LAWSON

ANNUAL REPORT 2012

Year ended February 29, 2012

VISION

BUILDING A SUSTAINABLE FUTURE

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

CORPORATE PHILOSOPHY

Creating Happiness and Harmony in Our Communities

CODE OF CONDUCT

Act with utmost consideration for others
Challenge with innovative ideas and actions
Have a strong will to attain the objectives

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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.

Lawson's long-term VISION is the achievement of its corporate philosophy, "Creating Happiness and Harmony in Our Communities." Our medium-term STRATEGY is to become the "world's top small commercial area manufacturing retailer." We believe SUSTAINABILITY will be important for us to continue to grow. To do so, the Company must continue to exist in harmony with society in its role of being an essential infrastructure and lifeline of the community. We believe that fulfilling our commitment to offering customers "whatever you want, whenever and wherever you need it" will result in the maximization of corporate value.

STRATEGY

Our goal is to become the "world's top small commercial area manufacturing retailer."

Medium-Term Performance Targets*

① **Return on equity (ROE) of 20%**

② **Consolidated operating income of ¥100 Billion**

③ **Consolidated operating profit margin of 5% for net sales of all stores**

A manufacturing retailer is the type of business model we seek to implement. This indicates we offer customers merchandise and products tailored to needs of the local communities that we serve. We do so by adding value unique to Lawson in its roles as both a manufacturer and a retailer. Our tools for attaining these goals are the utilization of multiformats for stores and customer purchasing data from the *Ponta* card used under the multi-partner loyalty point program. The three medium-term performance targets indicated above reflect our commitment to become a global corporation. Going forward, we intend to collaborate as a Group in reaching these targets.

* Lawson is aiming to achieve its performance targets previously set for FY2020 as soon as possible.

For details, please see the "Message from the President" on page 10.

SUSTAINABILITY

Lawson believes its ultimate contribution to society is to provide customers with "whatever you want, whenever and wherever you need it." In seeking to fulfill this commitment, we also maximize corporate value.

Elements of Our Business Activities

ENVIRONMENT
SOCIAL
GOVERNANCE

At Lawson, we believe the greatest social contribution we can possibly make is to provide customers with "whatever you want, whenever and wherever you need it," based on our corporate philosophy of "Creating Happiness and Harmony in Our Communities." Our corporate value can only be achieved by maximizing both our social contributions and our economic return in seeking to attain this corporate philosophy. More specifically, we think Lawson can earn its stakeholders' trust by achieving sustained profit growth while endeavoring to improve the environment, social, and governance (ESG) elements of its business activities.

For details, please refer to "Achieving Sustainability in Lawson's Value Chain" on page 22.








"Creating Happiness and Harmony in Our Communities"—this is Lawson's corporate philosophy. Each and every one of our employees devote themselves to accomplishing our role as a lifeline of the community that is indispensable to people's daily lives by collaborating with franchise owners and suppliers in following our corporate philosophy. This initiative represents our mission and the very reason for the existence of convenience stores.

The significance of our corporate philosophy was once again reaffirmed especially after last year's Great East Japan Earthquake. With people struggling to survive the devastation caused by the earthquake, I told our employees, "Don't worry about costs; just use every method you have to get water, food, and the necessities to the disaster areas." Everyone in the Lawson family throughout the nation immediately responded to my call, holding true to our corporate mission. As a result, we were able to supply a large amount of goods to the disaster region and reopen our stores very quickly. This is a manifestation that our corporate philosophy had pervaded every corner of the Lawson community and presented an opportunity to reconfirm that our business is built squarely on our relationship of trust with the community.

Lawson's medium-term strategy is to become the "world's top small commercial area manufacturing retailer." In targeting this goal, I am determined to push forward in pursuit of our vision—offering customers "whatever you want, whenever and wherever you need it." We will strive to accomplish this vision from the dual aspects of being an essential lifeline of the community and growing earnings through our core operations. I am convinced that we can significantly enhance Lawson's corporate value to achieve sustainable growth in harmony with the surrounding community by establishing ourselves as one of its essential components.

In meeting these challenges, I would like to ask our shareholders and other stakeholders for their continued support and understanding.

BUILDING A SUSTAINABLE FUTURE

We will push forward in the pursuit of our vision of the ideal convenience store from the dual aspects of being an essential lifeline of the community and growing earnings through our core operations.

August 2012

Takeshi Niinami
President and Chief Executive Officer

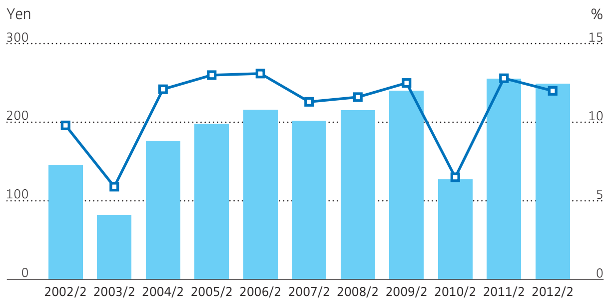
ELEVEN-YEAR FINANCIAL SUMMARY

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 28 and 29

											Millions of Yen	Thousands of U.S. Dollars*1
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	**2012**
For the year:												
Operating revenues												
Franchise commissions from franchised stores	**¥215,574**	¥197,673	¥185,656	¥186,928	¥177,443	¥174,325	¥170,785	¥162,963	¥153,910	¥149,032	¥141,621	**$2,671,963**
Net sales from Company-operated stores*2	**174,116**	183,236	232,459	119,099	83,321	75,151	66,027	63,802	67,479	80,954	101,353	**2,158,106**
Other	**89,267**	60,369	49,077	43,449	40,413	33,577	31,246	27,630	24,212	20,348	13,142	**1,106,433**
Total operating revenues	**478,957**	441,278	467,192	349,476	301,177	283,053	268,058	254,395	245,601	250,334	256,116	**5,936,502**
Operating income	**61,769**	55,541	50,276	49,186	46,610	44,513	43,867	42,941	38,087	34,107	36,363	**765,605**
Net income	**24,885**	25,387	12,562	23,807	22,119	20,983	22,025	20,435	18,571	8,861	16,123	**308,441**
Cash flows from operating activities	**86,357**	72,210	40,696	51,717	55,774	47,596	46,933	47,329	37,424	33,860	44,804	**1,070,364**
Cash flows from investing activities	**(52,912)**	(30,522)	(42,596)	(15,647)	(36,525)	(31,754)	(55,282)	(33,297)	(40,621)	(3,787)	(44,031)	**(655,825)**
Cash flows from financing activities	**(27,545)**	(28,799)	(27,239)	(14,911)	(31,973)	(736)	(7,795)	(13,836)	(14,364)	(7,247)	(58,236)	**(341,411)**
Capital expenditures*3	**74,572**	50,326	71,399	42,907	64,413	49,822	54,417	46,873	48,303	75,828	59,810	**924,294**
Depreciation and amortization*4	**37,846**	33,084	27,468	20,879	21,469	21,352	20,896	19,641	18,499	16,071	16,328	**469,088**
At year-end:												
Total assets	**¥531,454**	¥476,037	¥448,132	¥436,096	¥397,108	¥398,258	¥375,107	¥356,310	¥354,831	¥342,599	¥342,934	**$6,587,185**
Total equity	**214,663**	208,467	198,136	201,167	188,574	199,493	175,184	160,282	154,317	151,864	149,827	**2,660,673**
Equity ratio	**39.7%**	42.7%	42.8%	44.8%	46.6%	49.0%	46.7%	45.0%	43.5%	44.3%	43.7%	**39.7%**
Interest-bearing debt*5	**500**	500	—	—	—	—	—	—	—	—	3,140	**6,197**
Ratio of interest-bearing debt	**0.2%**	0.2%	—	—	—	—	—	—	—	—	0.9%	**0.2%**
Cash and cash equivalents	**73,670**	67,712	54,843	83,982	62,823	75,547	60,441	76,585	76,389	93,994	71,269	**913,114**
Total number of stores*6	**10,457**	9,994	9,761	9,527	8,587	8,564	8,366	8,077	7,967	7,721	7,824	
Number of employees (full-time)	**6,475**	5,703	5,236	5,186	3,735	3,614	3,585	3,391	3,402	3,462	3,817	
Per share data:												
Net income (Yen/U.S. Dollars*1)	**¥249**	¥255	¥127	¥240	¥215	¥202	¥216	¥198	¥176	¥82	¥146	**$3.09**
Cash dividends (Yen/U.S. Dollars*1)	**180**	170	160	160	110	100	90	70	41	41	41	**2.23**
Payout ratio	**72.2%**	66.8%	126.3%	66.6%	51.2%	49.6%	41.8%	35.3%	23.3%	49.8%	28.2%	**72.2%**
Financial data:												
Return on equity (ROE)	**12.0%**	12.8%	6.5%	12.5%	11.6%	11.3%	13.1%	13.0%	12.1%	5.9%	9.8%	**12.0%**
Return on assets (ROA)	**4.9%**	5.5%	2.8%	5.7%	5.6%	5.4%	6.0%	5.7%	5.3%	2.6%	4.4%	**4.9%**
Net sales of all stores:												
Net sales by store category												
Franchised stores*7	**¥1,651,693**	¥1,499,576	¥1,433,678	¥1,434,166	¥1,331,785	¥1,311,479	¥1,295,704	¥1,265,275	¥1,220,819	¥1,213,088	¥1,184,204	**$20,472,149**
Company-operated stores*2	**174,116**	183,236	232,459	124,614	83,321	75,151	66,027	63,802	67,479	80,954	101,353	**2,158,106**
Net sales by product category*7												
Processed foods	**1,022,619**	897,426	902,306	844,324	726,750	705,155	682,006	665,687	625,031	600,508	583,712	**12,675,000**
Fast foods	**345,424**	321,865	324,197	332,894	327,501	324,993	312,289	297,369	302,568	303,098	297,030	**4,281,408**
Daily delivered foods	**263,179**	264,169	239,088	186,109	162,625	155,575	150,917	148,134	139,506	138,353	150,862	**3,262,010**
Non-food products	**194,586**	199,350	200,544	195,453	198,230	200,907	216,519	217,887	221,192	252,083	253,953	**2,411,824**
Net sales of all stores	**¥1,825,809**	¥1,682,812	¥1,666,136	¥1,558,781	¥1,415,106	¥1,386,630	¥1,361,731	¥1,329,077	¥1,288,297	¥1,294,042	¥1,285,557	**$22,630,255**

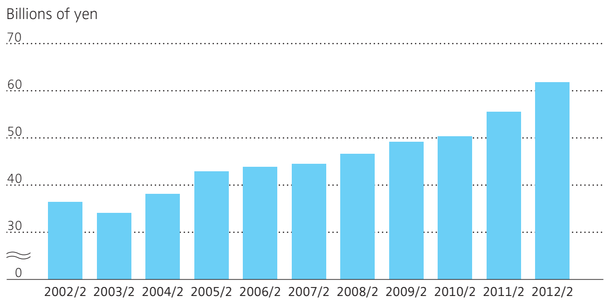
*1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at February 29, 2012, of ¥80.68=$1.
*2. Net sales from Company-operated stores includes only convenience store-related sales.
*3. Effective from annual report 2006, the composition of capital expenditures has changed to include leases, investments and advances, and construction assistance guarantees. Please refer to page 49 for details.
*4. Including depreciation and amortization of intangible fixed assets.
*5. Interest-bearing debt is the total of the Company's borrowings.
*6. Because Shanghai Hualian Lawson, Inc. was an affiliate accounted for by the equity method during the period from May 2004 to August 2011, its stores are not included in the number of stores from fiscal 2004 to fiscal 2010.
*7. These figures include sales figures reported by franchise stores and are unaudited.

Earnings per Share (EPS) and Return on Equity (ROE)

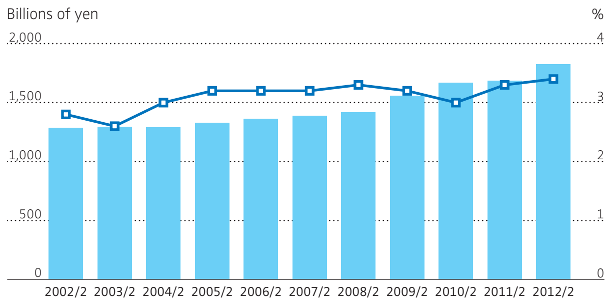


Left scale: EPS
Right scale: ROE

Operating Income

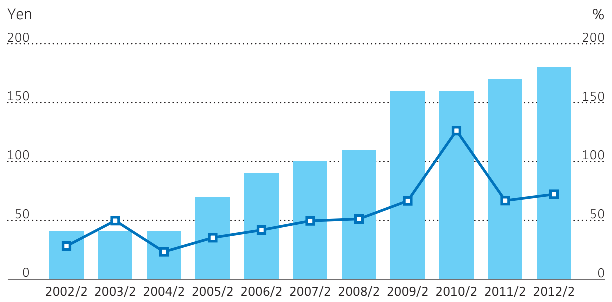


Net Sales of All Stores and Operating Profit Margin*



Left scale: Net Sales of All Stores
Right scale: Operating Profit Margin
* Operating Profit Margin = (Operating Income ÷ Net Sales of All Stores) × 100

Cash Dividends per Share and Payout Ratio



Left scale: Cash Dividends per Share
Right scale: Payout Ratio

MESSAGE FROM THE PRESIDENT

We are aiming to create corporate value suitable to a global corporation.

MESSAGE THEMES

1 Fiscal 2011 Performance
2 Lawson's Targeted Corporate Image
3 Advantages Not Found among Competitors
4 Lawson's Franchise (FC) Model
5 Strategies in the Changing Healthcare Market
6 Map for Long-Term Growth
7 Driving Force of Lawson's Growth
8 Business Outlook and Capital and Dividend Policy

1 FISCAL 2011 PERFORMANCE

POINT **During the fiscal year under review, we proceeded with the broadening of our customer base ahead of our competitors utilizing our *Ponta* card-based customer relationship management (CRM) and our multiple store formats. The success of this differentiation strategy led us to achieving high profit growth of 11.2% year on year in our operating income.**

In fiscal 2011, ended February 29, 2012, Lawson registered significant growth in sales and profits. Net sales of all stores increased 8.5% year on year, net sales at existing store sales climbed 5.4% from the previous year, and consolidated operating income rose 11.2% year on year, to ¥61,769 million. We now have recorded nine consecutive years of growth in operating income, and the compound average growth rate (CAGR) amounted to approximately 7% for the period from fiscal 2002 to fiscal 2011. Because the proportion of cigarette sales in overall sales moved up along with a hike in the cigarette tax, our gross profit margin declined from the previous year, to 30.1%. However, cigarettes are not part of our priority product lineup, and if we look at our core product sales the gross profit margin actually rose 0.5 percentage points. As a result, the gross profit margin of existing stores, which is an important factor in franchise sales, achieved the high growth rate of 4.0% from a year earlier. On the other hand, consolidated net income edged down 2.0%, to ¥24,885 million, under the impact of such one-time factors as asset retirement obligations and the major earthquake. Nevertheless, we still exceeded our net income target by about ¥1.4 billion. Excluding the extraordinary factors I have mentioned above, return on earnings (ROE), one of our most important management indicators, was 15.1%.

Our stores are convenience stores that act as nearby suppliers of highly useful goods and services to customers—in other words, our stores have the function of being a lifeline to the community. After the recent Great East Japan Earthquake, we did not seek to capitalize on short-term business opportunities but did our best to achieve the recovery and revitalization of the disaster areas. Nowadays, the value of a convenience store as a useful neighborhood store is being reaffirmed, particularly among women and seniors. For over five years, we have been working to expand our customer base through multiple store formats and innovations and abiding by our corporate philosophy of "Creating Happiness and Harmony in Our Communities." In addition to these continuous efforts, such actions in recent years as leveraging *Ponta* card-based CRM have placed us on the road to medium- to long-term growth.

2 LAWSON'S TARGETED CORPORATE IMAGE

POINT **We are aiming to become the "world's top small commercial area manufacturing retailer" and create corporate value that meets the expectations for a global corporation. We will attain this goal by enhancing our earnings capabilities through value chain restructuring and integration.**

Japanese-style convenience store

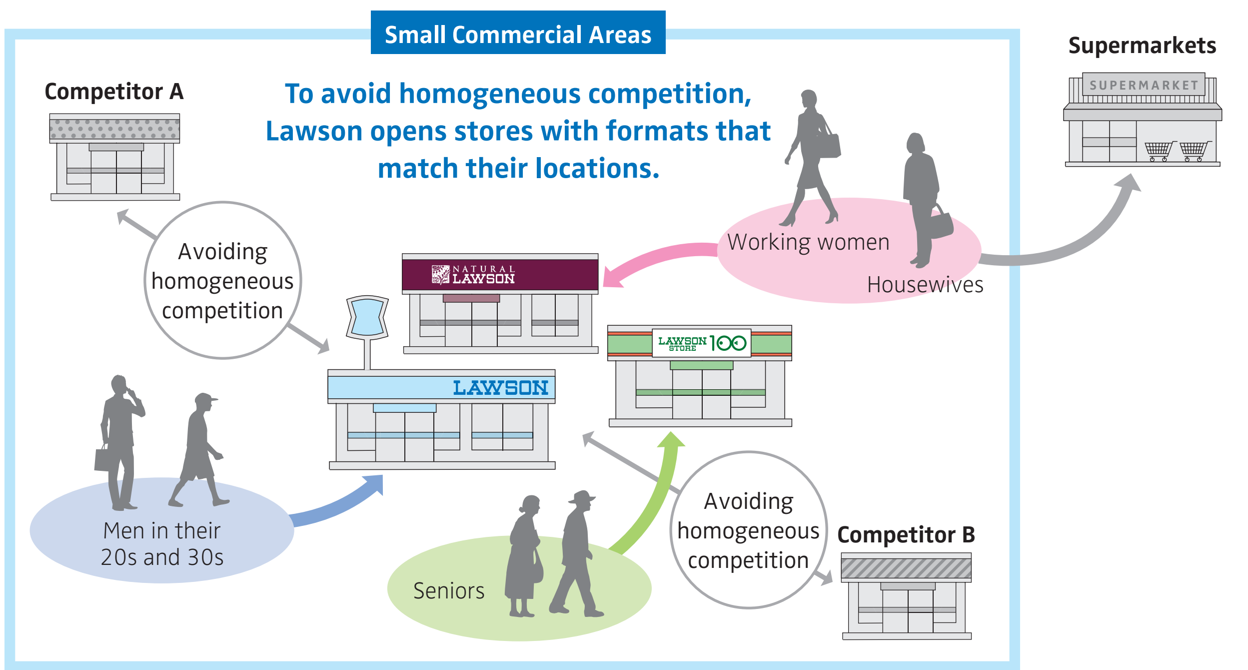
I believe a Japanese-style convenience store business is a model that can be successful globally in the sense of accurately meeting the needs of customers and pursuing greater convenience for them. By using the advantages of this distinctive business model and implementing global management standards represented by capital efficiency—a concept that Japan's traditional retail industry has paid little attention to—I believe Lawson can grow further as a global corporation. As a company, we are aiming to be the "world's top small commercial area manufacturing retailer" by undertaking a fundamental enhancement of our earnings capability through the restructuring of our value chain.

What is a small commercial area format?

Japan's convenience store industry developed with retail services for young adults as its major competitive advantage. Aligning merchandise with the lifestyle patterns of young people, particularly men in their 20s and 30s, the stores had lineups of such items as boxed lunches, rice balls, and bottled drinks and were open 24 hours. The number of such conventional type of stores that served primarily young men in Japan has reached close to 50,000 stores. However, to achieve sustained growth in the future, it will be essential to adapt to changes in our social structure, such as women entering the workforce and the aging of society; after all, half of Japan's population is women and about 40% of people are 50 years old or older. With this in mind, Lawson was the first in the industry to invest in developing female and senior customer bases by creating NATURAL LAWSON, LAWSON STORE100, and fresh food-type LAWSON stores. Not surprisingly, the ratio of women in our customer base climbed from approximately 27% in fiscal 2004 to approximately 36% in fiscal 2011, and the percentage of people 50 years or older rose from about 20% to 33% over the same period.

