsidiaries as of February 28, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LAWSON, INC. and consolidated subsidiaries as of February 28, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

May 24, 2011

Member of
Deloitte Touche Tohmatsu Limited

Directors, Corporate Auditors and Executive Officers

(As of July 5, 2011)

Members of the Boards	**Takeshi Niinami**	President and CEO; Group CEO, International Group; President, LAWSON University
	Yoshiyuki Yahagi	Chief Financial Officer (CFO)
	Manabu Asano	Chief Compliance Officer (CCO); In Charge of CSR; General Manager, Administration Department, LAWSON ENTERMEDIA, INC.
	Toru Moriyama	Group CEO, Living Essentials Group, Mitsubishi Corporation
	Hiroshi Tasaka	Professor, Graduate School of Tama University
	Reiko Okutani	President, The R Co., Ltd.
	Takehiko Kakiuchi	General Manager, Living Essentials Group CEO Office (Concurrently) Division COO, Foods (Commodity) Division, Mitsubishi Corporation
Standing Corporate Auditors	**Munehiko Nakano**	
	Atsuhiko Seki	
Auditors	**Tetsuo Ozawa**	Lawyer
	Eiko Tsujiyama	Professor, Graduate School of Commerce, Waseda University

Senior Executive Vice Presidents	**Genichi Tamatsuka**	Chief Operating Officer (COO); Group CEO, CVS Operating Group; Divison Director, Fast Food Division, CVS Operating Group
	Takatoshi Kawamura	Executive Assistant to CEO; Assistant to Group CEO, CVS Operating Group
Executive Vice Presidents	**Syuichi Imagawa**	Group COO, CVS Operating Group; Divison Director, Regional Offices Support Division, CVS Operating Group; Division Director, Management Owner Promotion Division, CVS Operating Group
	Masaharu Kamo	Group CEO, Entertainment & e-Commerce Group; Division Director, Marketing Office; President and CEO, HMV Japan K.K.
Senior Vice Presidents	**Shigeaki Kawahara**	Executive Assistant to CEO; Assistant to Group CEO, CVS Operating Group; Senior Executive Vice President, Ninety-nine Plus Inc.
	Norikazu Nishiguchi	Exective Assistant to CEO in charge of BPR; Deputy Division Director, Management Owner Promotion Division, CVS Operating Group
	Takaki Mizuno	Region Director, Chubu LAWSON Branch, CVS Operating Group
	Hajime Nakai	Division Director, Merchandizing & Logistics Division, CVS Operating Group; Deputy Division Director, Fast Food Division, CVS Operating Group
	Jun Miyazaki	Division Director, Coporate Communications Office
	Masahiro Oyama	Deputy Division Director, Merchandizing & Logistics Division, CVS Operating Group; Deputy Division Director, Fast Food Division, CVS Operating Group
	Tatsushi Satou	Chief Information Officer (CIO); Division Director, Information Systems Office
	Kei Murayama	Chief Human Resources Officer (CHO); Division Director, Human Resources Office
	Ichiro Kijima	Division Director, New Business Initiative Division
	Hisashi Yasuhira	Region Director, Tohoku LAWSON Branch, CVS Operating Group
	Atsushi Maeda	Deputy Division Director, Merchandizing & Logistics Division, CVS Operating Group
	Kazuo Togasa	Deputy Division Director, Regional Offices Support Division, CVS Operating Group

Corporate Data

(As of February 28, 2011, consolidated)

Company Name	**LAWSON, INC.**	Number of Employees	**5,703**
Address	**Head Office: East Tower, Gate City Ohsaki 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643 Japan**	Business Activities	**Franchise chain development of "LAWSON," "LAWSON STORE 100," and "NATURAL LAWSON"**
		All Store Sales	**¥1,682.8 billion**
President & CEO	**Takeshi Niinami**	Number of Stores	**9,994 (in Japan)**
Established	**April 15, 1975**	Operating Areas	**All 47 prefectures in Japan; Shanghai, China (joint venture); Chongqing, China**
Capital	**¥58,506.644 million**		

Note: The number of stores is a sum of total number of LAWSON and NATURAL LAWSON stores operated by LAWSON, INC., LAWSON stores operated by LAWSON Okinawa, Inc., and LAWSON STORE100 and SHOP99 stores operated by Ninety-nine Plus, Inc.

Shareholder Information

(As of February 28, 2011, consolidated)

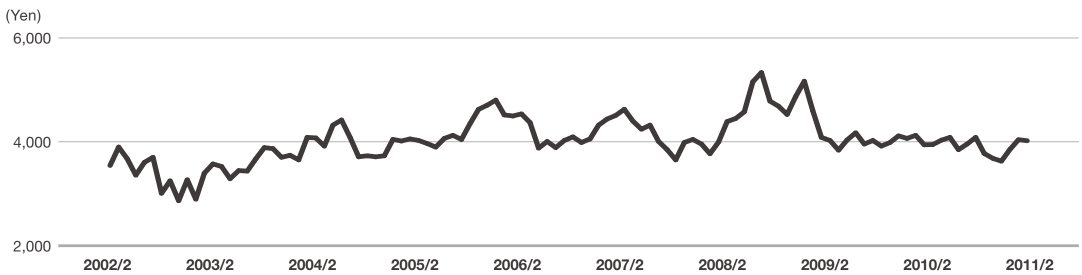
Authorized Shares	**409,300,000**	Stock Exchange Listings	**Tokyo Stock Exchange (1st Section) Osaka Securities Exchange (1st Section)**
Shares Issued	**100,300,000**	Stock Transfer Agent	**Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan**
Shareholders	**40,921**		

Major Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Held*
1. Mitsubishi Corporation	**32,089**	**32.13**
2. Marubeni Foods Investment Co., Ltd.	**4,786**	**4.79**
3. Japan Trustee Services Bank, Ltd. (Trust account)	**4,262**	**4.27**
4. The Master Trust Bank of Japan, Ltd. (Trust account)	**3,870**	**3.88**
5. State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	**3,162**	**3.17**
6. NTT DOCOMO, Inc.	**2,092**	**2.10**
7. The Chase Manhattan Bank NA, London SL, Omnibus Account (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	**1,440**	**1.44**
8. Deutsche Securities Inc.	**1,330**	**1.33**
9. Rabobank Nederland Tokyo Branch (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ,. Ltd.)	**1,080**	**1.08**
10. State Street Bank and Trust Company 505225 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Sales Department)	**883**	**0.88**

* The above shareholding ratios exclude treasury stock (433,040 shares).

Stock Price on the Tokyo Stock Exchange



Dividend
(Yen)

	2003/2	2004/2	2005/2	2006/2	2007/2	2008/2	2009/2	2010/2	**2011/2**
Interim dividend	20	20	35	45	50	55	80	80	**85**
Year-end dividend	21	21	35	45	50	55	80	80	**85**
Annual dividend	41	41	70	90	100	110	160	160	**170**
Stock price as of February 28 or 29	2,855	3,780	3,980	4,350	4,540	4,000	4,250	3,885	**4,025**

LAWSON

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