Recently, competitors that had adhered to the conventional type of store concept have finally started to talk about broadening their customer bases. I believe this trend benefits not only the industry but also Lawson. Having multiple major convenience store chains taking action rather than just one company will raise customers'

Lawson's Image of a Neighborhood Store

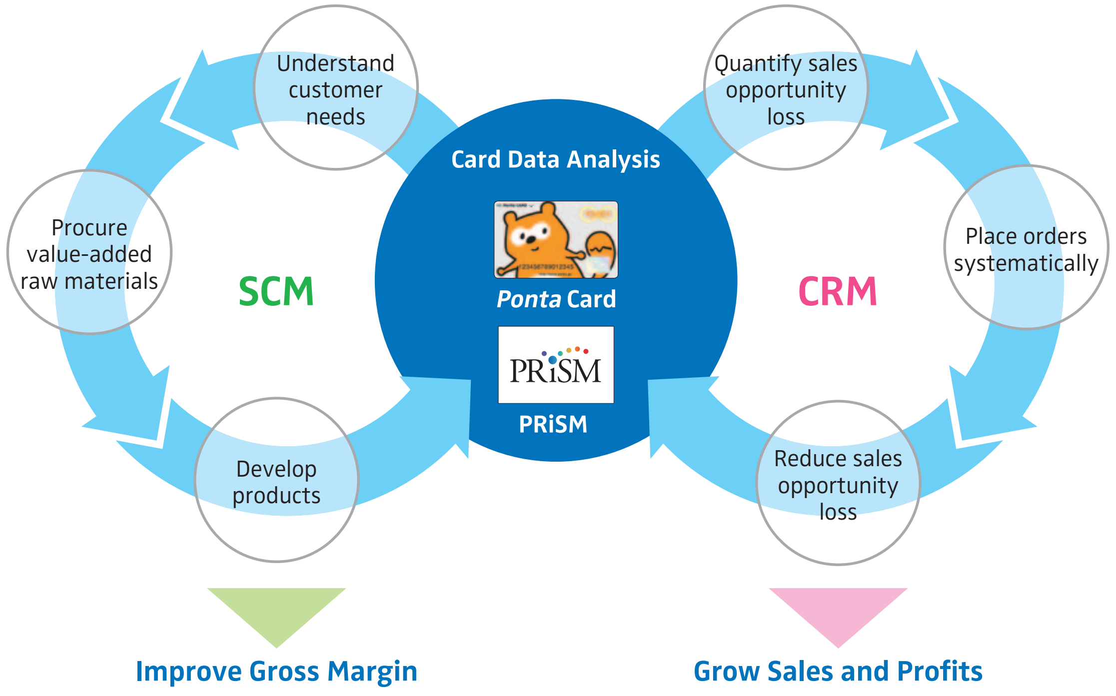


awareness of the need for change. As the first in the industry to start diversifying our customer base, I believe Lawson will enjoy an enduring advantage over other competitors in this next growth phase of the industry. Going forward, we will strive to reinforce our strength in accessibility and the convenience of a neighborhood store by pursuing further differentiation in the market through innovation and thoroughly implementing *Ponta* card analysis-based supply chain management (SCM) and CRM. Based on this strategy, we plan to expand our share of customers in individual small commercial areas.

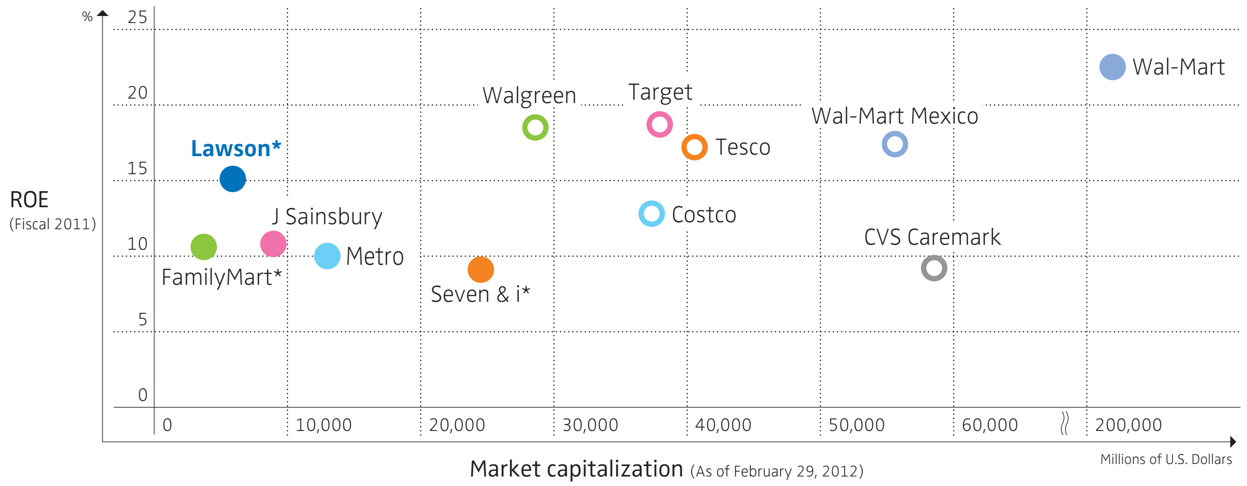
SCM and CRM

SCM (Supply Chain Management)
Management method for optimizing the efficiency of overall processes by comprehensively managing all processes from procurement to sales

CRM (Customer Relationship Management)
Marketing method that provides merchandise and services in accordance with individual customer needs



ROEs of Retailers around the World



* ROE figures for Lawson, Seven & i, and FamilyMart exclude the impact of the one-time factors of adopting asset retirement obligation accounting standards as well as the Great East Japan Earthquake disaster.

Criteria for being No. 1 in the world

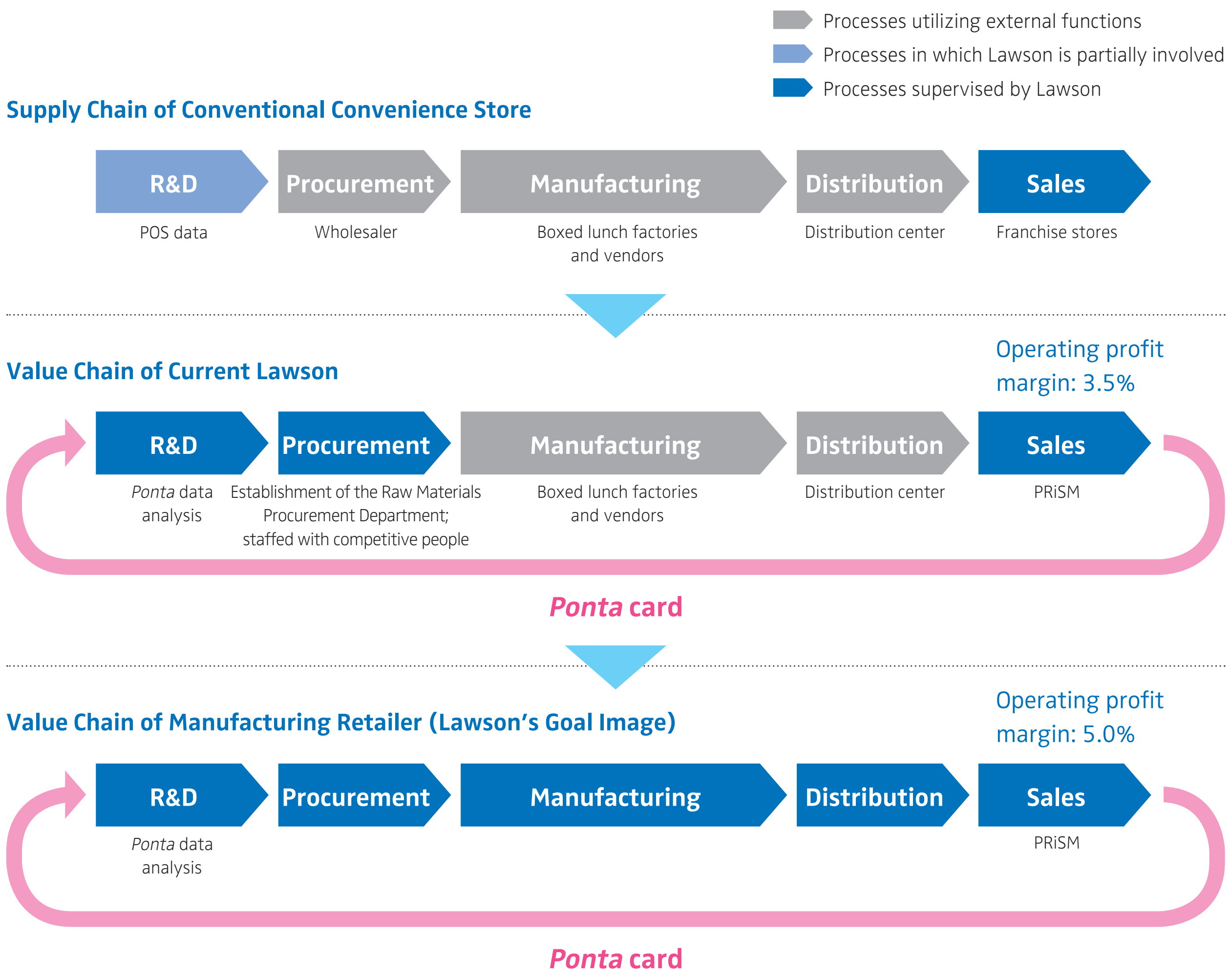
In setting our three medium-to-long-term goals, we did not aim for growth in sales or number of stores, but instead we prioritized quality-based growth. Our first medium-to-long-term goal is to raise our ROE, which is effectively about 15%, to the global standard of 20%, thus attaining a capital efficiency ratio that will impress global investors. Our second goal is to achieve sustained growth in gross profits by improving our profit margins and expanding sales to reach consolidated operating income of ¥100 billion. Our third medium-to-long-term goal is to reduce SG&A expenses by business process reengineering (BPR) to boost Lawson's operating profit ratio, from 3.5%, to 5.0%. Originally, we set fiscal 2020 as the final year for reaching these goals but have moved the timeline forward.

As economies have become globalized, so has money, and we are constantly thinking of investors around the world in our business activities. I believe that every corporation is responsible for using equity effectively, which is the valuable funds provided by our shareholders to produce cash flow. For this particular reason, we have chosen a business model of a small commercial area manufacturing retailer—this model meets both global standards and high earnings potential. Our top priority among our major targets is becoming No. 1 in the world in this market for business performance quality rather than for sales amounts.

What is a manufacturing retail convenience store?

You cannot build the earning power appropriate for a global corporation merely by procuring goods and selling them. Therefore, it is essential for Lawson to evolve into a manufacturing retail convenience store that is deeply involved with research and development (R&D), procurement, manufacturing, and distribution by pursuing integrated SCM. Lawson draws on three strengths that will enable it to achieve this evolution.

Rebuilding the Supply Chain



First, we have accumulated knowledge and experience in the upstream flow of goods. In 2003, we became the first in the industry to establish a Raw Materials Procurement Department. By hiring outside specialists, we increased our direct involvement in the procurement of raw materials for ready-made meals and other original items. The accumulation of experience and knowledge from these operations made it possible to appropriately manage raw materials procurement and other risks.

Next, we have the ability to gain insights into our preferences and needs of customers based on their use of the multi-partner loyalty point program of the *Ponta* card. Through the analysis of card data, we can manage both the upstream and downstream circulation of goods in an integrated manner, thus enabling the proper control of intermediate distribution inventory and the achievement of efficient SCM.

Finally, through a network of more than 10,000 stores and the Group's sales channels, we have total chain store sales in excess of ¥1.8 trillion. In other words, Lawson is able to incorporate all the raw materials it has procured into its merchandise and market it without any waste.

People have been claiming the convenience store market has been saturated for a long time, but actually convenience stores currently hold only about a 5% share of the retail and food service market. I believe it is certainly possible to capture market share from inefficient retailers, supermarkets, and other types of businesses and expand this share to over 10%. Lawson aims to become a leading company in this growing market for convenience stores.

3 ADVANTAGES NOT FOUND AMONG COMPETITORS

POINT **Pushing further ahead with innovations implemented well ahead of its competitors in the industry, Lawson is pursuing differentiation in the market based on two strengths: the Company is the only one in the convenience store industry that offers multiple store formats and is the No. 1 convenience store chain when it comes to highly refined card data analysis and perishable foods.**

Since the industry's top players have now started broadening their customer bases, I believe this expansion will lead to market growth and have a positive influence on our own efforts. In addition, we have several advantages over other companies.

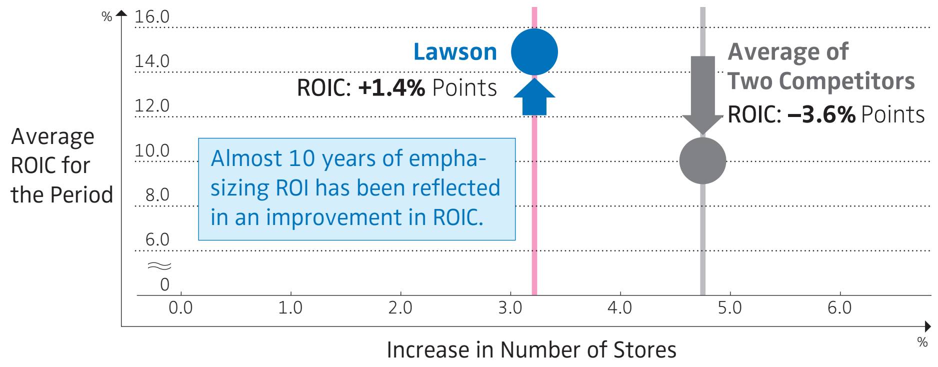
One such advantage is we were ahead of our competition in developing multiple store formats designed to match different types of locations and customer bases. For example, in addition to conventional Lawson stores, we have the health-oriented NATURAL LAWSON and the fresh food convenience store LAWSON STORE100. One of our inherent strengths is the ability to choose the most profitable type of store to open. When deciding our store-opening strategy, we look at our own original location analysis produced by our geographic information system (GIS) and select the optimum store format for that location in terms of achieving the highest return on investment (ROI). We have set an ROI standard of 20% or higher for all Lawson's capital investment decisions. The impact of this requirement is evident in the improvement in return on invested capital (ROIC) during the period from fiscal 2002 to fiscal 2011.

Second, we make thorough use of SCM and CRM systems that utilize data from our *Ponta* card multi-partner loyalty point program, which boasted approximately 40 million members at February 29, 2012 (see column 1 on page 15). No other convenience store can compete with our *Ponta* card customer purchase data in terms of the sheer volume of data generated by so many members or the precision analysis of the data. By allowing us to integrate information on consumer categories and the purchasing behaviors of customers in ways that are not possible with traditional point-of-sale (POS) data, the card data enables us to make much more detailed analyses. Thus, the *Ponta* card data is the most powerful foundation for our ongoing business reform plan, which is called PRiSM (see column 2 on page 16). Moreover, the *Ponta* card is indispensable for achieving merchandise development that matches customer needs, raw materials procurement linked to our downstream sales power, and an optimum merchandise assortment in our stores.

Third, including perishable foods in our product mix has resulted in steady progress in differentiating Lawson from competitors by attracting housewives and seniors to our stores, resulting in an increase in the number of customers. In 2005, when we were starting up our fresh food convenience store, LAWSON STORE100, we formed a business alliance with a major fresh food retailer and established a nationwide supply route. Next, in 2007, we concluded a business tie up with Ninety-nine Plus, Inc., a pioneer in the fresh food convenience store business. We later acquired this company, gaining its sales know-how. Unlike regular merchandise, there is a high entrance barrier in the perishable foods procurement market. For this reason, being first in this market unarguably contributes to differentiating Lawson from its competitors.

In addition to the above strengths, with an eye on building customer bases among housewives, seniors, and families, we developed *Lawson select*, a private brand (PB) of merchandise. In the area of the development of PB products, we are in hot pursuit of the No. 1 position

Changes in Return on Invested Capital (ROIC) in Comparison with Competitors (Nine Years)



*1. ROIC = After-Tax Operating Profit (@40% Tax Rate) / Averaged Invested Capital for the Period (Equity + Interest-Bearing Debts)
*2. The horizontal axis indicates changes in number of stores (CAGR from the fiscal year ended February 2003 to the fiscal year ended February 2012).
*3. The arrows indicate changes in ROIC from the fiscal year ended February 2003 to the fiscal year ended February 2012

COLUMN 1 MULTI-PARTNER LOYALTY POINT PROGRAM'S *Ponta* CARD DIFFERS FROM OTHER CARDS

Lawson launched the *Ponta* card in March 2010. At that time, the Company stopped issuing its previous in-house card *Lawson Pass* and combined its members with the approximately 20 million loyalty card members of GEO HOLDINGS CORPORATION and those of a few other companies. Since then, the number of *Ponta* card members has almost doubled, reaching a total of 39.12 million members at the end of February 2012, including Lawson's members and those of other participating companies. Moreover, sales made to *Ponta* card members accounted for approximately 40% of sales. Lawson intends to eventually raise this percentage to over 50%.

The most outstanding feature of the *Ponta* card is the ability to acquire information on the characteristics of card members associated with a store location. In other words, such consumer category information as the gender, ages, and addresses of customers and their purchasing behaviors can be analyzed using a base of about 40 million people. Among Lawson's competitors in the industry, some companies do not have any interest in determining customer categories, choosing instead to focus on the electronic money and point card functions. Other competitors form alliances with companies from other industries to increase issuance under their programs but concentrate their data analysis on the cards they offer themselves. Therefore, it can be said that the superior quality of card data analysis backed by the abundant member base of the *Ponta* card is an advantage inherent only to Lawson.

With its ability to provide a detailed analysis of customers' categories of consumption and purchasing behaviors, the *Ponta* card is both the source of Lawson's sales power and the origin of Lawson-style CRM. The Company feels awarding loyalty points solely for the purposes of sales promotion or customer patronage provides insufficient return on the point costs.

The insights gained from this purchasing data have been valuable in Lawson's merchandise development. Using the collaborative relationship between its "first in the industry" Raw Materials Procurement Department, and the Company's top shareholder, Mitsubishi Corporation, Lawson has been able to develop merchandise that more precisely matches consumers' needs. A prime example of this capability is the major hit item *Premium Whipped Cream Roll*, which has contributed strongly to expanding the Company's customer base of women and improving profit margins.

The major hit item *Premium Whipped Cream Roll*

COLUMN 2 BUSINESS REFORM PLAN PRiSM

At the pace of about once every seven years, Lawson renews the backbone IT systems that connect headquarters with individual stores. When Lawson introduced its IT system in March 2010, the Company thoroughly reviewed transactions between FC owners and headquarters staff and launched a fundamental business reform plan called PRiSM. The plan aims to increase man-hour productivity and existing store profits, determined using sales multiplied by existing stores' gross profit margin. Specifically, the plan includes measures to augment productivity using IT, deepen direct involvement with raw materials procurement, expand purchasing volume, and achieve greater efficiency in distribution.

The most important point of these reforms is the visualization and elimination of opportunity loss, or the gap between customer demand and stores' merchandise assortment, thereby expanding sales. We will attain these goals using a cyclical mechanism to raise sales.

While we are only halfway through our PRiSM business reform plan, at this point a particularly strong impact on the management of dry goods, such as processed foods and non-food products, is already evident. The stage has been clearly set for enhancing the profitability of headquarters and FC stores.

Next, we plan to increase the degree that PRiSM is used in ordering ready-made meals and fast food, both of which are arguably the merchandise with the greatest differentiating power, and build these efforts into a dramatic surge in profits through the reduction of opportunity loss.

Cyclical Mechanism for Increasing Sales

1 Purchasing data obtained from *Ponta* cards is reflected in the merchandise assortment of individual stores to achieve lineups in accordance with customer demand. In addition, the opportunity loss is quantified, or visualized, for such products as boxed lunches and rice balls that have a short shelf life.*

* The period of time for which the item is deemed to remain fresh taking into consideration the amount of time normally taken by the customer to consume the item after purchase.

2 The visualization of opportunity loss heightens the motivation of FC owners to make orders as well as eliminates opportunity and product disposal loss and boosts sales.

3 Along with growth in sales, the degree of customer satisfaction rises and the number of customers increases.

4 Because of a greater number of customers, the opportunity loss figure rises once again.

5 The store takes steps to eliminate any additional opportunity loss and satisfy the heightened expectations of customers by developing high-quality merchandise that matches differing customer needs according to store location, gender, and age as indicated through the analysis of *Ponta* card data.

Beneficial Effects of PRiSM

- It has become possible to narrow down the number of merchandise items ordered and make orders systematically, which in turn has led to an improvement in productivity at manufacturers' factories, reduced intermediate distribution warehousing, and expanded the percentage of direct procurement.
- FC owners are able to spend the time that was previously required for ordering on training and educating their store crews as well as planning meal-related orders.
- Using the profits gained from these enhancements, stores are pursuing further progress with accuracy in placing orders and reducing opportunity loss.

Timeline of the PRiSM Business Reform Plan

2008 (Launch)	2009	2010	2011	2012 (Full-scale start-up of the new ordering system)
Decision made to completely renew traditional methods and thinking to achieve ordering that originates with customers.	Renewed the store ordering system. To start with, *Ponta* card data analysis was reflected in the store ordering system for food (rice and bakery items).	Implemented a visualization of opportunity loss. Launched store ordering system for dry goods.	Expanded store ordering system for food to include cooked noodles, bakery items, salads, chilled boxed lunches, and chilled Japanese confectioneries.	Introduced store ordering system for daily delivered foods.

in the market. In October 2011, we completely renewed our packaging and product lineup and added a frozen foods category. At the same time, we expanded the product line to approximately 200 items, resulting in firm sales growth. However, we do not just want to increase the proportion of PB items in our sales composition—we plan to use our *Ponta* card data analysis to achieve an optimum portfolio balance of PB and national brand (NB) items with the goal of further improving our gross profit ratio.

4 LAWSON'S FRANCHISE (FC) MODEL

POINT The FC system is necessary for operating a convenience store business in small commercial areas because it combines the power of local entrepreneurship with the comprehensive capabilities of a chain store.

Under the FC business model, the store owner who is a member of the local community utilizes the chain store's brand value and advantages of scale in procuring merchandise to contribute to improving convenience in a community through the sale of goods and services. The model enables business activities and a harmonious coexistence with society, which matches our corporate philosophy. Also, the FC model is the best model for achieving high profitability in a small commercial area for three important reasons.

First, no other model exists that is so community oriented. Closing the gap between yourself and the customer as much as possible is the main proposition of a small commercial business. Because it is easier for a store owner to nurture a community-oriented mind-set compared with a company-operated store model, the FC model is the model suited for businesses seeking to expand their share in a small commercial area.

Second, whether or not the managers of stores think of themselves as self-employed has a large impact on store performance. The entrepreneurial mind-set of FC owners that invest decades of their lives to launching their own business and their wealth of knowledge in different types of businesses and life experience are all useful assets in operating a community-oriented store.

Third, FC owners represent a huge driving force for "bottom-up" improvement. At Lawson, we create a relationship of equals between the franchise owners and the convenience store headquarters. The FC model can reflect the direct feedback of store owners who are non-employee stakeholders in the management of the business by the convenience store headquarters.

In recognition of these benefits, we are pursuing two strategies to further strengthen Lawson's relationship with FC owners.

1. Revision of Franchise Package

At the start of fiscal 2012, we revised our franchise package for the first time in 13 years.

From the perspective of supporting rational but aggressive orders from individual stores, headquarters is preparing to assume a certain amount of the product disposal losses. In addition, considering that store electricity costs are expected to increase along with the installation of new fixtures and in-store kitchens, the headquarters will bear half of the electricity costs up to a certain amount. Along with these measures, we revised our royalty rates on gross profit balances with the goal of establishing a high earnings structure in which both the FC headquarters and FC stores can co-prosper. The new franchise package applies to all new contracts concluded in fiscal 2012 and from fiscal 2013 will apply to contract renewals as well.

2. Utilizing the Management Owner (MO) System

We introduced this system in fiscal 2010 to support FC owners who wanted to manage multiple stores. Under the MO system, these FC owners do not receive guidance for individual stores under the regular supervisor system, but instead they receive guidance in managing multiple stores through management consultants (MCs) provided by the FC headquarters. By using this system, we are aiming to further enhance our competitiveness in an area by supporting franchise owners who have an entrepreneurial mind-set, the capacity to manage stores, and the ability to develop human capital, as well as a close familiarity with the changing conditions in their operating area and the individual needs of customers.

5 STRATEGIES IN THE CHANGING HEALTHCARE MARKET

POINT **With the opening of NATURAL LAWSON stores and future Hospital LAWSON and Pharmacy LAWSON stores,* we established a presence the healthcare business ahead of competitors and accumulated considerable experience. Currently, we are preparing thoroughly for the expansion of the market.**

Our network of NATURAL LAWSON stores, which we have been developing since 2002, has reached 100 stores. These stores are well patronized by women for their health-conscious lineup of ready-made meals, prepared foods, food supplements, and other items. The know-how cultivated at our NATURAL LAWSON stores can also be utilized to attract a senior customer base since seniors often share the same preferences as women, such as small portions and health-conscious merchandise. For our other health-related store formats, much interest has been generated regarding Hospital LAWSON, our store format for inside large hospitals, which has made a strong impression even in the convenience market as a whole.

The next frontier in the health-related market is in marketing medicine. Since 2003, we have been experimenting with opening Pharmacy LAWSON stores that combine the NATURAL LAWSON format with a prescription-selling pharmacy. As a result, we have developed our own pharmacy system. In addition, after the introduction of the registered distributor system under the 2009 enforcement of the revised Pharmaceutical Affairs Act, we began expanding the number of our stores selling over-the-counter (OTC) drugs. The OTC drug is expected to be a marketable item thanks to a progressive expansion of sales channels for switch-OTC products—prescription drugs that have been reclassified as OTC drugs—to reduce public healthcare costs. I think further deregulation of this market will likely occur in the future. From the perspective of preventative healthcare as well, there are growing expectations for convenience stores offering OTC drugs that provide around-the-clock sales of a combination of healthy meals and food supplements.

At the same time, independently owned drugstores, or the so-called mom and pop drugstores that compose the greater portion of pharmacies in Japan, are suffering from deteriorating business performances and undergoing a weeding-out period. These drugstores are staffed with pharmacists who completed university with a specialized education. I believe for these pharmacists who acquired sophisticated knowledge, an entrepreneurial career as a convenience store owner is an attractive alternative to working for a mass-market drugstore chain. In the past, along with the deregulation of liquor store licenses, many owners of liquor stores crossed over to becoming convenience store owners. In the same way, I believe mom and pop drugstores will provide us with a supply of store owners in the future.

As you can see, there is likely to be substantial growth in the healthcare-related market from both the demand and supply sides. Lawson will have many advantages in this market as a pioneer.

Hospital LAWSON

Hospital LAWSON

Pharmacy LAWSON store*

* Pharmacy indicates drug-dispensing outlets as stipulated by the Health Insurance Act

6 MAP FOR LONG-TERM GROWTH

POINT **Lawson will proceed with its strategy of entering Asian and other new overseas growth markets. We will also start the full-scale development of the e-commerce businesses, aiming for a greater share of the wallets of our *Ponta* card members.**

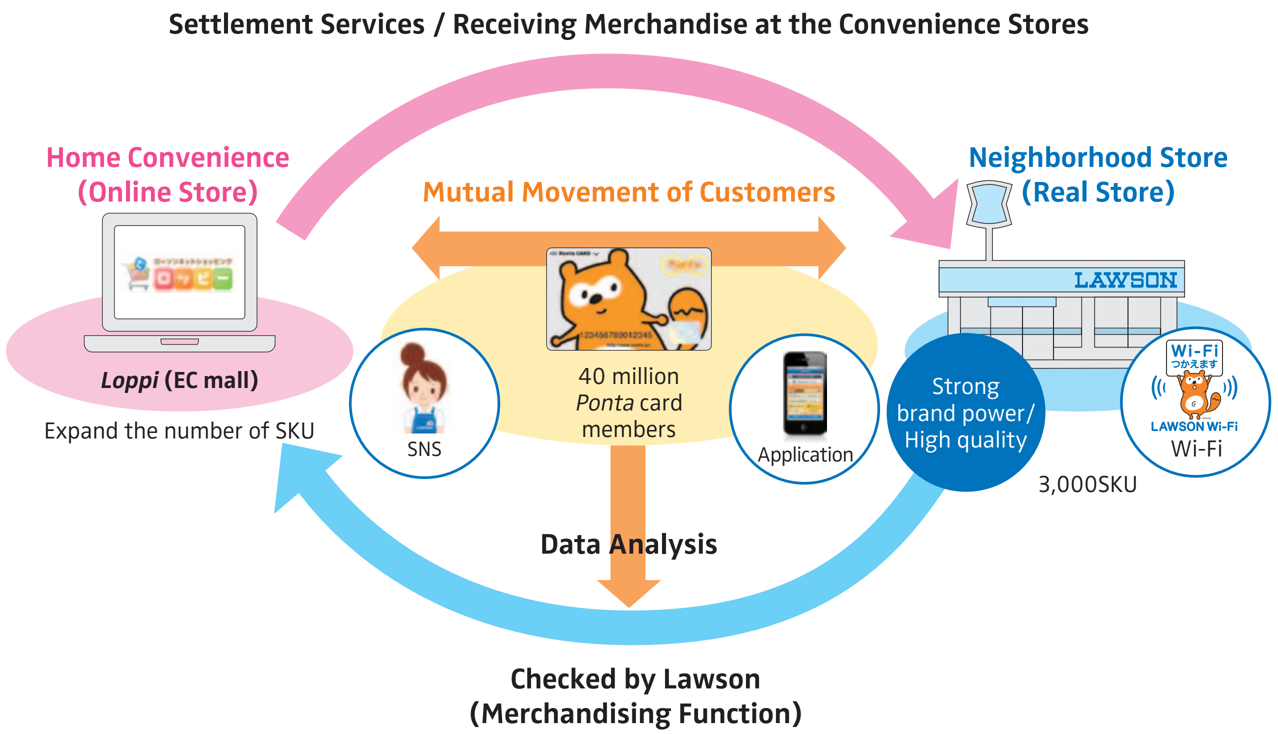
In response to changing lifestyles in growing Asian economies, reliance on convenience for saving time is increasing. I believe the Japanese-style convenience store has the capability to succeed in the major cities of emerging countries as well as the United States and Europe, where a superior small commercial area business model has yet to be established.

Since 1996, Lawson has been expanding its store network in major cities in China, beginning with Shanghai. As of February 29, 2012, we had 314 stores in Shanghai, 38 stores in Chongqing, and 3 stores in Dalian. In the near future, we will be adding Beijing to this list and accelerating our store openings in four major cities. In addition to China, we have opened 15 stores in Indonesia and will expand this network to 100 stores during fiscal 2012. Eventually, we plan to extend our store network throughout countries in East Asia. Similar to our Japanese operations, we will not only focus on growth in network size and sales but also give priority to balancing such growth with profitability based on our ROI standard.

Our second new source of growth is e-commerce. The high degree of trust that customers have in Lawson's brand power as a major convenience store chain with more than 10,000 real stores and for quality goods and services represents our major business asset. Lawson's assurance and guarantee service is an example of our quality services. This service enables our customers to return defective items, which alleviates any inconvenience for them when using online services. Going forward, we will further enhance and expand our online product lineups and integrate and increase the number of real and online store customers jointly by enabling them to accumulate *Ponta* points for both online and real store shopping. In June 2011, we concluded a business tie-up with Yahoo JAPAN through which we plan to greatly increase the number of items on its e-commerce mall *Loppi* that Lawson offers through

Mutual Utilization of Customers through the *Ponta* Card (Online to Offline / Offline to Online*)

* Signifies the mutual utilization of information on customers and their purchasing activities by virtual and real stores for marketing purposes.



online stores that are Yahoo! Shopping members. Moreover, we are aiming to gain a greater share of the wallets of our approximately 40 million *Ponta* card members by strengthening our delivery services for online customers.

Lawson has also positioned the entertainment business as an important growth field, for which we are developing our all-round services in the field of entertainment business. Our ability to package CDs, DVDs, books, magazines, ticket events, goods, and other items into a one-stop shopping service for customers offered through all types of sales channels is a major contributor to differentiating Lawson from its competitors.

7 DRIVING FORCE OF LAWSON'S GROWTH

POINT **Lawson adheres to a corporate philosophy that encourages store owners and employees to keep close ties with the local community as well as respect and express their individual ideas. Based on our efforts to train and educate the Lawson Family (FC owners, store crews, headquarters staff) over the years, I proudly say these qualities are now steadily emerging.**

Our business goes as the community goes—Lawson's corporate value is directly linked with the community's sustainability. If the existence of the local community that the FC owner and store employees serve is at risk, then the store cannot stay in business. With this in mind, we invested sizable amounts in the Tohoku region after the Great East Japan Earthquake. Moreover, our employees took the initiative in making such investments. My responsibility as president is to decide priorities in our business, but after that the employees in charge use their own discretion for other decisions. This policy shapes Lawson's corporate culture and our corporate philosophy.

At Lawson, there is a corporate culture that allows employees to take risks. However, we need to have a commonly shared method within the organization of deciding whether or not to take a chance and what defines an acceptable risk. In Lawson's case, this method is judgment based on the criteria of an ROI of 20% or higher, or, in other words, we must be able to recoup our investment within five years.

Nonetheless, failure is a valuable learning experience, and we do not consider failure to be absolutely unacceptable. Since I became president, we have invested considerable time and expense on in-house training and education programs, such as Lawson University, to nurture this type of corporate culture and its human capital.

The FC business is the optimum business model for a company with this type of corporate culture. This means the convenience store business that we develop provides those who work at our stores with the opportunity to use their own autonomous dynamism to bring happiness and peace of mind to the people in the community. In other words, this model provides store owners and employees with a precious opportunity to feel on a daily basis that their significance always parallels with the community's progress.

8 BUSINESS OUTLOOK AND CAPITAL AND DIVIDEND POLICY

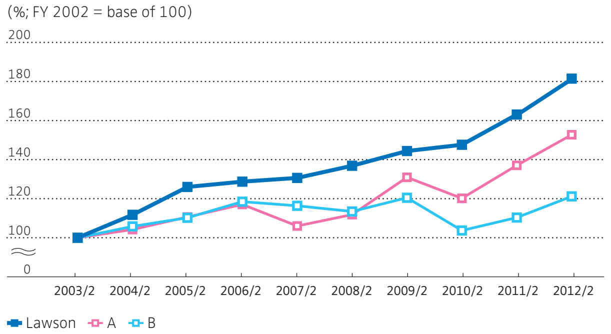
POINT **Lawson aims to attain sustained growth through the appropriate allocation of cash flow while actively returning profits to shareholders by constantly increasing total shareholder returns (TSR).**

In fiscal 2012, Lawson plans to continue to enhance and expand its merchandise assortment and services, develop its fresh food convenience and healthcare-related stores and entertainment and e-commerce businesses as well as strengthen its presence overseas. Furthermore, we are building a robust business viability system so we are better positioned to handle such risks as major disasters, information leaks, and legal non-compliance incidents. Looking at our business performance forecast, we expect consolidated operating income will be ¥66.0 billion, a 6.8% increase from the year under review, and net income of ¥33.4 billion, a 34.2% rise year on year.

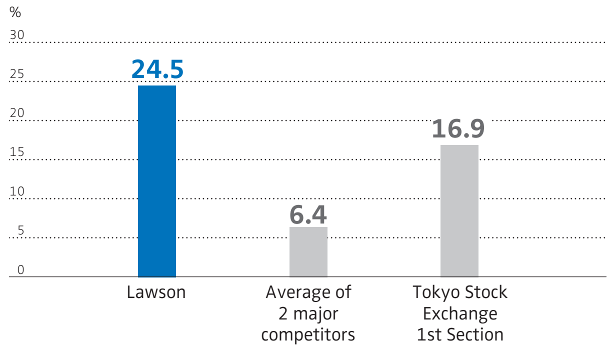
Lawson reinvests its cash flow from operating activities with an emphasis on ROI while allocating funds to return profits to shareholders. In doing so, we strive to maintain continued growth in our ROE. Our basic policy for attracting investors to hold shares for the long term is to increase TSR in terms of dividends and our stock price appreciation. From the same stand point, we have a policy of buying back and retiring shares when appropriate.

For fiscal 2012, Lawson plans to raise its annual dividend by ¥10 per share, to ¥190 per share, continuing the upward climb in dividends Lawson has maintained since the ¥41 per share dividend offered when I first became president.

Operating Profit Growth of Three Major Convenience Store Companies

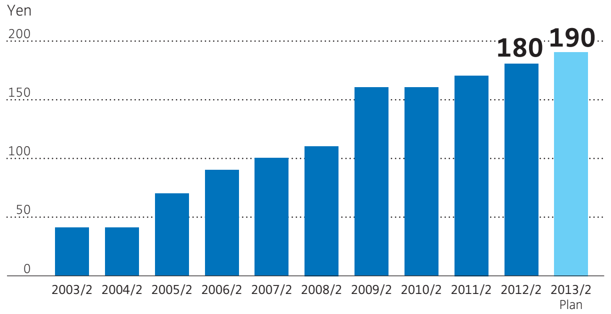


Total Shareholder Returns (TSR)



Notes: Provisional calculation (March 2009 to February 2012)
Three-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)

Cash Dividends per Share



ACHIEVING SUSTAINABILITY IN LAWSON'S VALUE CHAIN

At Lawson, we approach our business in the belief that providing customers with "whatever you want, whenever and wherever you need it" will lead to the maximization of Lawson's corporate value, namely actions that will achieve our greatest social contribution. In this sustainability section, we explain the measures Lawson is taking to continue to exist in harmony with society throughout our value chain.

R&D

Utilizing *Ponta* card data to develop products originating with customers

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Raw materials procurement utilizing the ability to "sell out" products

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Eliminating opportunity loss and product disposal losses using business reform plan PRiSM

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Ponta CARD ANALYSIS

For more details on the *Ponta* card, please see page 15.

DISTRIBUTION


Reducing CO_2 emissions through greater delivery efficiency

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Utilizing *Ponta* card data to develop products originating with customers

The *Ponta* card data enables Lawson to collect detailed information on such customer characteristics as gender, age, and address as well as the amount and type of items the customer bought. As a result, it has become possible for the Company to predict demand more accurately than in the past. Using the *Ponta* card data, we work to develop original products* and provide the items that customers want on our store shelves.

In recognition of the heightened health-consciousness of consumers, Lawson is taking steps to eliminate the use of food additives in its original products. For example, we do not include any preservatives or artificial coloring in the development of original products that are safe, reliable, and healthy.

* Lawson original products: boxed lunches, rice balls, sushi, sandwiches, prepared foods, salads, cooked pasta, bakery items, and desserts. In-store kitchen products are not included.

Lawson Tei, Chilled Boxed Lunches Developed Based on Feedback from Women

Lawson launched its chilled boxed lunches in January 2011, discovering from its sales data that most of the customers were female and they tended to buy a dessert at the same time. The *Lawson Tei* series of chilled boxed lunches was developed using the results of this analysis employed such feedback from women as "I want a healthy boxed lunch filled with many colorful vegetables," and "I'd like a boxed lunch with affordable and small portions that I can have along with a dessert." Efforts to emphasize food full of color and taste and a variety of food textures resulted in a new type of chilled boxed lunch. The product design combined smaller portions to incorporate preferences of female and health-conscious customers who place a high value on quality. Since the product was introduced, it has received high marks from women, enabling Lawson to further expand its customer base of women.

Left: Healthy mix vegetable rice
Right: *Oyako-don*, Chicken-and-Egg rice bowl (*Yodo Ran* eggs)

Genuine Sweets *Premium Whipped Cream Roll*

Premium Whipped Cream Roll is a roll cake series that has sold approximately 160 million units since its launch in September 2009. To expand its customer base of women, who shopped at convenience stores infrequently, Lawson sought to develop a product with quality that went far beyond the consumer's image of convenience store sweets. We use only the best ingredients—fresh cream is made with milk from Hokkaido and the sponge cake features Takaragasa brand flour used by professional Western confectionery bakeries. Also, we have introduced methods used by confectionery specialists from Japan and Europe. Lawson intends to continue to develop new high-quality sweets, aiming to become the local confectionery shop that offers affordable and easily accessible genuine Western confectioneries to the community.

Premium Whipped Cream Roll

LOCAL CONSUMPTION AND EXTERNAL CONSUMPTION

Lawson is actively pursuing regional-oriented store operations and activities that contribute to the immediate community. One of the joint collaboration projects in which Lawson cooperates with local municipalities is the sale of regional products from prefectures. Lawson stores market regional products and food materials for local consumption as well as products with a strong local color and taste outside the prefecture to promote greater name brand recognition for the region. Both of these activities help invigorate the local economy and deepen Lawson stores' bond with the community.

Kinnou pancake (Akita Prefecture)

Shikoku delicious boxed lunches

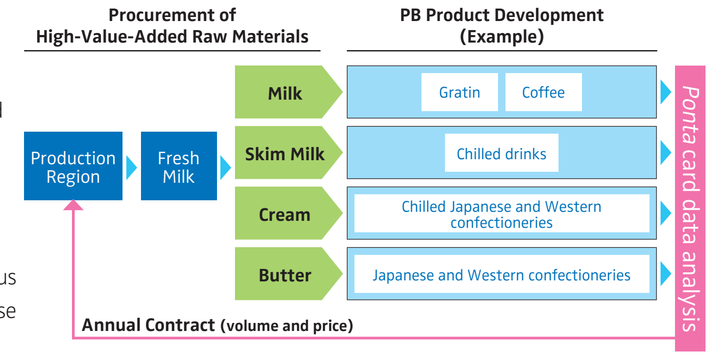
R&D | PROCUREMENT | MANUFACTURING | DISTRIBUTION | SALES

Raw materials procurement leveraging the ability to "sell out" products

Lawson has the ability to "sell out" products thanks to its analysis of *Ponta* card data. In its ordinary procurement transactions, Lawson purchases raw materials in large lots on a bulk basis that contain some below-standard raw materials in terms of size or color that are otherwise difficult to sell because of poor demand. However, Lawson is able to use these raw materials in various products throughout its operations. This procurement method enables raw materials manufacturers and suppliers to reduce their business risk while allowing Lawson to purchase these raw materials under favorable conditions. We convert the raw materials obtained through the use of this "purchasing power" into products with quality that differentiates them in the market and also facilitate high gross profit margins.

Utilizing a Common Inventory of Raw Materials

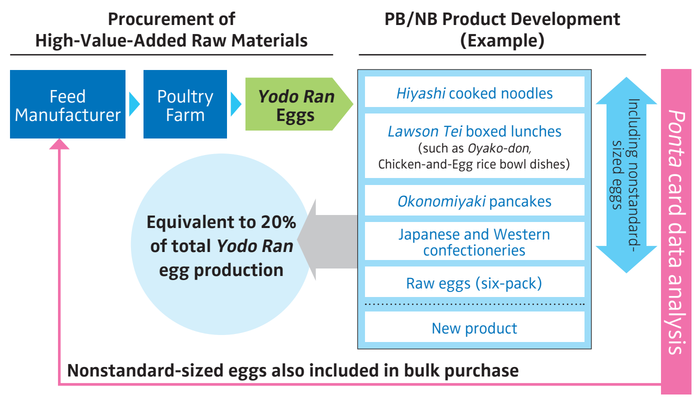
By using a fixed amount of procured raw materials in a variety of products, Lawson is able to generate a substantially large amount of demand for raw materials, which in turn leads to higher gross profit margins based on a better negotiating position with suppliers. For example, we procure raw milk on an annual contract basis and use it entirely without waste to make such products as milk, nonfat milk, cream, and butter. Our across-the-board use of such raw materials in our various products leads to improvement in profit margins because of the use of this common inventory of raw materials.



Yodo Ran Eggs are Featured in *Lawson Tei* Boxed Lunches

Lawson procures its *Yodo Ran** eggs in a bulk amount that includes some eggs that may fall outside size and other specifications. Our annual purchases amount to approximately 20% of the manufacturer's total production, which enables the raw materials manufacturer to reduce its business risk. The procured *Yodo Ran* eggs are used in *Oyako-don*, Chicken-and-Egg rice bowl dishes in *Lawson Tei* boxed lunches as well as *Hiyashi* cooked noodles, western confectioneries, and various other products. The high-quality brand image of *Yodo Ran* eggs enhances customer demand for Lawson's products.

* *Yodo Ran* is a brand of eggs that features a much higher amount of minerals, particularly iodine, than ordinary brands as a result of raising chickens on a special diet of nutrients.



LAWSON FARM—AN AGRICULTURAL PRODUCTION CORPORATION

Lawson Farm is an agricultural production corporation established to provide a stable supply of fresh foods to the stores of the Lawson Group. At February 29, 2012, Lawson Farm had farms in 4 locations in Japan.

From September 2010, Lawson Farm Chiba, in Japan's Kanto district, has been supplying *komatsuna* (a vegetable similar to spinach), *daikon* (Japanese radish), and other fresh foods to certain Lawson stores for sale. In comparison with the traditional fresh food supply route, Lawson Farm systematically provides agricultural products to Lawson throughout the year, thus ensuring a stable supply. In addition, no need exists for an intermediate garden-produce collection center between harvesting and offering the produce for sale on the shelves of stores. This shortens distribution times and enables the supply of fresher vegetables. In addition, Lawson takes ingenious steps to assure customers that its fresh foods are safe and trustworthy. One of these methods is to utilize point-of-purchase (POP) advertising to display the production history of the fresh foods or a photo of the farmer who produced them.

R&D | PROCUREMENT | **MANUFACTURING** | DISTRIBUTION | SALES

Thorough quality control using Lawson's original HACCP method

Lawson has established its own original system to prevent such incidents as food poisoning and the discovery of foreign objects in food in its original products, including boxed lunches, rice balls, prepared foods, sandwiches, and cooked noodles. The HACCP* system anticipates health hazards at each stage of the manufacturing process for products and manages the critical points related to those potential health hazards. The system thoroughly manages production to ensure a high level of safety that cannot be achieved by simply carrying out sampling inspections. Lawson also reviews and revises the system annually.

Records are kept of all the critical control points of the production process, such as cooking times and temperatures. Therefore, should a problem arise, Lawson is prepared to immediately ascertain the cause of the problem and handle it.

* This problem-solving system anticipates all the health hazards that could occur in each production process, from raw material procurement to manufacturing, packaging, and shipment, and identifies the critical control points for preventing their occurrence. The system constantly monitors and records data on those critical points and is prepared to instantly implement countermeasures when an abnormal situation is recognized.

FOOD-SAFETY MEASURES AT COMMISSIONED FACTORIES

Lawson thoroughly inspects and provides guidance to factories commissioned for the manufacture of its original products. The manager in charge of Lawson's regional quality control office carries out the Company's main inspection method by visiting all factories and regularly conducting inspections of production processes. Should these processes not satisfy the quality control standards set by Lawson under its HACCP, the manager requires the factories to make immediate improvements and otherwise provides the factories with thorough instructions.

Moreover, whenever new factories are starting up, new facilities are being installed, or the production of new categories of products is commencing, the manager of Lawson's regional quality control office visits the site to check whether any problems exist with regard to safety and health management. In addition, to ensure the same quality for the products manufactured by all the factories throughout Japan, Lawson sets standards for the production processes of each of its products. For all activities in the manufacturing process, specifications are determined, such as the amount of ingredients, cooking methods, and visual presentation, and Lawson ensures commissioned factories are thoroughly aware of and follow these specifications.

PRODUCT INFORMATION LABELS AND TRACEABILITY

Lawson attaches labels that provide such information as the product name, expiration date, raw materials, and other information on all its original products. In addition to the items required under the Japanese Agricultural Standard (JAS),* Food Sanitation, and Containers/Packaging Recycling acts, Lawson voluntarily includes supplementary information to enable customers with small children or allergies, for example, to consume the product with confidence. Our labeling system is double and triple proofed against mistaken labeling. Quality-control offices strictly check information on labels with additional inspections that are carried out by commissioned factories at the manufacturing stage. Moreover, we employ an IT system to control labeling at all commissioned factories.

Lawson keeps records of all handling of its original products, including the materials' origin and the temperatures at which the products were cooked. Therefore, we can trace the processing of Lawson original products back to the raw materials.

* Act for Standardization and Proper Labeling of Agricultural and Forestry Products

Note: Effective July 1, 2011, Lawson changed its display of production region information for rice and processed rice products in compliance with the Rice Traceability Act of Japan.

1 Expiration Date
Period during which the consumer can consume the product with confidence

2 Ingredients Label
Ingredients used in the product in order of greatest amount

3 Food Additives
Food additives listed in accordance with Japan's Food Sanitation Act

4 Packaging Classification Label
Packaging materials are marked as plastic or other materials for recycling purposes.

5 Nutrition Facts Label
This label shows the nutritional breakdown in terms of energy, protein, fat, carbohydrates, and sodium.

6 Allergen Label
This label indicates whether the product contains allergenic ingredients. According to law, producers are required to list any of seven specific allergens and may voluntarily list another 18.

Production Process for *Oyako-don*, Chicken-and-Egg Rice Bowl

1 Sanitary Management

Employees remove hair and lint from their uniforms using adhesive-tape rollers and air showers. They also carefully wash and disinfect their hands.




2 Cooking Rice

Using an original method, the rice is cooked and cooled so the grains remain plump and soft even after cooling.

3-1 Cooking Ingredients

The ingredients are cooked carefully every time according to a detailed manual that indicates cooking temperatures and times to achieve standard quality.

3-2 Checking Cooking Temperatures

The cooking temperature is monitored at all times to ensure the prescribed temperature is reached.

All pots and pans and other cooking utensils are washed before each round of cooking.

4 Refrigeration

Food is refrigerated immediately after cooking. In addition to checking the temperature of the refrigeration unit, the internal temperature of the food is monitored.


5 Storage

Ingredients are kept in a refrigerator until just before their use.

6 Food Preparation

Food preparation is performed quickly to keep the increase in food temperature to a minimum.

To ensure the soft and rich texture of the egg topping that makes *Oyako-don* delicious, the yolks and egg whites are mixed with a special sauce in the final preparation.

7 Metal Detectors

Metal detectors are used to make sure no metal objects have contaminated the food.

8 Cooling in Refrigerator

After placing the prepared food in a refrigerator and cooling it to the required temperature, it is transported to individual stores.

Reducing CO_2 emissions through greater delivery efficiency

Lawson strives to achieve eco-friendly driving by its truck fleet through the use of eco-tires, a driving management system that monitors driving performance, and other measures.

As a result, in fiscal 2011 the Company attained a 21.4% reduction in CO_2 emissions by delivery trucks per store in comparison with fiscal 2007.

Since October 2009, as part of our comprehensive business tie-up with Japan Post Holdings Co., Ltd., our trucks have been delivering Japan Post mail and packages in addition to their regular store deliveries throughout Kochi Prefecture. As well as increasing efficiency, this joint delivery system has led to a 21.4% reduction in annual CO_2 emissions. Furthermore, from April 2011, we began the same joint delivery system in the Kushiro and Kitami areas of Hokkaido, thus continuing to pursue greater delivery efficiency to further reduce CO_2 emissions.

Temperature-controlled containers have been installed in Japan Post service trucks, which are used to deliver products refrigerated at different temperatures

Distribution-related CO_2 Emissions (Comparison with FY2007)

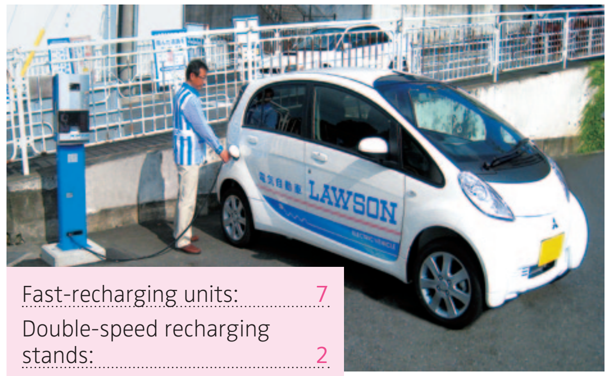
FY2010 Result	FY2011 Result	FY2012 Target
15.0% Reduction	21.4% Reduction	22.0% Reduction

COLUMN INTRODUCING ENVIRONMENT-FRIENDLY COMPANY VEHICLES

Lawson has a nationwide Company fleet of approximately 1,800 vehicles that are used by supervisors (SVs), who are store sales advisors, and store development managers. Excluding four-wheel drive vehicles, the remaining approximately 1,350 vehicles are fitted with idling-stop systems* or are hybrid vehicles.

Commencing in August 2009, we started to introduce electric vehicles (EVs) for our supervisors to use on their store routes. At February 29, 2012, we had a total of 62 EVs. In conjunction with their introduction, we set up battery recharging stations for EVs in the parking lots of our stores, which are contributing to the popularization of EVs in Japan.

* A system that automatically stops the engine when the driver starts to halt the vehicle and automatically restarts it when the driver steps on the gas pedal again. The system reduces fuel consumption and CO_2 emissions.



Fast-recharging units:	7
Double-speed recharging stands:	2
200V electrical outlets:	58

(At February 29, 2012)

We have installed EV battery recharging stations at some of our stores.

Eliminating opportunity loss and product disposal losses using business reform plan PRiSM

When Lawson implemented its once-every-seven-years renewal of its backbone IT systems in March 2010, it launched a fundamental business reform plan called PRiSM. Under the plan, the goal is to eliminate opportunity loss and product disposal losses by using state-of-the-art IT systems and *Ponta* card data analysis. Through this combination, Lawson can achieve efficient merchandise assortment by placing orders that originate with customers.

By extracting customer demand from the analysis of *Ponta* card data, we can reflect these results in our merchandise assortment, eliminating the opportunity losses that occur when a customer wants to make a purchase but the item is not in stock. The system also enables us to reduce product disposal losses by keeping merchandise that does not match customer needs off the shelves.

PRiSM

RECYCLING UNSOLD FOOD

Since May 2006, Lawson has been recycling unsold food that has exceeded its shelf life.* As of March 31, 2012, the unsold food from 2,012 LAWSON and NATURAL LAWSON stores was recycled into pig and chicken feed and fertilizer. By making arrangements with food recycling factories and cooperating with waste collection and transport companies, Lawson has made efforts to solve processing costs issues while expanding the district covered by its recycling program. Lawson extended these food recycling operations to Takamatsu in July 2011, Aichi Prefecture, excluding Nagoya, in August 2011, and Chiba Prefecture in March 2012. In addition, we expanded our food recycling operations in Naha, Okinawa, to include all sections of the city in June 2012.

Lawson's food waste recycling rate as stipulated by Japan's Food Recycling Law for fiscal 2011 (April 2011 to March 2012) was 47.6%.

* The period of time for which the item is deemed to remain fresh taking into consideration the amount of time normally taken by the customer to consume the item after purchase.

Food Recycling Loop

Our food recycling loop is a system for recycling food waste from our stores and factories into livestock feed and fertilizer for livestock or agricultural products that are in turn used in products that are sold in our stores.

Lawson was the first convenience store company to sell eggs from chickens raised on eco-feed recycled from food waste.

Recycling Used Cooking Oil

Lawson expanded its used cooking oil recycling program, which began in January 2006, to a nationwide basis in that same year. At March 31, 2012, the number of participating stores amounted to 9,142 stores, equivalent to approximately 95% of all LAWSON stores. An industrial waste collection and transport company collects the used cooking oil from stores. Recycling factories then convert the oil into feed additives (raw material for livestock feed), architectural coatings, fuel for public buses with biodiesel engines, natural soap, and other items.

R&D | PROCUREMENT | MANUFACTURING | DISTRIBUTION | SALES

Eliminating opportunity loss and product disposal losses using business reform plan PRiSM

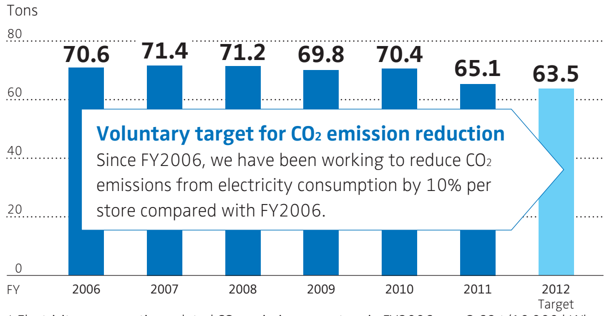
ENVIRONMENTALLY CONSCIOUS STORE DESIGN

Of the approximately 700,000 metric tons of CO_2 emissions produced by Lawson annually, about 85% is generated as a result of electricity used by its stores. The Company has taken several steps to reduce its stores' electricity consumption; for example, it has installed integrated cooling and air conditioning systems in a total of 3,245 stores. These systems combine refrigerators, freezers, and air conditioning equipment into a single system for greater efficiency. Similarly, the Company has installed low-power consumption light-emitting diode (LED) lighting in the signs of 537 new stores and in the lighting fixtures of 535 new stores. As an electricity savings measure, Lawson has now installed LED lighting in all its stores.

Among other energy-saving efforts, Lawson has opened eco-friendly model stores in districts throughout Japan. These model stores use the latest environment-friendly energy-saving equipment and serve as testing grounds to prove its efficiency. In addition to LED lighting, the model store opened in Minami-Sanrikucho, Miyagi Prefecture, in December 2011 has reduced electricity consumption by introducing an energy-saving fryer and a chlorofluorocarbon-free refrigerator and freezer system that uses a CO_2 coolant. Also, the model store has installed a lithium-ion storage battery emergency power supply system. Lawson is aiming to reduce electric power consumption in these eco-friendly stores by 20% compared with its regular stores and plans to steadily increase the number of these stores in its network.

ELECTRICITY CONSUMPTION-RELATED CO_2 EMISSIONS PER STORE: 65.1 METRIC TONS

Electricity Consumption-related CO_2 Emissions per Store*



* Electricity consumption-related CO_2 emissions per store in FY2006 was 3.68 t/10,000 kWh.

SAFETY STATION ACTIVITIES FOR CRIME PREVENTION

In recent years, society has given convenience stores a variety of responsibilities through their operations, such as implementing crime and fire prevention and safety measures and contributing to the sound development of youth. To fulfill those responsibilities, Lawson participates in the Japan Franchise Association's Safety Station activities. With the support of the relevant government ministries and agencies, the Company conducts activities under its Building a Safe and Trustworthy Lifestyle Base for Communities and Creating a Sound Environment for Youth program. To fulfill its social responsibilities as a convenience store, Lawson participates in a variety of industry-based activities to strengthen crime prevention measures for robberies and other crimes and to respond to requests for help by women and children who enter the stores in fear for their safety.

COLUMN OFFERING SERVICES THAT APPEAL TO SENIORS

Lawson is taking initiatives to support the lives of people living in small rural communities where progressive depopulation and aging has made shopping and other daily activities difficult. Collaborating with local municipalities, we are building a new infrastructure for these communities. In August 2011, we concluded a franchise agreement with Sanwa 182 Station, Ltd., the third sector company invested in by the town of Jinsekikogen, in Hiroshima Prefecture. Based on this agreement, we opened the LAWSON Jinsekikogen store to support the shopping needs of the district. In the future, we plan to offer home visits by food vans and set up satellite stores* using closed schools and other unused facilities to assist such small rural communities.

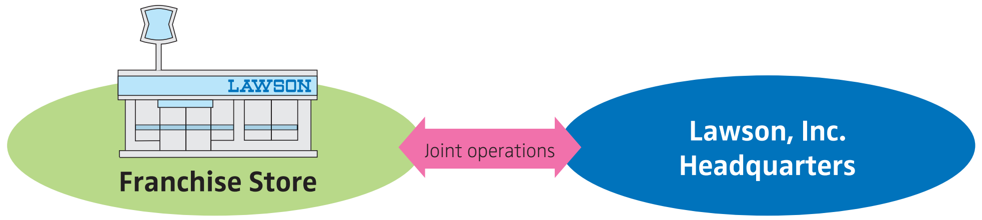
* A small-scale store with flexible storage space and business hours. This format enables Lawson to open stores in locations that previously could not be used because the purchasing power of the surrounding commercial area did not meet traditional standards for opening a convenience store.

LAWSON Jinsekikogen store

HUMAN CAPITAL MANAGEMENT

HAND-IN-HAND WITH FRANCHISE OWNERS AND CREWS

The franchise business is Lawson's core business. As such, we believe not only employees but also franchise owners and store crews (part-time and temporary workers) must share our corporate philosophy and demonstrate a high level of motivation in their work. These qualities are our basis for creating corporate value. Guided by these principles, Lawson's headquarters supports store management in various ways.



Role of the FC Owner
- Procure merchandise, manage merchandise (lineup, freshness, and inventory), serve customers, and maintain cleanliness (sanitation, safety, and comfort)
- Hire, train, and manage store crew (part-time and temporary workers)
- Manage sales and operating expenses

Role of Headquarters
- Provide guidance on managing stores through supervisors
- Supply infrastructure (store operations equipment, distribution, and IT systems)
- Carry out product development
- Offer sales promotion support

Store Sales Advice from Supervisors

Based on their familiarity with store operations, supervisors support franchise owners by providing knowledge and taking the initiative in solving issues.

Guiding Store Pre-Opening Preparations

From management strategies and sales to administrative procedures, Lawson provides careful and detailed advice in the build up to a new store's launch. We support a successful store opening by dealing with any doubts or confusion the store owner may have.

Support After a Store Opening

Following the opening of the store, Lawson supports smooth store operations with a range of training services and advice. Such support includes instructing staff how to serve customers and use the store's IT system and equipment and providing advice on the training and education of the store crew (part-time and temporary workers).

Advice on Merchandise Assortment and Shelf-Space Management

Utilizing its know-how, Lawson provides stores with detailed guidance on store operations. This guidance includes such aspects as selecting a merchandise assortment suited to the region and special characteristics of customers and planning sales spaces to make it easy for customers to find and purchase items.

Formulating Strategies to Boost Sales

Together with franchise owners, Lawson regularly checks on the sales performances of individual stores. When issues arise, we explore solutions that fit the particular situation with the goal of improving sales and profitability.

HAND IN HAND WITH CORPORATE EMPLOYEES

Lawson University

To provide comprehensive education and training for its human capital, Lawson operates Lawson University, a unique education and training program. The program is based on an integrated training system for personnel of various missions, ranks, and aims. Our objective is to cultivate a professional team of personnel with a high ability in business development sharing our corporate philosophy. The Lawson Learning Center (LLC), one of the departments of the Lawson University, was established near our headquarters and offers various programs. The next-generation leader training program is regarded as one of the most important programs, and management frequently appears in the classrooms as instructors. We have also introduced an e-learning system. The headquarters employee education program targets personnel ranging from new hires to management following different kinds of career paths and at different points in their careers. The objective of this program is to foster autonomous thinkers and an organization that continues to learn.

Our "Think Clearly and Take Action" Team Sold Handmade Rice Balls in The Disaster Area

After the Great East Japan Earthquake, regular procurement routes were interrupted and operations at factories in the disaster area were stopped, leaving our stores in the region temporarily without supplies of merchandise. During that period, one of the Tohoku branch managers took the initiative without waiting for instructions from headquarters and directed stores to begin selling rice balls that were hand made in their stores. Employees sought out supplies of rice for the stores, and the staff of the stores in the disaster area made the rice balls one by one themselves.

Why was Lawson able to take this initiative amid all the confusion immediately after the disaster? Such quick action is derived from lessons learned through training received at Lawson University. All employees with titles of manager or higher have taken the Lawson corporate philosophy awareness (mission statement training) course, while senior managers and above have completed the next-generation leader (leader training) program. All of these employees have accumulated training in thinking clearly about situations. In this manner, training at Lawson University enables personnel to make calm and collected decisions in any situation, aiming to foster autonomous thinkers and an organization that continues to learn.

Encouraging Communications Within Lawson

The Lawson *Genki* Project* was introduced in fiscal 2008. The program publishes in-house information and plans and holds such Companywide events as sports meets and parties. The intent of these activities is to encourage greater communications between franchise stores and headquarters.

Since 2012, the program has operated Lawson Channel!, a website targeting store crews. The website has increased the interaction between store crews and headquarters by enabling simple surveys and the rapid provision of information.

* A project to implement the Lawson *Genki* Plan that the Company launched in fiscal 2008 to invigorate the communities it serves. Through the plan, activities are conducted to boost relationships among the members of the Lawson Family (FC owners, store crews, and headquarters staff). *Genki* means "to be vibrant and cheerful" in Japanese.

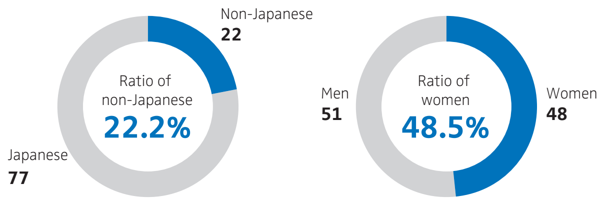
Employing Foreign Exchange Students

Based on our belief that Lawson's future depends on the diversity of character and sense of values of our human capital, we established a policy of obtaining one-third of our annual hiring of graduating students from among foreign exchange students. Under this policy, we hired 22 graduating foreign exchange students in fiscal 2012. As of May 2012, Lawson had a total of 86 foreign employees working in its Japanese operations.

Employing Women

At May 31, 2012, the percentage of women in Lawson's workforce stood at 13.7%. Hiring women is an important issue for Lawson. We have increased the ratio of women serving as directors and corporate auditors to 27%, from 18% in the previous fiscal year. Since fiscal 2005, it has been our policy for 50% of our newly graduating student hires to be women. Moreover, we are steadily introducing measures to support women who wish to both work and raise a family.

New Graduates Hired by Lawson in FY 2012



LAWSON'S ACTIVITIES RELATED TO THE GREAT EAST JAPAN EARTHQUAKE

More than one year has passed since the Great East Japan Earthquake that occurred on March 11, 2011.

Thanks to Groupwide recovery efforts to rebuild, our operations in the disaster-struck region had almost returned to pre-disaster conditions by the start of summer 2011. However, we are continuing to practice the lessons learned from the disaster and provide support for the restoration efforts in the disaster-struck region. In this section, we introduce a few of the measures Lawson is taking in preparation for future disasters and some of our support activities for the disaster-struck region.

STRENGTHENING THE BUSINESS CONTINUITY PLAN FOR LARGE-SCALE DISASTERS

Taking into consideration our experiences with the recent major earthquake, we have revised our business continuity plan (BCP) and strengthened our business continuity management (BCM) system. The top priorities of the BCP are to confirm the safety of all personnel in the event of a large-scale disaster, including store owners, managers, and crew; keep our stores open in the disaster-struck region; and immediately restore damaged stores.

To be fully prepared in the event an earthquake of the same magnitude would strike again, we have revised the manuals for our personnel safety confirmation system and emergency measures in a disaster. The emergency measures manual is divided into a basic measures section and separate sections for each of our branches, offices, and headquarters organizations. The manual clarifies a code of action for each phase of operations following the disaster for each of the organizations. Moreover, we have taken steps on a store and corporate section basis to ensure all personnel are aware of and will observe the code of action.

We have also strengthened our organizational system for a disaster. We are prepared to immediately set up an emergency measures headquarters following the occurrence of a large-scale disaster to promptly and appropriately implement emergency measures.

Not only have we prepared emergency manuals, but as of fiscal 2012 we have increased the number of times that all Lawson personnel participate in emergency drills, from two times to three times annually. We carry out these drills with an emphasis on determining whether in a real incident there would be problems with our emergency or business continuity measures or areas that need improvement.

Going forward, we plan to continue to test and review our BCP and strengthen our systems to enable Lawson to fulfill its responsibility to be a lifeline to society even when large-scale disasters occur.

Sorezore-no-3.11, a Record of Our Activities after the Earthquake

To preserve our experiences and memories of the Great East Japan Earthquake for posterity, Lawson created an in-house record titled *Sorezore-no-3.11*. Later, we thought this record, which was originally intended for the Lawson family, should be available to the general public. As a result, as of March 2012, we have posted the record on our website. Unfortunately, this material is only available in Japanese.

http://www.lawson.co.jp/campaign/static/shinsaitaiou/36_37.html

SUPPORTING YOUTH IN THE DISASTER-STRUCK REGION THROUGH THE EMPOWERING DREAMS FUND

Lawson believes the power of youth—who carry the future—will be important to the recovery of the region struck by the Great East Japan Earthquake. Therefore, on April 14, 2011, we established the scholarship fund, Empowering Dreams, to assist students who will face financial difficulties in graduating from school because they and their families have been victimized by this disaster. Along with customers and suppliers, Lawson is supporting the education of high school and other students from Fukushima, Miyagi, and Iwate prefectures with the hope that students do not give up to graduate, enter the workforce, gain useful knowledge and technology, and work toward their dreams.

The scholarship fund was created with donations from customers made at the checkout counters of approximately 10,000 Lawson Group stores and a ¥400 million contribution by Lawson. Commencing in September 2011, the scholarship program began making monthly payments of ¥30,000 to 1,097 high school students (grants receivable for a maximum of seven years). In addition, we are conducting various activities to support these students until they graduate. In February 2012, we held an event for these students entitled Special Lecture & Live 2012. At this event, four people who share the same sentiments behind the scholarship fund—music producer Takeshi Kobayashi, singer Yo Hitoto, Lawson President Takeshi Niinami, and Lawson Senior Executive Vice President Genichi Tamatsuka—held a talk session during which they discussed and tried to work out with high school students their doubts and frustrations regarding their futures.

Lawson is committed to continuing activities that support the youth of the disaster-struck region.

BASIC POLICY ON CORPORATE GOVERNANCE

The Lawson Group is dedicated to maximizing its corporate value to become a valued corporate citizen, thereby meeting the expectations of its stakeholders—customers, franchise owners, store crews (temporary and part-time employees), suppliers, employees, shareholders, and society as a whole.

To that end, we are committed to not only full compliance with laws, our Group regulations and rules, and social norms but also acting sincerely and considerately in the spirit of the Group's Mission Statement, Corporate Conduct Charter, and Code of Ethics. We believe in the importance of enhancing the soundness and transparency of our management through proactive disclosure and continuing to reinforce our corporate governance system.

ORGANIZATION (AS OF MAY 30, 2012)

Under the Companies Act of Japan, Lawson has chosen to be a company with a corporate governance system based on a Board of Corporate Auditors. This system puts in place a double-checking mechanism under which the Board of Directors supervises business execution while the Board of Auditors analyzes business administration.

Lawson has implemented the following measures to further strengthen its corporate governance organization.

① Uses an executive officer system to separate the execution and supervisory functions and clarify management responsibilities.

② Limits the size of the Board of Directors to seven directors to speed up decision making.

③ Maintains a ratio of greater than 50% of outside directors and corporate auditors.

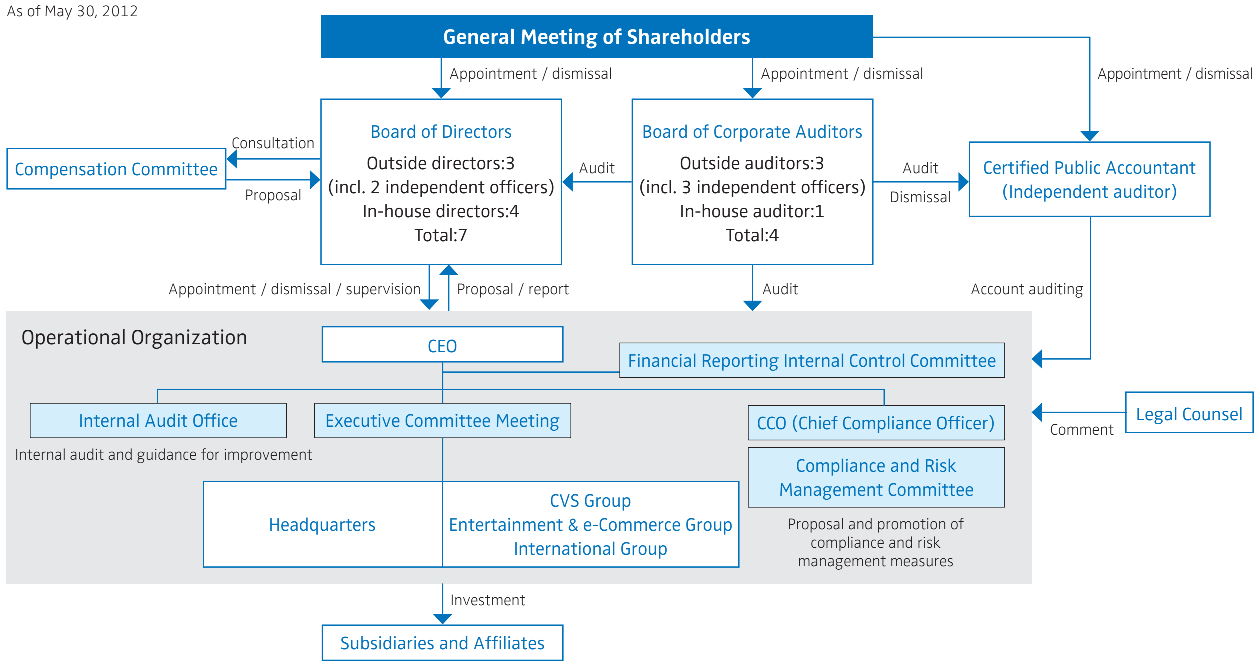
④ Appoints a total of three women as directors or corporate auditors from the perspective of promoting diversity.

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 corporate auditors	4 (including 3 outside corporate auditors)
Independent officers	2 outside directors and 3 outside auditors
Proportion of female officers	Approx. 27%
Average age of officers	56.9 years old
Number of Board of Directors' Meetings in FY2011	13 (including 2 extraordinary meetings)
Number of Board of Corporate Auditors' Meetings in FY2011	15 (including 3 extraordinary meetings)

Board Meeting Attendance by Outside Directors and Corporate Auditors in FY2011

	Board of Directors' Meetings	Board of Corporate Auditors' Meetings
Outside directors	Approx. 74% (including extraordinary meetings)	—
Outside corporate auditors	100% (including extraordinary meetings)	100% (including extraordinary meetings)

Corporate Governance System
As of May 30, 2012



REASONS FOR ADOPTING THE CORPORATE AUDITOR SYSTEM

Lawson has strengthened and enhanced its corporate auditor system by employing a Board of Corporate Auditors, in which three of the four corporate auditors are outside (all three are independent officers). In addition, the Board of Directors, including outside directors who are independent and have diverse business experience, enables the board to make proper business decisions based on the wide-ranging insight and knowledge of the board members. Moreover, the Board of Corporate Auditors utilizes its auditing of business administration to ensure the transparency, objectivity, and correctness of business management. From the point of view of increasing the efficiency of corporate governance, Lawson believes that, at the present time, the Board of Corporate Auditors system is the most appropriate system for the Company.

BOARD MEMBERS' COMPENSATION

In the past, Lawson has actively introduced flexible compensation plans for its directors that link compensation to business performance or stock price through stock options. Commencing with the fiscal year ended February 29, 2012, the Company has decided to more clearly reflect directors' contributions to shareholders' value by linking its flexible compensation plan for directors to such business performance indicators as earnings per share (EPS).

Decision method	The Compensation Committee (comprising only outside directors and corporate auditors; met three times in FY2011) submits a compensation package to the Board of Directors for approval.
Compensation package	Basic compensation plus stock price-linked compensation based on the granting of stock options. • Basic compensation: comprising a fixed amount and a flexible amount (about 40% of total basic compensation)* that is linked to business performance through EPS and other performance indicators. • Stock options: stock options exercisable at ¥1 per share only after retiring from the position of director.
Disclosure method	The amount of compensation received by all directors and the amount for the representative director are listed in the Company's securities and business reports respectively.

* The above is the current compensation plan as of May 30, 2012. The four non-executive directors—Toru Moriyama, Hiroshi Tasaka, Reiko Okutani, and Takehiko Kakiuchi—do not receive any compensation linked with business performance because of their specialized oversight and advisory roles regarding the representative director and the Board of Directors. Furthermore, in a meeting held on March 29, 2012, the Board of Directors abolished the severance payment system for corporate auditors and integrated corporate auditor compensation into a monthly compensation system based on annual compensation amounts.

Board Members' Compensation Amounts in FY2011

	Number	Total Compensation
Directors (number of outside directors)	7(3)	¥267 million (¥37 million)
Corporate auditors (number of outside corporate auditors)	5(4)	¥66 million (¥45 million)
Total	12	¥334 million

INTERNAL CONTROL SYSTEM

Lawson is focusing on the following five areas in accordance with its Fiscal 2012 Basic Policy on Development and Operation of the Internal Control System, as revised in February 2012:

① Improving supervisory and audit functions through the continuous appointment of outside directors and outside corporate auditors (independent officers)

② Enhancing internal audit capabilities in line with growth in sales operations and business activities of subsidiaries and affiliates

③ Ensuring subsidiaries and affiliates are thoroughly familiar with the Lawson Group's Corporate Conduct Charter and appointing persons responsible for promoting compliance and risk management at major subsidiaries and affiliates

④ Establishing the necessary systems to ensure proper financial reporting

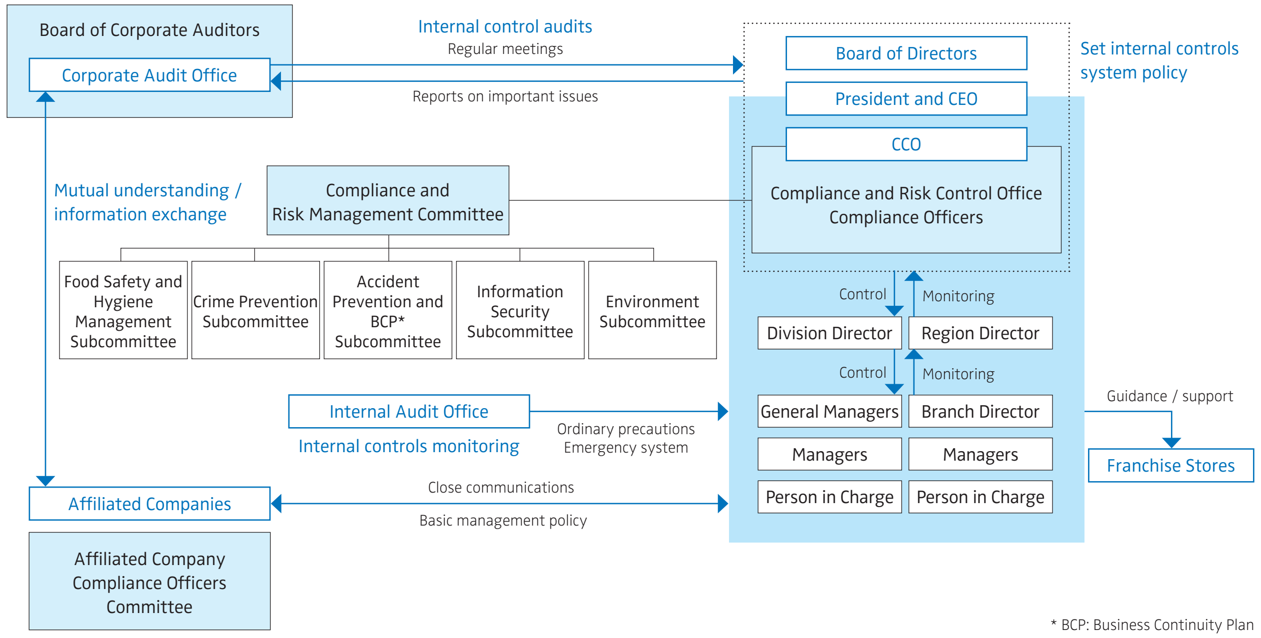
⑤ Achieving the early discovery of risk information regarding operations across the entire Lawson chain via the expansion of the internal whistle-blower and consulting system to franchise stores and suppliers

ORGANIZATIONS DEDICATED TO COMPLIANCE MANAGEMENT (FY2012)

Lawson's Chief Compliance Officer (CCO) is responsible for compliance and risk management throughout the Lawson Group. The CCO oversees a network of compliance officers appointed in all headquarters divisions and all branches.

Chaired by the CCO, the Compliance and Risk Management Committee meets monthly, and the Affiliated Company Compliance Officers Committee meets quarterly to identify Group compliance issues and assess risk exposure as well as deliberate on ways to prevent illegal or improper actions.

Overall View of Lawson's Internal Control System



* BCP: Business Continuity Plan

SPECIAL FACTORS WITH AN IMPORTANT BEARING ON CORPORATE GOVERNANCE

- Mitsubishi Corporation (Mitsubishi) holds 32.4% of the Company's voting rights, including indirectly held rights. Consequently, Mitsubishi treats Lawson as an equity-method affiliate on its financial statements (as of February 29, 2012). Under a comprehensive business alliance, Mitsubishi exchanges personnel and conducts joint raw materials procurement businesses with the Lawson Group and also introduces potential store locations. Despite this relationship, as an independent publicly listed corporation, Lawson makes its own management decisions.

DISCLOSURE POLICY

- Lawson has posted its basic disclosure policy on the "Investor Relations" section of its website.
  http://www.lawson.co.jp/company/ir/disclose.html
- In principle, the Company discloses financial, corporate, and other important information, in both Japanese and English, on the "Investor Relations" section of its website as soon as possible.
- Lawson also uploads notices of shareholders' meetings to the "Investor Relations" section of its website.
  http://lawson.jp/en/ir/stock/meeting.html

MESSAGE FROM OUTSIDE DIRECTOR

Looking Back on 12 Years as an Outside Director

Hiroshi Tasaka
Professor,
Graduate School of
Tama University

I was appointed an outside director in the year 2000, when Lawson was still a member of the Daiei Group, and have been involved with Lawson's management for 12 years. While there is no need to make a case for the great strides the Company has made during those 12 years—most shareholders, employees, and other stakeholders are very aware of Lawson's success—I would like to take the opportunity on my retirement from my position to offer up some of the reasons behind this success.

Simply stated, Lawson's success lies in the Company's perseverance in implementing a management style that integrates seemingly contradictory opposites.

First, we have the combination of strong leadership and bottom-up management. President Niinami demonstrates unrivaled leadership while endeavoring to practice a management style that empowers and promotes creativity in the workplace.

Second, there is the blending of strategic thinking and humanism. While Lawson's management actions are always based on scientific and rational strategic thinking, Lawson is aware strategic thinking carries with it the danger of the manipulation of customers. The management team and employees counteract this pitfall by paying close attention to their humanism.

Third, Lawson unifies corporate vision with practices in the workplace. By avoiding an immersion in the day-to-day struggles with its competitors in the industry, Lawson paints a bold vision of future innovations and the evolution of the entire industry. While striving to achieve that vision, the Company pursues an emphasis on customer-oriented operations in the workplace.

Further leaps forward by Lawson will depend on whether or not it can continue with this contradictory management style. However, when I look at the top caliber of the current management team supporting President Niinami, I am convinced Lawson's future is secure.

Heartened by this belief, I can happily relinquish my position as an outside director and think back on what a great 12 years it has been.

On Becoming an Outside Director

Emi Osono
Professor,
Graduate School of
International Corporate Strategy,
Hitotsubashi University

As of May 2012, I became one of Lawson's outside directors. I see my role as supporting many facets of the business. Naturally, this includes legal compliance, a consideration of the environment, and achieving diversity. My role also means assisting Lawson, a company with its priorities focused on contributing to people's lives to produce even greater value by offering even more wonderful goods and services.

My actual job involves research in business management at a graduate school and learning more about the topic along with my graduate students through our debates. I have particular interest in the two fields of the genesis and shaping of unique competitive strategies and innovative and self-renewing organizations. Lawson's efforts in both of these fields are extremely interesting. To begin with, I think Lawson is aiming to become a unique force in the convenience store industry. As evidenced by its example of the branch system, the Company is working to nurture a culture under which the workplace is striving to do something new. Utilizing my perception as a researcher, I plan to support Lawson in its efforts to move forward.

I should mention that I myself am a Lawson customer. As the mother of a one-year, 10-month-old child, I regularly depend on Lawson for its merchandise and services. It is my hope to use my energies to further enhance Lawson's safe, trustworthy, and healthy merchandise and services that give customers so much pleasure.

DIRECTORS AND CORPORATE AUDITORS

As of May 30, 2012

From left: Atsuhiko Seki, Toru Moriyama, Genichi Tamatsuka, Takeshi Niinami, Yoshiyuki Yahagi

From left: Tetsuo Ozawa, Takehiko Kakiuchi, Reiko Okutani, Emi Osono, Eiko Tsujiyama, Shinichi Hokari

MEMBERS OF THE BOARD AND CORPORATE AUDITOR

Takeshi Niinami

President and CEO; Group CEO, International Group

- Years as a director: 10 years
- Number of Lawson shares held: 8,400 shares

1981 Joined Mitsubishi Corporation
1995 Representative Director, Sodex Corporation (Currently LEOC Co., Ltd.)
1999 General Manager, Restaurant Business Team, Living Essentials Logistics Planning Department, Mitsubishi Corporation
2000 General Manager, Lawson Project Integration Office; General Manager, Restaurant Business Office, Mitsubishi Corporation
2001 Manager, Lawson Business Unit; Manager, Restaurant Business Unit, Consumer Business Division, Mitsubishi Corporation
2002 Corporate Advisor, Lawson, Inc.
President, Representative Director and Executive Officer, Lawson, Inc.
2005 President, Representative Director and CEO, Lawson, Inc. (Current position)
2006 Outside Director, ACCESS, CO., LTD. (Current position)
2010 Outside Director, ORIX Corporation (Current position)

Genichi Tamatsuka

Member of the Board, Senior Executive Vice President and COO, Group CEO, CVS Operating Group and Division Director, CRM Promotion Office and Marketing Office

- Years as a director: Assumed from May 30, 2012
- Number of Lawson shares held: 900 shares

1985 Joined Asahi Glass Co., Ltd.
1998 Joined IBM Japan Ltd.
Joined Fast Retailing Co., Ltd.
2002 President, Representative Director and COO, Fast Retailing Co., Ltd.
2005 Established Revamp Corporation
President, Representative Director and COO, Revamp Corporation
2010 Corporate Advisor, Lawson, Inc.
2011 Senior Executive Vice President and COO, Group CEO, CVS Operating Group, Lawson, Inc.
2012 Member of the Board, Senior Executive Vice President and COO, Group CEO, CVS Operating Group (Current position)

Yoshiyuki Yahagi

Member of the Board, Senior Executive Vice President and CFO; Division Director, Corporate Planning Office

- Years as a director: 5 years
- Number of Lawson shares held: 700 shares

1979 Joined Mitsubishi Corporation
2004 Deputy General Manager, Audit Department, Mitsubishi Corporation
2006 Senior Vice President and Executive Assistant to CEO, Lawson, Inc.
2007 Member of the Board, Executive Vice President and CFO, in charge of Corporate Planning Office, Human Resources Office, Lawson, Inc.
2009 Member of the Board, Senior Executive Vice President and CFO, Lawson, Inc. (Current position)

Toru Moriyama

Member of the Board

- Years as a director: 6 years
- Number of Lawson shares held: 1,500 shares

1977 Joined Mitsubishi Corporation
2004 General Manager, Food Textiles & General Merchandise Dept., Chubu Branch, Mitsubishi Corporation
2005 Senior Vice President; Executive Assistant to CEO, Lawson, Inc.
Executive Vice President; Division Director, Merchandising & Logistics Division, Lawson, Inc.
2006 Member of the Board, Senior Executive Vice President; Division Director, Merchandising & Logistics Division, Lawson, Inc.
2009 Member of the Board, Lawson, Inc. (Current position)
2011 Executive Vice President, Group CEO, Living Essentials Group, Mitsubishi Corporation (Current position)
Outside Director, RYOSHOKU LIMITED (Currently Mitsubishi Shokuhin Co., Ltd.) (Current position)

Atsuhiko Seki

Standing Corporate Auditor

- Years as a director: 2 years
- Number of Lawson shares held: 1,200 shares

1977 Joined The Daiei, Inc.
1999 Joined Lawson, Inc.
2007 Deputy Senior Vice President, Division Director, Franchisee Support Office, Lawson, Inc.
2010 Standing Corporate Auditor, Lawson, Inc. (Current position)

MEMBERS OF THE BOARD (OUTSIDE) AND CORPORATE AUDITORS (OUTSIDE)

Reiko Okutani

Member of the Board (Outside)

- Years as a director: 10 years
- Number of Lawson shares held: 0 shares

1974 Joined Japan Airlines International Co., Ltd.
1982 President, The R Co., Ltd. (Current position)
1986 President, Will Co., Ltd. (Saison Group) (Concurrent post: President, The R Co., Ltd.)
1991 Chairman, Will Co., Ltd. (Concurrent post: President, The R Co., Ltd.)
1992 Retired from the position of Chairman, Will Co., Ltd.
2002 Member of the Board (Outside), Lawson, Inc. (Current position)

Takehiko Kakiuchi

Member of the Board (Outside)

- Years as a director: 7 years
- Number of Lawson shares held: 0 shares

1979 Joined Mitsubishi Corporation
2005 Outside Director, Kentucky Fried Chicken Japan, Ltd. (Current position)
Member of the Board (Outside), Lawson, Inc. (Current position)
2011 Senior Vice President, General Manager, Living Essentials Group CEO Office, and Division COO, Foods (Commodity) Division, Mitsubishi Corporation (Current position)

Emi Osono

Member of the Board (Outside)

- Years as a director: Assumed from May 30, 2012
- Number of Lawson shares held: 0 shares

1988 Joined Sumitomo Bank (Currently Sumitomo Mitsui Banking Corporation)
1998 Assistant Professor, Institute of Asia-Pacific Studies, Waseda University
2004 Outside Director, Nisshin Fire and Marine Insurance, Co., Ltd.
2006 Outside Director, Resona Bank, Ltd.
2010 Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (Current position)
2011 Outside Director, Resona Holdings, Inc. (Current position)
2012 Member of the Board (Outside), Lawson, Inc. (Current position)

Shinichi Hokari

Standing Corporate Auditor (Outside)

- Years as an auditor: Assumed from May 30, 2012
- Number of Lawson shares held: 0 shares

1975 Joined the Board of Audit of Japan
1990 Supervisory Manager of 2nd Bureau, Board of Audit of Japan
2005 Director General of 4th Bureau, Board of Audit of Japan
2007 Chief Audit Commissioner, Gifu Prefecture Government
2011 Rejoined the Board of Audit of Japan
2012 Retired from the Board of Audit of Japan
Standing Corporate Auditor (Outside), Lawson, Inc. (Current position)

Tetsuo Ozawa

Corporate Auditor (Outside)

- Years as an auditor: 9 years
- Number of Lawson shares held: 0 shares

1973 Registered as Lawyer and joined Tokyo-Fuji Law Firm (Current position)
2003 Corporate Auditor (Outside), Lawson, Inc. (Current position)
2004 Outside Corporate Auditor, Monex Beans Holdings, Inc. (currently Monex Group, Inc.) (Current position)
2007 Outside Corporate Auditor, CEMEDINE CO., LTD. (Current position)

Eiko Tsujiyama

Corporate Auditor (Outside)

- Years as an auditor: 1 year
- Number of Lawson shares held: 0 shares

1974 Registered as a Certified Public Accountant
1980 Assistant Professor, College of Humanities, Ibaraki University
1991 Professor, Faculty of Economics, Musashi University
2003 Professor, School of Commerce and Graduate School of Commerce, Waseda University (Current position)
2008 Outside Corporate Auditor of Mitsubishi Corporation (Current position)
2010 Outside Director of ORIX Corporation (Current position)
2011 Corporate Auditor (Outside), Lawson, Inc. (Current position)
Outside Corporate Auditor, NTT DOCOMO, INC. (Current position)

INDUSTRY OVERVIEW

In fiscal 2011, Japan's economy was affected by the impact of the Great East Japan Earthquake that occurred in March 2011. In the household sector, the disaster caused consumer expenditures to temporarily drop sharply. In the convenience store industry, however, the disaster prompted the reassessment of the value of the nationwide network of convenience store chains as a social infrastructure offering consumers access to daily necessities at any time in locations near them. The reassessment occurred as a result of convenience store operators' focus on the rapid reopening of damaged stores and the recovery of merchandise supply chains. Consequently, annual net sales by the convenience store industry amounted to ¥8.7 trillion, expanding a substantial 8.2% from a year earlier. Among industry trends, the movement toward convenience stores as neighborhood stores started to become well established. In particular, major convenience store chains sought to expand their customer bases by targeting women and seniors through the aggressive development of perishable food and private-brand (PB) products.

Regarding the performance of the convenience store industry in fiscal 2011, from the second quarter on—after merchandise supply lines had recovered from the shock of the disaster—the number of customers stabilized supported by heightened demand for trustworthy and safe products. Moreover, based on the trend among consumers to eat at home rather than dine out, sales of fresh food and prepared foods were favorable. In addition, sales of cigarettes—the prices of which had risen along with a tax hike in October 2010—were robust throughout the year. As a result, spend per customer grew notably. Overall, net sales by existing stores of the top 10 convenience store companies during calendar year 2011 (January to December 2011) rose a significant 6.1% from the previous calendar year.

Retail Industry Market Size and Convenience Store Share* (Billions of yen)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total retail industry annual sales	**134,042**	135,666	132,328	135,477	135,081	135,257	135,055	133,712	132,446	132,280	136,808
Convenience store sector annual sales	**8,775**	8,114	7,981	7,943	7,490	7,399	7,360	7,289	7,096	6,980	6,846
Convenience store share	**6.5%**	6.0%	6.0%	5.9%	5.5%	5.5%	5.4%	5.5%	5.4%	5.3%	5.0%

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

Share of Convenience Store Market Held by Top Four Chains*2 (Net sales of all stores) (Billions of yen)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
LAWSON	**1,826**	1,683	1,666	1,559	1,415	1,387	1,362	1,329	1,288	1,294	1,286
Seven-Eleven Japan	**3,281**	2,948	2,785	2,763	2,574	2,534	2,499	2,441	2,343	2,213	2,114
FamilyMart	**1,535**	1,440	1,274	1,246	1,122	1,069	1,032	998	954	932	899
Circle K Sunkus*1	**980**	923	902	940	902	911	920	934	902	892	860
Total	**7,622**	6,994	6,627	6,508	6,013	5,901	5,813	5,702	5,487	5,331	5,159
Total market share of top 4 chains	**86.9%**	86.2%	83.0%	81.9%	80.3%	79.8%	79.0%	78.2%	77.3%	76.4%	75.4%

Source: Data published by each company
*1. C&S Co., Ltd.; for the fiscal years from 2001 to 2003
*2. The figures for the top four chains are on a fiscal-year basis, while the total market share of the top four chains is the proportion of sales of the convenience store industry on a calendar-year basis.

Convenience Store Numbers (Number of stores)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Convenience store numbers	45,769	45,006	44,391	43,228	43,087	42,643	41,340	41,114	40,644	39,809	38,274

Source: "2010 JFA Franchise Chain Statistics," Japan Franchise Association. The number of convenience stores is on a calendar-year basis.

MAJOR MANAGEMENT INITIATIVES IN FISCAL 2011

A major change in Lawson's management measures in the fiscal year ended February 2012 was the pursuit of faster decision making and stronger business execution capabilities under the January 2011 reorganization of the Company's operating divisions into three groups: the CVS Group, the International Group, and the Entertainment & e-Commerce Group. During the fiscal year under review, Lawson implemented the following management measures under the new organization, primarily guided by the CEO of each group. Following up on the previous fiscal year, our goal continued to be realizing stores that enabled customers to experience "whatever you want, whenever and wherever you need it."

Convenience Store Business

1. Lawson aggressively developed its fresh food-type LAWSON store network.

Fresh food convenience stores represent Lawson's strategic method of broadening its customer base. In fiscal 2011, in addition to the LAWSON STORE100 stores operated by consolidated subsidiary Ninety-nine Plus, Inc., we accelerated the development of our network of fresh food-type LAWSON stores with expanded lineups of perishable foods and daily delivered foods. At the end of fiscal 2011, the number of fresh food-type LAWSON stores totaled 3,913 stores. In fiscal 2012, we plan to raise this number to 5,000 stores.

2. The Company targeted sales promotions and reductions in opportunity loss utilizing the *Ponta* card multi-partner loyalty point program.

By analyzing in detail the customer characteristics and purchasing trends collected through the *Ponta* card system (Lawson-style CRM), we targeted reductions in opportunity loss on an individual store basis. At the end of fiscal 2011, the number of *Ponta* card program members was approximately 40 million. Sales to *Ponta* card program members accounted for about 40% of Lawson's net sales. As the proportion of sales to *Ponta* card program members to net sales increases, the precision of our analysis of customer data improves; this system enables Lawson to achieve a merchandise assortment that better matches customer needs thanks to greater accuracy in placing orders. Among related measures, we offered *Ponta* card program members bonus points on their purchases and took other steps to operate an attractive frequent shoppers program (FSP).

3. Lawson utilized *Ponta* card data analysis in merchandise development and raw materials procurement to effectively improve its gross profit margin.

The purchasing data collected on *Ponta* cards is utilized for the segment analysis of local customers by preferences, age, gender, and other characteristics and is useful in merchandise development. Moreover, we utilize customer observation based on the card data analysis in predicting demand, thus enhancing the accuracy of our procurement of raw materials. Our Raw Materials Procurement Department, which Lawson was the first in the industry to establish, draws on these predictions in demand in its system for procuring high-quality raw materials on a bulk basis. In addition, as a result of our pursuit of supply chain management (SCM) that uniformly manages inventories for all steps, from upstream to downstream, Lawson has been able to continue improving the gross profits of existing stores as well as their gross profit margins. Through these measures, gross profits in fiscal 2011 advanced 4.0% from a year earlier. The gross profit margin for all merchandise except cigarettes improved 0.5 percentage points year on year.

4. Further progress was made in implementing the management owner (MO) system.

In fiscal 2010, Lawson introduced an MO system to support franchise owners who wished to operate multiple stores. MOs are franchise owners that headquarters has recognized from among a group of franchise owners that operate a certain number of stores or more and possess richly entrepreneurial mind-sets, superior store management and capabilities in nurturing human capital, and a high level of familiarity of conditions in their operating area. Headquarters support MOs by sending its management consultants (MCs), who advise on the management of multiple stores. At February 29, 2012, there were a total of 66 MOs. The Company plans to increase this number to 100 by the end of fiscal 2012.

Entertainment & e-Commerce Business

We took steps to expand our e-commerce business based on our collaborations with Yahoo Japan Corporation that began in June 2011. We launched our total entertainment mall, LAWSON HOT STATION Lpaca, in August 2011 and our online shopping mall *Loppi* in September 2011. As of November 2011, we substantially expanded the number of items available on *Loppi*, principally in the daily necessities and food categories. Also, we promoted the use of *Ponta* points. Through these measures, we sought to increase customer convenience and achieve a mutual flow of customers between our real and online stores.

Overseas Operations

In our Chinese operations, we raised our stake in Shanghai Hualian Lawson, Inc., from 49%, to 85%, in September 2011, converting it from an equity-method affiliate to a consolidated subsidiary. In addition to our store network development in Shanghai and Chongqing, we began opening stores in Dalian from November 2011. As of February 29, 2012, we had a total of 355 stores in China, comprising 314 stores in Shanghai, 38 stores in Chongqing, and 3 stores in Dalian. In other countries, we concluded a license contract with PT Midi Utama Indonesia Tbk in June 2011. A member of the Alpha Group—a distribution and retail group in Indonesia—by the end of the previous fiscal year, the company was operating 15 stores in the special capital city district of Jakarta and surrounding area.

Specific measures for each segment are described below.

PRODUCTS AND SERVICES OVERVIEW

In the fiscal year under review, Lawson's product strategies targeted the development and supply of products that would be particularly supported by women and seniors. We based those strategies on the analysis of customer purchasing data from the *Ponta* card system.

- In our cooked rice category (rice balls, boxed lunches, and sushi), we aimed to enhance the quality of our boxed lunches through our *Lawson Tei* chilled boxed lunch series launched in January 2011. We catered to the preferences of our female customers, paying close attention to colorful presentation as well as taste and food textures.
- In our over-the-counter fast foods category, we introduced new products to our traditional and highly popular *Kara-age Kun* and other fried chicken nugget products. We also expanded our lineup of such prepared food items as croquettes and ground meat cutlets.
- In October 2011, we renewed our private brand (PB) *Lawson select*, concentrating on lifestyle necessities, such as prepared foods, processed foods, and daily sundries. As a result of reinforcing our sales promotions as well as expanding the number of product items, sales were up approximately threefold in comparison with levels at the end of the previous fiscal year.

- In the dessert category, our original brand *Uchi Café SWEETS* continued to perform favorably with the addition of such new items as *Gyutto Cream Cheese* (a small cream cheese cake.)

  In sales promotion activities, we concentrated on programs that were projected to yield a higher return on investment (ROI). We carried out campaigns primarily on tie-ups with well-known animation characters, including the Rilakkuma Fair, the Miffy Bowl/Plate Present Campaign, and the *K-ON!!* Fair. Moreover, we conducted a HAPPY 10,000 Campaign to commemorate our achievement of breaking the 10,000-mark in the number of domestic stores.

  Managed by the Mitsubishi Corporation subsidiary LOYALTY MARKETING, INC., the *Ponta* card program has been in operation since March 2010. The system hinges on the participation of a broad range of companies, such as GEO CORPORATION, which operates a video and music software rental business, in the *Ponta* multi-partner loyalty point program. During the fiscal year, Lawson reinforced its sales strategies targeting *Ponta* card members by expanding the number of sales items eligible for bonus points and taking other measures. As a result, at February 29, 2012, there were 40 million *Ponta* card members, whose sales accounted for more than 40% of Lawson's net sales.

  In our services operations, our stores handled 178 million bill settlement transactions, including public utility charges. Overall transactions handled amounted to ¥1,725.8 billion. At the end of fiscal 2011, our network of stores with automated teller machines (ATMs) covered 46 of Japan's 47 prefectures.

STORE OPERATIONS

By utilizing customer purchasing data collected from *Ponta* cards for ordering merchandise for individual stores, Lawson stores aim to achieve merchandise assortment and store spaces that meet the needs of local customers. Our goal in these efforts is to realize stores that enable customers to experience "whatever you want, whenever and wherever you need it." Our business reform plan, or PRiSM, is focused on the operating methods of these stores. During the fiscal year, we worked to improve the accuracy of placing orders at individual stores and reducing opportunity loss by proceeding with the implementation of PRiSM.

STORE DEVELOPMENT AND STORE FORMATS

Development of Lawson Stores

We focused our efforts on opening stores that are projected to generate high earnings relative to investment based on ROI and the strict adherence to the Group's unique store opening standards. To avoid homogeneous competition, or competition with other convenience stores of an identical nature, we use multiple store formats, such as LAWSON, NATURAL LAWSON, and LAWSON STORE100 formats, to flexibly open stores that match the special characteristics and customer base of the local community in the location. The greatest advantage of the multiple format strategy is the ability to open stores in locations where conventional convenience stores would not be successful.

Measures regarding formats other than LAWSON stores are described below. (Please see "LAWSON AT A GLANCE" on pages 90 and 91 of this report for further information.)

1. Fresh Food-Type Convenience Stores

LAWSON STORE100, Fresh Food Convenience Stores

We have been developing LAWSON STORE100 fresh food convenience stores to meet the needs of housewives and seniors, which are not fully captured by conventional convenience stores. These LAWSON STORE100 stores are operated by our subsidiary Ninety-nine Plus, Inc. (Ninety-nine Plus). In fiscal 2011, we opened 154 and closed 59 of these stores, for a net increase of 95 stores. The number of stores converted from the conventional LAWSON to LAWSON STORE100 format fell below our initial plan in fiscal 2011 because the number of closings of conventional LAWSON stores lagged behind planned figures. Also, we converted 129 Company-operated stores to franchise stores. As a result, at February 29, 2012, we had 1,172 LAWSON STORE100 stores.

Our plans for fiscal 2012 call for opening approximately 100 LAWSON STORE100 stores and converting about 150 Company-operated stores to franchise stores.

Fresh Food-Type LAWSON Stores

Our goal is for LAWSON stores to evolve into neighborhood stores in tune with customers in their community. To that end, we are developing a fresh food-type LAWSON store that is a remodeled format with expanded lineups of perishable foods, daily delivered foods, and other items. Similar to the concept for LAWSON STORE100 fresh food convenience stores, this format aims to broaden the customer base by serving the needs of women and seniors, with a strong preference toward store openings in residential districts. However, the two formats have the following differences.

- The concept for fresh food-type LAWSON stores is a LAWSON store model to which perishable foods and daily delivered foods have been added. On the other hand, the concept for LAWSON STORE100 stores is a model that is a combination of the convenience store and mini-supermarket formats—with appropriately sized small-portion packages and simple prices as special features.
- For the LAWSON STORE100 format, store openings cater to Japan's three major metropolises or cities designated by government ordinance. Furthermore, the stores must be within small commercial areas in which many housewives and seniors live. In contrast, the fresh food-type LAWSON store format is not limited to store openings in urban areas and can be opened in residential locations anywhere in Japan.

At February 29, 2012, there were a total of 3,913 fresh food-type LAWSON stores, an increase of approximately 2,700 stores year on year. We plan to reach a total of more than 5,000 stores by the end of fiscal 2012.

2. Healthcare-Type Convenience Stores

NATURAL LAWSON for Health-Conscious Customers

NATURAL LAWSON is a convenience store format targeting mainly working women and health-conscious customers by offering goods and services to support beauty, health, and comfort in their lives. The first store opened in 2001. In 2004, a business division at headquarters 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 were distinct from headquarters. Natural Lawson has therefore been able to develop products that break the conventional type of store mold. With the achievement by Natural Lawson of its initial goal of its phase I plan of establishing a new brand strongly supported by female customers, Lawson integrated this company back into headquarters in 2007. For the second stage, Lawson is further developing NATURAL LAWSON as a format that meets the needs of health-conscious consumers. The Company is using the format as a trailblazing force for highly original products by actively experimenting with the development of new Lawson products. There were 100 NATURAL LAWSON stores at the end of February 2012, including 41 franchise stores.

Initiatives for Pharmacy Lawson

Following the June 2009 enforcement of revisions to the Pharmaceutical Affairs Act, we are taking the following measures to capitalize on the growing opportunities for convenience stores in pharmaceutical sales. Lawson has been experimenting with over-the-counter (OTC) and prescription drug sales since 2003 through its Pharmacy Lawson format, which combines a pharmacy with a NATURAL LAWSON store. Since fiscal 2008, we have been further strengthening our efforts in this field through a business alliance with the drug-dispensing pharmacy chain Qol Co., Ltd. In August 2010, we opened a Pharmacy Lawson store that combined a Qol pharmacy with a NATURAL LAWSON store. At the end of February 2012, we had 7 Pharmacy Lawson stores, and plans call to raise this number to 50 stores by the end of February 2013. We have been taking steps to expand business in the OTC drug market. In July 2010, we opened a joint LAWSON STORE100 store with Matsumotokiyoshi Holdings Co., Ltd., a Japanese drugstore chain, and began a personnel exchange program. Taking the opportunity of this business relationship, we increased our number of registered pharmaceuticals salespersons to 86 and expanded the number of stores handling OTC drugs to 50 stores.

3. In-Store Kitchen Initiatives

In recent years, Lawson has sought to utilize the advantage that a convenience store has of its close proximity to customers' living areas. We have been leveraging this advantage by supplying customers with boxed lunches and delicatessen items prepared in-store. Moreover, we began offering customers freshly ground drip coffee in fiscal 2011 with the development of our *Machi café* service. At February 29, 2012, we had introduced *Machi café* services at 740 stores and plan to expand the service to 2,500 stores in the current fiscal year.

Introduction of a New Franchise (FC) Contract

As of March 2012, we revised the franchise contract package that has been in effect since December 1998, introducing a new FC-Cn contract. One of the purposes of the new contract is to enable the FC owners and headquarters to share such business risks as product disposal losses and rising electricity expenses. The other goal is to accelerate sales growth by more aggressively implementing measures to broaden the customer base by expanding and enhancing fresh foods, over-the-counter fast foods, and other product lineups. The new contract chiefly differs from the FC-C and FC-G contracts in that 1) headquarters is assuming some of the product disposal losses to reduce opportunity loss and support more aggressive orders from FC stores, 2) headquarters is assuming 50% of lighting costs, such as electricity expenses, from the installation of new fixtures that formerly the FC owners would have to bear and that are expected to increase to boost sales of fresh foods, over-the-counter fast foods, and prepared foods, 3) headquarters has revised Lawson's royalty rates to reinforce sales promotions carried out with the guidance of headquarters, as can be seen in the chart below.

Number of Stores in the Lawson Network in Japan (Group Stores)

(Number of stores)

	2012/2*2	2011/2*2	2010/2*2	2009/2*1	2008/2
Number of stores	**10,457**	9,994	9,761	9,527	8,587
Openings*1	**766**	550	607	501	452
Closings*1	**303**	317	373	414	429
Net increase (decrease)	**463**	233	234	940	23

*1. Since Ninety-nine Plus, Inc. was made into a consolidated subsidiary from the year ended February 28, 2009, stores operated by Ninety-nine Plus from the year ended February 28, 2009, onwards are included in the data above.

*2. Figures for the years ended February 29, 2012, February 28, 2011, and February 28, 2010, include 147, 141, and 136 stores, respectively, operated by Lawson Okinawa, Inc., in the respective fiscal years.

Number of Stores by FC Contract Type (Group Stores, Stores in Japan)

(Number of stores)

	2012/2		2011/2		2010/2		2009/2*		2008/2	
Franchise stores	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
B	**1,176**	**11.2%**	1,216	12.2%	1,258	12.9%	1,322	13.9%	1,369	15.9%
G	**2,223**	**21.3%**	2,057	20.6%	2,001	20.5%	2,041	21.4%	2,123	24.7%
C	**5,455**	**52.2%**	5,284	52.9%	5,074	52.0%	4,863	51.0%	4,641	54.0%
NATURAL LAWSON	**41**	**0.4%**	35	0.4%	27	0.3%	22	0.2%	15	0.2%
LAWSON STORE100 / SHOP99	**356**	**3.4%**	268	2.7%	167	1.7%	114	1.2%	—	—
Lawson Toyama	**61**	**0.6%**	—	—	—	—	—	—	—	—
Subtotal	**9,312**	**89.1%**	8,860	88.7%	8,527	87.4%	8,362	87.8%	8,148	94.9%
Company-operated stores	Stores	Share	Stores	Share	Stores	Share	Stores	Share	Stores	Share
LAWSON	**111**	**1.0%**	129	1.3%	207	2.1%	283	3.0%	291	3.4%
NATURAL LAWSON	**59**	**0.6%**	55	0.6%	62	0.6%	71	0.7%	76	0.9%
LAWSON STORE100 / SHOP99	**816**	**7.8%**	809	8.1%	829	8.5%	811	8.5%	72	0.8%
Lawson Toyama	**12**	**0.1%**	—	—	—	—	—	—	—	—
Subtotal	**998**	**9.5%**	993	9.9%	1,098	11.2%	1,165	12.2%	439	5.1%
Lawson Okinawa	**147**	**1.4%**	141	1.4%	136	1.4%	—	—	—	—
Total	**10,457**	**100.0%**	9,994	100.0%	9,761	100.0%	9,527	100.0%	8,587	100.0%

* Since Ninety-nine Plus was made into a consolidated subsidiary from the year ended February 28, 2009, stores operated by Ninety-nine Plus are included in the data above from the year ended February 28, 2009, onwards.

Outline of Store Contracts (LAWSON Stores)

(Previous)

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*1	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*2		Gross profit x 50%	Gross profit x 45%	Gross profit x 34%
Burden of utility expenses		Franchisee		
Minimum guarantee (annual)*2 (thousands of yen)		21,000	22,200	22,200

(New Contracts)

Contract type		Cn	B4
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*1	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)	
Partial guarantee for expenses associated with product disposal losses		Headquarters will bear the following percentage of clearance and disposal costs according to their proportion of merchandise sales • Greater than 2.0%, but less than 3.0%: 20% • Greater than 3.0%, but less than 4.0%: 30% • Greater than 4.0%: 55%	—
Head Office income*2		Headquarters' percentage of gross profit • Less than ¥3.0 million: 45% • From ¥3.0 million to under ¥4.5 million: 70% • Greater than ¥4.5 million: 60%	Gross profit x 34%
Burden of utility expenses		50%*3 of electricity expenses and store air conditioning energy expenses are borne by Lawson	Franchisee
Minimum guarantee (annual)*2 (thousands of yen)		18,600	22,200

*1. 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 provide a total of ¥500,000, including the cash register float, at the time of store opening.

*2. The Head Office income and minimum guarantee apply to stores operating on a 24-hour basis.

*3. The ceiling on the amount borne by headquarters monthly is ¥250,000.

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 from the opening day	5 years from the opening day	10 years from the opening day
Necessary expenditure	Payment by franchisee at time of contract*4	¥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 commission ¥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 change 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*5		¥21.0 million per year		¥22.2 million per year
Head Office income*5		[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%

*4. 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 provide a total of ¥500,000, including the cash register float, at the time of store opening.

*5. The Head Office income and minimum guarantee apply to stores operating on a 24-hour basis.

OVERVIEW OF RESULTS

1. Sales Figures

Total Net Sales of All Stores (Consolidated)

Consolidated net sales at Lawson stores in fiscal 2011, ended February 29, 2012, exceeded the revised plan of ¥1,807,000 million announced in October 2011 by ¥18,809 million, advancing 8.5% year on year, to ¥1,825,809 million. As discussed in further detail later, net sales outperformed the revised plan primarily thanks to robust sales at existing stores. On a non-consolidated basis, sales climbed 7.9%, to ¥1,621,328 million.

Net Sales at Existing Stores (Consolidated)

Consolidated net sales at existing stores (including sales at Ninety-nine Plus) increased 4.9% year on year. On a non-consolidated basis, net sales at existing stores exceeded the revised plan by 1.5 percentage points and rose 5.4% from a year earlier.

By region, sales in the Kinki area were comparatively weak, while sales in the Tohoku area remained strong and continued to enjoy demand from recovery efforts following the major earthquake, posting greater than double-digit growth.

Growth Rate of Existing Store Sales, Average Number of Customers, and Average Spending per Customer at Existing Stores (Non-Consolidated)

	2012/2	2011/2	2010/2	2009/2	2008/2
Growth rate of existing store sales	**105.4%**	100.8%	95.9%	106.5%	99.2%
Growth rate of average number of customers and average spending per customer at existing stores					
Number of customers	**101.0%**	100.4%	99.0%	105.7%	98.9%
Average spending per customer	**104.3%**	100.4%	96.9%	100.8%	100.4%

Net Sales by Product Category (All Stores, Consolidated)

On a consolidated basis, the fast foods and processed foods product categories recorded substantial year-on-year sales growth. On a non-consolidated basis, all product categories posted increases from fiscal 2010; above all, fast foods, daily delivered foods, and processed foods registered particularly strong growth, at 7.1%, 4.8%, and 10.5%, respectively. The remainder of this discussion on sales by product category is on a non-consolidated basis.

In the fast foods category, sales jumped sharply from the previous year. Sales of the *Pasta-ya* brand remained firm following its renewal in October 2010. Sales of *Lawson Tei* chilled boxed lunches were also favorable. In addition, sales of over-the-counter fast foods greatly exceeded sales in the previous year, supported by successive launches of new *Kara-age Kun* products.

Sales of daily delivered foods increased along with the growth in the number of fresh food-type LAWSON stores. Sales of perishable foods contributed favorably to that growth, rising 77.4% from the previous fiscal year.

Sales of processed foods swelled from the previous year, mainly because of strong cigarette sales jumping 22.7% along with the cigarette tax hike.

In the non-food category, sales of books and magazines continued to decline because of structural problems in the publishing industry. Nevertheless, sales of the daily necessities lineup of health drinks and healthcare-related products as well as merchandise linked to entertainment events drove the non-food category's sales, supporting a 0.4% year-on-year increase in sales.

Sales by Product Category (Consolidated, total net sales) (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Fast foods	**345,424**	321,865	324,197	332,894	327,501
Share	**18.9%**	19.1%	19.5%	21.4%	23.1%
Daily delivered foods	**263,179**	264,169	239,088	186,109	162,625
Share	**14.4%**	15.7%	14.3%	11.9%	11.5%
Processed foods	**1,022,619**	897,426	902,306	844,324	726,750
Share	**56.0%**	53.3%	54.2%	54.2%	51.4%
(Cigarettes)	**470,666**	382,167	358,600	342,450	249,745
(Share)	**25.8%**	22.7%	21.5%	22.0%	17.6%
Total food sales	**1,631,222**	1,483,462	1,465,592	1,363,328	1,216,876
Share	**89.3%**	88.2%	88.0%	87.5%	86.0%
Non-food products	**194,586**	199,350	200,544	195,453	198,230
Share	**10.7%**	11.9%	12.0%	12.5%	14.0%
Net sales of all stores	**1,825,809**	1,682,812	1,666,136	1,558,781	1,415,106
Share (%)	**100.0%**	100.0%	100.0%	100.0%	100.0%

Breakdown of Product Category

Category	Products Included
Fast foods	Rice dishes, noodles, sandwiches, delicatessen items, over-the-counter fast foods, 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)

The overall gross profit margin was 30.1%, declining 0.5 percentage points from fiscal 2010. This decrease can be attributed to deterioration in the product mix caused by a cigarette price increase, which reflected an additional cigarette tax hike on October 1, 2010. The gross profit margin declined because sales of low-margin cigarettes exceeded initial estimates and the positive impact of the unit price hike outweighed the negative impact of a reduction in sales volume. However, the gross profit margin for all products excluding cigarettes exceeded the initial plan, rising 0.5 percentage points from a year earlier. Reasons behind this increase included planning orders for processed foods and non-food products and reducing the number of new products. In addition, the gross profit margin for ready-made meals, mainly over-the-counter fast foods, contributed to margin growth thanks to the improvement in value added through raw materials procurement. (For details on value added by raw materials procurement, please refer to pages 13 and 25.)

The previously mentioned measures to enhance value through raw materials procurement supported a 0.4 percentage point increase in the gross profit margin for the fast foods category. The gross profit margin improvement was particularly striking in over-the-counter fast foods and cooked noodles.

In the daily delivered foods category, the gross profit margin slid 0.1 percentage point year on year. This slight weakening was due to the increased use of low-margin perishable foods to attract a greater number of customers.

The larger share of cigarette sales in the product mix was responsible for the gross profit margin's decline of 0.7 percentage points from fiscal 2010 in the processed foods category. The sales contribution of cigarettes stepped up from 24.9% to 28.3%, rising 3.4 percentage points. Gross profit margins on processed foods other than cigarettes, such as confectioneries and drinks, improved year on year thanks to the optimization of manufacturer inventories, resulting from more systematic ordering linked to product development (linking the merchandise assortment at stores with product development).

In the non-food products category, the gross profit margin improved significantly, rising 1.2 percentage points from a year earlier. Reasons for this improvement included efforts to improve the gross profit margin of daily necessities using the previously mentioned measures and an increase in commission business, mainly ticket sales and bill settlement.

Gross Profit Margin by Product Segment (Non-Consolidated)

	2012/2	2011/2	2010/2	2009/2	2008/2
Fast foods	**38.2%**	37.8%	37.3%	36.1%	36.3%
Daily delivered foods	**34.5%**	34.6%	34.3%	33.7%	33.6%
Processed foods*1	**23.8%**	24.5%	24.6%	24.8%	26.3%
Non-food products*2	**43.4%**	42.2%	40.8%	39.5%	38.5%
Gross profit margin	**30.1%**	30.6%	30.4%	30.1%	31.2%

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

Bill Settlement Services (Non-Consolidated)

	2012/2	2011/2	2010/2	2009/2	2008/2
Bill settlements (millions of yen)	**1,725,788**	1,639,203	1,553,832	1,506,531	1,412,335
Number of transactions (millions)	**177.7**	169.8	162.2	156.6	149.9
Commission income (millions of yen)	**9,487**	9,027	8,651	8,415	8,275

2. Consolidated Income Statement Items

Operating Revenues

Operating revenues comprise "Net sales from Company-operated stores," "Franchise commissions from franchised stores," and "Other." In the year under review, operating revenues increased ¥37,679 million, or 8.5%, to ¥478,957 million, and exceeded the initial plan by ¥5,957 million. Two principal factors were behind this increase. Entertainment and e-commerce-related sales expanded about ¥23,700 million because of the acquisition of HMV Japan K.K., a previously non-consolidated subsidiary. The other factor was the robust performance of the convenience store business, which supported a ¥9,289 million gain in non-consolidated operating revenues.

By sales breakdown, "Net sales from Company-operated stores" amounted to ¥174,116 million. Of that amount, Ninety-nine Plus contributed ¥134,061 million. "Franchise commissions from franchised stores" were ¥215,574 million, with Ninety-nine Plus accounting for ¥5,773 million. "Other" were ¥89,267 million.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose ¥18,306 million, or 7.5%, from the previous year, to ¥260,942 million, approximately ¥1,800 million higher than planned. One of the reasons behind the year-on-year increase was an additional ¥2,866 million in personnel expenses, up 4.9%, because of performance-linked bonuses resulting from Lawson's strong results.

Advertising and promotional expenses climbed ¥3,169 million, or 28.9% from a year earlier, because of aggressive promotional activities. Among other activities, Lawson held a Lawson Group 10,000 Stores Campaign, provided recovery support for the disaster-stricken area, reinforced its *Lawson select* promotion program, and conducted a *Ponta* Card 40 Million Members Campaign. Further, rents rose ¥5,251 million, or 7.2%, because of an increase in the opening of mainly C-type franchise stores.

IT-related costs comprise facility rental expenses, tangible fixed assets depreciation expenses, and incidental other expense items. On a non-consolidated basis, IT-related costs stood at ¥15,700 million, up ¥1,000 million from the previous year and about ¥400 million less than planned because of a revision of maintenance expenses and efforts to rationalize existing IT systems.

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

	2012/2	2011/2	2010/2	2009/2	2008/2
Personnel expenses	**60,886**	58,020	60,833	46,203	39,927
Share	**23.3%**	23.9%	25.0%	21.8%	20.6%
Advertising and promotional expenses	**14,146**	10,977	12,166	13,781	9,385
Share	**5.4%**	4.5%	5.0%	6.5%	4.9%
Rents	**78,483**	73,231	70,570	62,323	58,562
Share	**30.1%**	30.2%	29.0%	29.4%	30.3%
Equipment leasing charges	**8,204**	10,229	13,443	14,988	18,414
Share	**3.1%**	4.2%	5.5%	7.1%	9.5%
Depreciation and amortization	**37,845**	33,084	27,468	20,879	21,469
Share	**14.5%**	13.6%	11.3%	9.9%	11.1%
Depreciation expenses*	**28,998**	24,529	21,053	16,752	16,630
Share	**11.1%**	10.1%	8.7%	7.9%	8.6%
Amortization expenses	**8,846**	8,554	6,414	4,126	4,838
Share	**3.4%**	3.5%	2.6%	1.9%	2.5%
Other	**61,375**	57,093	58,711	53,755	45,633
Share	**23.5%**	23.5%	24.1%	25.4%	23.6%
Total	**260,941**	242,636	243,194	211,932	193,390
Share	**100.0%**	100.0%	100.0%	100.0%	100.0%

* Due to the application of new accounting standards for leases, depreciation expenses for fiscal 2010 and fiscal 2011 include depreciation and amortization of lease assets treated as sale-and-purchase transactions.

Operating Income

"Operating income" grew ¥6,228 million, or 11.2%, year on year, to ¥61,769 million, and was ¥270 million, or 0.4%, higher than initially planned. Operating income relative to net sales by all stores was 3.4%, improving from the previous fiscal year.

Income before Income Taxes and Minority Interests

"Income before income taxes and minority interests" rose ¥1,874 million, or 4.2%, to ¥46,285 million. For fiscal 2011, Lawson recorded extraordinary losses of ¥17,502 million. This included a ¥3,319 million charge for "Impairment of long-lived assets," which declined ¥1,671 million in response to the jump in impairment losses in the prior year related to the existing IT system of Ninety-nine Plus accompanying its introduction of the PRiSM system. "Loss on disposal of property and store equipment" because of store closings and other events amounted to ¥2,069 million. "Loss on adjustment for adoption of accounting standard for asset retirement obligations"* was ¥8,293 million, while loss on disaster related to the major earthquake and tsunami registered ¥3,461 million.

* Asset retirement obligations arise with the purchase, construction, development, or normal use of a tangible fixed asset and are booked as the discounted present value of the future cash flows required to dispose of the asset. At the time of booking the asset retirement obligation, which is a liability, an asset retirement cost in an amount equivalent to the present value of the asset retirement obligation is also booked as a tangible fixed asset. The asset retirement cost is then depreciated over the remaining useful life of the asset and expensed each accounting period. During the same period, the asset retirement obligation increases each accounting period, eventually reaching the originally calculated amount of future cash flows required to dispose of the asset.

Net Income

As a result of the above, "Net income" declined ¥502 million, or 2.0%, to ¥24,885 million. This decrease can be attributed to a change in the corporate tax rate that resulted in a reversal of ¥1,568 million in "Deferred income taxes," causing income tax adjustments to diminish to ¥2,321 million. Earnings per share (EPS) was ¥249.17.

FINANCIAL POSITION

1. Consolidated Balance Sheets

Current Assets

"Total current assets" amounted to ¥160,158 million, growing ¥15,148 million, or 10.4%, from the end of fiscal 2010. The main reason for the expansion in assets was a ¥5,958 million, or 8.8%, year on year increase in "Cash and cash equivalents," to ¥73,670 million, supported by an improvement in operating cash flow related to a strong business performance, especially by existing stores.

Property and Store Equipment, Investments and Other Assets

"Net property and store equipment" increased ¥25,001 million, or 15.7%, from a year earlier, to ¥183,835 million. This increase can be mainly attributed to growth in "Lease assets," such as fixtures associated with store openings and IT capital investments.

"Investments and other assets" rose ¥12,386 million, or 9.1%, to ¥148,483 million. The primary factors involved in this rise were a ¥3,618 million increase in long-term "Deferred tax assets" because of the tax impact of the booking of asset retirement obligations and a ¥4.2 billion equity investment in PT Midi Utama Indonesia Tbk, a company operating stores in Indonesia. (For more details on PT Midi Utama Indonesia, please refer to page 54.)

Current Liabilities

"Total current liabilities" expanded ¥25,383 million, or 13.2%, to ¥217,979 million. Several factors were involved in this upturn. First, there was a surge of ¥12,664 million, or 20.3%, to ¥75,005 million in "Money held as agent" because of the robustness of the bill settlement services business. Also, an advance of ¥6,864 million, or 8.4%, to ¥88,263 million, was registered in "Accounts payable—trade" because of growth in total net sales resulting from a net increase in the number of stores and favorable expansion in sales by existing stores.

Long-Term Liabilities

"Total long-term liabilities" rose ¥23,838 million, or 31.8%, to ¥98,812 million. There was a ¥1,404 million contraction in "Guarantee deposits received from franchised stores and other" due to a decrease in the number of G-type franchise stores, which operate under franchise agreements requiring the payment of a guarantee deposit. In contrast, "Asset retirement obligations" registered ¥15,161 million, while "Long-term lease obligations" increased ¥9,648 million.

Total Equity

"Total equity" amounted to ¥214,663 million, representing a ¥6,196 million, or 3.0%, year-on-year increase. "Net income" stood at ¥24,885 million and cash dividends of ¥17,177 million were paid, resulting in growth of ¥7,641 million in "Retained earnings," to ¥107,249 million.

2. Special Account Items on the Balance Sheets

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

Amounts Due from Franchised Stores

Lawson makes bulk purchases of merchandise ordered by all franchise stores and calculates and pays amounts payable for these to the vendors on these stores' behalf. Lawson records the cost of the merchandise under the "Due from franchised stores" account under accounts receivable on the balance sheets until such costs are recovered from franchise stores. "Due from franchised stores" represents principally the obligations of franchise stores to headquarters for these amounts at the balance sheet date. As of February 29, 2012, this current asset account totaled ¥19,521 million, an increase of ¥3,362 million from a year earlier.

Accounts Receivable—Other

Other accounts receivable amounts, such as income due from vendors, are incorporated in "Other" under accounts receivable on the balance sheets. This account includes income receivable by franchise stores, such as credit card sales by franchise stores. While credit sales for Company-operated stores and franchise stores are accounted for as separate account items, all accounts receivable from credit card issuing companies are payable to Lawson as the contracted party with the credit card companies. Therefore, credit sales are disclosed in a single "Other" account under accounts receivable.

The constituent elements of this item stood at ¥32,645 million at February 29, 2012, an increase of ¥3,359 million.

Long-Term Loans Receivable

In this account, funds paid to landlords, or owners of land and buildings for stores, to assist with construction and investments in and loans to franchise stores by headquarters are recorded. Funds pledged to landlords for opening stores were previously booked as lease deposits but are now booked under "Long-term loans receivable." As of February 29, 2012, this account totaled ¥32,139 million, ¥313 million higher than the previous fiscal year-end.

Lease Deposits

This account includes leasehold deposits paid to landlords by Lawson equivalent to several months' rent under lease agreements. As of February 29, 2012, this account was ¥83,666 million, expanding ¥2,011 million from the previous fiscal year-end along with the increase in store openings.

Amounts Due to Franchised Stores

This account registers headquarters' obligations to franchise stores, all of which make remittances of cash proceeds from daily sales to headquarters. 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 sheets as "Accounts payable—due to franchised stores." At February 29, 2012, this account stood at ¥1,390 million, up ¥211 million from a year earlier.

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. In fiscal 2011, the total bill settlement amount continued to increase, climbing 5.3% year on year, to ¥1,725.8 billion. This growth was attributed to the rising number of transactions and number of companies for which settlement services are provided. At February 29, 2012, there was ¥75,005 million in this account, an increase of ¥12,664 million year on year.

Guarantee Deposits Received from Franchised Stores and Other

Comprising guarantee deposits received by Lawson from FC owners operating under FC-G contracts, as of February 29, 2012, this account stood at ¥35,735 million, ¥1,404 million less than the prior year; this decline occurred despite the rise in the number of FC-G contract stores by 166 stores because of the repayment of guarantee deposits to franchise stores associated with contract renewals or terminations.

CAPITAL EXPENDITURES AND RELATED AMOUNTS

In fiscal 2011, capital expenditures on a consolidated basis totaled ¥74,572 million, increasing ¥24,246 million from fiscal 2010. In addition to property, plant and equipment, capital expenditures include equity investments, loans, and amounts equivalent to the purchase price of leased assets.

New store investments stepped up ¥7,921 million, to ¥21,596 million, because of additional store openings. (Group store openings were up from 550 in the previous fiscal year, to 766.) Existing store investments rose ¥1,306 million, to ¥10,240 million, reflecting an increase in conversions to fresh food-type LAWSON stores. IT-related investments expanded ¥265 million, to ¥7,744 million, based on IT-related investments by headquarters. Leases increased ¥5,269 million, to ¥21,960 million, mainly because of the installation of LED lighting after the major disaster and of equipment for making fresh coffee.

Details of major capital expenditures are as follows:

Breakdown of Capital Expenditures (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
New store investments	**21,596**	13,675	19,887	15,635	12,387
Existing store investments	**10,240**	8,934	8,101	6,747	7,493
IT-related investments	**7,744**	7,479	9,409	12,064	7,733
Other	**630**	1,003	629	3,886	2,260
Investments subtotal	**40,211**	31,091	38,026	38,331	29,873
Investments and advances	**12,401**	2,544	(3,004)	(14,564)	19,690
Leases*	**21,960**	16,691	36,376	19,140	14,850
Total	**74,572**	50,326	71,399	42,907	64,413

* The amount equivalent to the acquisition cost of leased property acquired during each fiscal year. The amount of repayments of lease obligations was ¥10,382 million in fiscal 2011.

Breakdown of Depreciation (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Depreciation expenses*	**28,998**	24,529	21,053	16,752	16,630
Amortization expenses	**8,846**	8,554	6,414	4,126	4,838
Total depreciation and amortization	**37,845**	33,084	27,468	20,879	21,469

* Due to the application of new accounting standards for leases, depreciation expenses for fiscal 2010 and fiscal 2011 include depreciation and amortization of lease assets treated as sale-and-purchase transactions.

CASH FLOWS

Operating activities provided net cash of ¥86,357 million, ¥14,147 million higher than in the previous fiscal year. The increase in cash flows was mainly attributable to substantial growth in operating income, thanks to the strong sales performance in fiscal 2011 and higher levels of money held as agent brought about by growth in bill settlement services.

Investing activities used net cash of ¥52,912 million, ¥22,390 million higher than in fiscal 2010. The main reasons for additional outlays were the acquisition of associated companies in Indonesia; in Shanghai, China; and other companies as well as greater expenditures for purchases of property and store equipment because of the increase in store openings.

As a result of changes in free cash flow, the difference between cash flows from operating and investing activities expanded ¥8,243 million, to ¥33,445 million.

Financing activities used net cash of ¥27,545 million, ¥1,254 million less than in the prior year. The contraction in net cash used was in response to fiscal 2010 payments of ¥3,510 million for the purchase of the Company's own shares in association with converting Ninety-nine Plus and LAWSON ENTERMEDIA, INC. (currently, Lawson HMV Entertainment, Inc.), into wholly owned subsidiaries.

Consequently, cash and cash equivalents, end of year, increased ¥5,958 million from a year earlier, to ¥73,670 million.

CAPITAL POLICY: DIVIDENDS AND PURCHASE OF TREASURY STOCK

Lawson regards returning profits to shareholders as one of its most important management policies and operates its business with the recognition that the level of capital cost should reflect the profit expectations of investors. We therefore seek to select and develop businesses that achieve earnings above the cost of capital, using return on earnings (ROE), an indicator of capital efficiency, as our 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 to maintain high profitability. Also, we 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-term goal is an ROE of 20%.

Our dividend yield as of February 29, 2012 was 3.8%. (Please refer to pages 8 and 9 for details on our cash dividends per share.) For fiscal 2012, we plan to increase cash dividends by ¥10 per share, to ¥190 per share.

Under our dividend policy, we have not set a specific target for the payout ratio. Rather, the fundamental concept of our capital strategy is to improve capital efficiency by efficiently managing the ample free cash flow we are creating by returning surplus funds to shareholders following necessary investments to achieve sustained growth. Through this process, we improve capital efficiency by avoiding the retention of excess surplus funds.

During the four-year period from fiscal 2001 to fiscal 2004, Lawson retired approximately ¥43.0 billion of treasury stock. In fiscal 2007, we bought back additional stock by repurchasing approximately 5.3 million shares for approximately ¥21.0 billion from October 2007 to January 2008. We canceled a total of 5.0 million shares of treasury stock in February 2008. Going forward, we will flexibly consider repurchasing and retiring treasury stock as a method of improving ROE.

OVERVIEW OF CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

Consolidated results for fiscal 2011 include the performances of 13 members of the Lawson Group—10 consolidated subsidiaries and 3 affiliates accounted for by the equity method. These subsidiaries and affiliates are broadly engaged in three categories of business: convenience store operations, entertainment and e-commerce related operations, 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. The subsidiary has grown rapidly as a pioneer in Japan of a fresh food store format that provides everything from perishable 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-type convenience stores have won strong acceptance from housewives and seniors thanks to an enhanced merchandise assortment of perishable and daily delivered foods at stores in small commercial areas. As a result, there is a higher percentage of these target groups in the customer mix compared with conventional type of stores. In 2007, Ninety-nine Plus carried out a capital increase through a third-party allotment of shares to Lawson. In January 2008, Ninety-nine Plus stepped up its capital through another such allotment of shares to Lawson to bolster its business alliance with Lawson and raise funds to open more stores. Through these investments, Lawson became the leading shareholder in Ninety-nine Plus with an equity interest of 34.2%. In September 2008, Lawson took the next step in the relationship, conducting a tender offer for Ninety-nine Plus's shares to expand its equity interest to 76.8%.

On May 1, 2009, Value Lawson, Inc., a Lawson subsidiary that developed the LAWSON STORE100 format and steered a fresh food convenience store operation, merged with Ninety-nine Plus with the latter as the surviving company. The goal of the merger was to generate even greater business alliance benefits and become the unrivaled leader in the fresh food convenience store sector. The strategies involved with this merger were to share expertise in the sale of perishable foods and daily delivered foods and jointly develop the *Value Line*, which features products in appropriately sized small portions and conveniently sized packages.

Ninety-nine Plus's conversion to a wholly owned consolidated subsidiary required some complicated transitional accounting for both companies. Since Ninety-nine Plus changed its March 31 fiscal year-end in fiscal 2008, Lawson's equity-method earnings from 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 consolidated from its third quarter in fiscal 2008. Ninety-nine Plus changed its fiscal year-end from March 31 to the end of February at its ordinary general meeting of shareholders held in June 2009. Consequently, Ninety-nine Plus's fiscal 2009 was an 11-month transitional fiscal year. Moreover, Lawson's consolidated results for fiscal 2009 included three months' results of Ninety-nine Plus for the fourth quarter of fiscal 2008, for a total of 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 through a share exchange in July 2010.

Lawson's cumulative investments in Ninety-nine Plus since fiscal 2007 have amounted to ¥16,700 million.

In fiscal 2011, sales by Ninety-nine Plus's existing stores edged up only 0.1%, failing to reach business plan targets. This limited growth can be principally attributed to the major disaster, which interrupted the supply of *Value Line* PB products. The disaster also postponed the planned introduction of a new IT system, which in turn delayed the start-up of the PRiSM system of improving the accuracy of placing orders. As a result, Ninety-nine Plus recorded operating income of ¥1,883 million, up 6.3% year on year, but falling short of the initial plan. Because of the ¥963 million loss on the adoption of asset retirement obligations accounting standards recorded in fiscal 2011, Ninety-nine Plus posted an overall net loss of ¥747 million.

Ninety-nine Plus, Inc. (Millions of yen)

	2012/2	2011/2	2010/2*	2009/3	2008/3
Total operating revenues	**141,801**	142,228	135,410	134,246	122,997
Operating income	**1,883**	1,772	1,792	261	401
Net income (loss)	**(747)**	(840)	1,673	(504)	47
Number of stores	**1,172**	1,077	996	856	837

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

BestPractice, Inc. (Consolidated subsidiary)

BestPractice was established in 2004 as a wholly owned subsidiary. The company provides Mystery Shopper on-site inspections of convenience stores to determine the condition of their operations and offers recommendations and proposals to improve Lawson stores at the operational level. Under the Mystery Shopper program, an employee of BestPractice serves as an undercover researcher to objectively and quantitatively evaluate convenience store operations and merchandise assortment from a customer's perspective. The results are given to Lawson's headquarters and franchise owners. Through support of the improvement of customer satisfaction by ensuring stores pursue Lawson's Triple Emphasis* policy, the continued implementation of the Mystery Shopper program contributes to strengthening store management capabilities. Lawson has positioned the Triple Emphasis policy, which focuses on merchandise assortment, customer service, and cleanliness, as the backbone of store management.

* The Triple Emphasis policy lists items that franchise owners, employees, and crews (temporary and part-time employees) must pay attention to in the operation of stores, including: 1) a merchandise assortment suited to the community, or the local area, specifically the small commercial area around each store, 2) sincere customer service, and 3) keeping the store and community clean.

BestPractice, Inc. (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Total operating revenues	**898**	1,131	991	982	919
Operating income (loss)	**(14)**	235	91	50	8
Net income (loss)	**85**	130	59	(1)	1

Lawson Toyama, Inc. (Consolidated subsidiary)
Lawson Toyama was established as a wholly owned subsidiary in September 2010. The subsidiary acquired the Toyama Prefecture convenience store business of Sunkus and Associates Toyama Co., Ltd., a subsidiary of Nanoha Agricultural Cooperative, in July 2011.

At February 29, 2012, Lawson Toyama was operating 73 convenience stores in Toyama Prefecture. Because of the costs of renovations in converting the stores to Lawson formats, Lawson Toyama posted an operating loss of ¥87 million in fiscal 2011.

Lawson Toyama, Inc. (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Total operating revenues	1,793				
Operating income (loss)	(87)		<Established in September 2010>		
Net income (loss)	(410)				
Number of stores	73				

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. Through this alliance with SAN-A, which is a highly recognized name in Okinawa, Lawson aims to create products and stores better suited to 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 converted Lawson Okinawa into a joint venture by transferring 51% of its total outstanding shares to SAN-A.

At the end of fiscal 2011, Lawson Okinawa was operating 147 stores. Operating income surged 29.6% compared with the previous fiscal year, to ¥779 million. The primary contributors to this strong performance were the active introduction of the PB *Lawson select* into the merchandise assortment and robust sales of Lawson ready-made meals.

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.

Lawson Okinawa, Inc. (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Total operating revenues	3,658	3,347	733		
Operating income	779	601	109	<Established in October 2009>	
Net income	1,048	611	101		
Number of stores	147	141	136		

Entertainment and E-Commerce Operations

Lawson HMV Entertainment, Inc. (Consolidated subsidiary)
Lawson HMV Entertainment was originally 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 through the total entertainment mall LAWSON HOT STATION Lpaca, and is particularly strong in sales of tickets for J-Pop*[1] and sporting events. In March 2009, LAWSON TICKET carried out an absorption-type merger, incorporating 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 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. In September 2011, Lawson merged LAWSON ENTERMEDIA and HMV Japan*[2] to more fully demonstrate synergies in the entertainment and e-commerce businesses in the future. The surviving company was renamed Lawson HMV Entertainment, Inc. Taking advantage of its solidified e-commerce business base, Lawson HMV Entertainment will provide one-stop shopping for concert tickets and music CDs that were previously sold through separate channels. The subsidiary expects HMV's brand power in the music CD industry and Lawson's reputation in the event tickets industry to a synergistic impact on the business.

Regarding Lawson HMV Entertainment's earnings structure, the major source of revenues derives from sales commissions on ticket sales. The total operating revenue account, which mainly comprises commissions, is included in Other under operating revenues in Lawson's consolidated statements of income.

In fiscal 2011, the degree of voluntary restraint in holding concerts out of respect for the victims of the major disaster was far less than expected, and sales quickly recovered. Operating income jumped 48.5%, to ¥1,650 million. Contributors to the sharp increase in profits included the aggressive use of high-profitability sales routes, such as *Loppi* multimedia terminals and Lawson's total entertainment mall, and the impact of the merger with HMV Japan.

*1. Japanese music generally popular among the relatively younger generation.
*2. HMV Japan, a consolidated subsidiary until August 2011, 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 current Internet-based HMV Online electronic commerce business in 1999. In 2007, HMV Japan Holdings Co., Ltd., which was wholly owned by Daiwa Securities SMBC Principal Investments Co., Ltd., including indirect holdings, acquired all the shares of the company. Lawson acquired all the shares of HMV Japan from HMV Japan Holdings in December 2010. The acquisition was undertaken to strengthen Lawson's entertainment-related business and take advantage of synergies with LAWSON ENTERMEDIA.

Lawson HMV Entertainment, Inc. (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Total operating revenues	25,545	9,864	10,022	7,620	6,960
Operating income	1,650	1,111	1,099	791	636
Net income (loss)	2,073	1,870	(11,887)	(1,445)*	423

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

Lawson ATM Networks, Inc. (Consolidated subsidiary)
Lawson ATM Networks was established in 2001 with investments by Mitsubishi Corporation, several banks, and Lawson to carry out ATM operations for Lawson stores. The subsidiary began installing ATMs and started ATM services at certain Lawson stores from 2001. Through its ATM business, jointly operated ATMs are installed in Lawson stores in regions where agreements have been reached with partner banks. As of February 29, 2012, Lawson ATM Networks had formed business alliances with a total of 39 partner banks, encompassing the major commercial bank groups and regional banks. The subsidiary's main source of revenue is fees from banks for the commissioned operation of ATMs that are included in the Other account under operating revenues on Lawson's consolidated statements of income. The company's main expenses are operating center outsourcing fees, ATM line charges, and ATM-leasing charges.

Lawson ATM Networks' performance in fiscal 2011 scaled up sharply, with operating income rising 15.2%, to ¥3,639 million. Benefits from the installation of more than 2,000 ATMs over the previous two years to enhance the consumer's recognition of Lawson's ATM services, which are available in almost all stores, contributed to profit growth.

In fiscal 2011, the subsidiary installed 476 ATMs, bringing the total size of the network to 9,002 ATMs in 46 of Japan's 47 prefectures. To boost its commitment to the ATM business, Lawson increased its stake in Lawson ATM Networks from 44.0%, to 70.9%, at the end of fiscal 2011.

Lawson ATM Networks, Inc. (Millions of yen)

	2012/2	2011/2	2010/2	2009/2	2008/2
Total operating revenues	23,062	20,825	18,570	16,964	14,900
Operating income	3,639	3,159	2,444	1,439	1,201
Net income	1,993	1,788	1,412	589	718
Number of ATM machines installed (Units)	9,002	8,526	6,978	5,970	5,643

Overseas Operations

Shanghai Hualian Lawson, Inc. (Consolidated subsidiary)
In 1996, Lawson became the first Japanese convenience store company to enter the Chinese market, establishing a joint company (Lawson, 70.0%; Hualian Group, 30.0%) in Shanghai with Hualian Group Corporation,* a Shanghai municipal government affiliate. In 2004, in the interests of acquiring better store locations and heightening employee motivation, Lawson sold 21.0% of its 70.0% equity stake in the subsidiary to the partner, Hualian Group,* leaving Lawson with a 49.0% stake. In September 2011, in response to a change in the economic environment in China, particularly Shanghai, Lawson acquired additional shares to take back the management of the chain of stores in Shanghai to build the network based on Japanese-style convenience stores. As a result, Lawson increased its stake to 85%, converting the company to a consolidated subsidiary.

Having strengthened and expanded its operations in China, Lawson reached an agreement with Shanghai Bailian Group Co., Ltd., to accelerate the development of a differentiated store model. Shanghai Hualian Lawson will be developing Japanese-style convenience stores with superior product development, customer service, and cleanliness. Going forward, the subsidiary will enhance the quality level of stores in Shanghai, a core city in China's economy, targeting network expansion using the same ROI standards practiced by Lawson in Japan.

At the end of February 2012, there were 314 stores in operation, of which 248 were franchise stores.

* In accordance with the Chinese government's reorganization policy for the retail industry, Hualian Group transferred all its stake in Shanghai Hualian Lawson to Shanghai Bailian Group, in December 2008 when it was absorbed by Shanghai Bailian Group.

Shanghai Hualian Lawson, Inc. (Millions of yen)

	2011/12	2010/12	2009/12	2008/12	2007/12
Total operating revenues	4,917	5,402	6,313	6,670	7,265
Operating income (loss)	(283)	14	2	13	77
Net income (loss)	(443)	25	5	21	8
Number of stores	314	317	300	300	287

Chongqing Lawson, Inc. (Consolidated subsidiary)
Chongqing 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 nine consecutive years of double-digit growth, outperforming the overall growth rate for China and that of such coastal centers as Shanghai. Latent demand for convenience stores is mounting in Chinese inland cities as they continue their remarkable growth.

With the aim of opening the first Japanese convenience store in inland China, Lawson established this company in April 2010 at the invitation of the Chongqing municipal government. The subsidiary opened its first Chongqing store, equipped with a training facility, in July 2010. At the end of February 2012, there were a total of 38 stores. The subsidiary plans to expand its network to 100 stores by the end of fiscal 2012 and after that to 200 stores within four years.

Chongqing Lawson, Inc. (Millions of yen)

	2011/12	2010/12	2009/12	2008/12	2007/12
Total operating revenues	257	30			
Operating income (loss)	(242)	(47)	<Established in April 2010>		
Net income (loss)	(248)	(59)			
Number of stores	38	4			

Dalian Lawson, Inc. (Consolidated subsidiary)
With a population of in excess of six million people, Dalian is the largest seaport in Northeast China. Following up on an invitation by the city of Dalian, Lawson established the joint company with Dalian Acasia Fast Foods Co., a leading regional company, in September 2011. Dalian Lawson opened its first store in November 2011. The subsidiary is 95% owned by Lawson and had three stores at the end of fiscal 2011.

Dalian Lawson, Inc. (Millions of yen)

	2011/12	2010/12	2009/12	2008/12	2007/12
Total operating revenues	4				
Operating income (loss)	(20)		<Established in September 2011>		
Net income (loss)	(27)				
Number of stores	3				

Lawson Asia Pacific Holdings Pte. Ltd. (Consolidated subsidiary)
In May 2011, Lawson established this consolidated subsidiary in Singapore to regionally manage overseas operations in countries other than China. In June 2011, Lawson Asia Pacific Holdings concluded a licensing agreement with PT Midi Utama Indonesia Tbk (MIDI), a member of the Alpha Group, a distribution and retail group in Indonesia. In addition, the subsidiary acquired a 30% stake in MIDI in July 2011. At the end of February 2012, MIDI operated 523 stores under its proprietary small-format store brands, Alfamidi and Alfaexpress. The company also manages 15 Lawson stores in the special capital city district of Jakarta and surrounding area. MIDI is accounted for by Lawson as an equity-method affiliate.

BUSINESS COOPERATION AND ALLIANCES

Lawson's principal business tie-ups and alliances are as follows. Please refer to Convenience Store Operations under "Overview of Consolidated Subsidiaries and Equity-Method Affiliates" on pages 50 and 51 of this report for information concerning the equity-based alliance with Ninety-nine Plus.

Mitsubishi Corporation

Lawson formed a comprehensive business tie-up, including a capital alliance, with Mitsubishi Corporation in February 2000. Mitsubishi is Lawson's leading shareholder, with an equity interest of 32.4% (including indirect holdings) as of February 29, 2012. The two firms have built a cooperative relationship in such areas as personnel resources and store development, new businesses, and product development, including the procurement of raw materials.

Japan Post Holdings Co., Ltd.

Lawson formed a business alliance in 2002 with the former Postal Services Agency. After this announcement, the two partners worked on various initiatives, including installing mailboxes in Lawson stores (2003), opening convenience stores inside post offices (2003) and handling Japan Post's Yu-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 a 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 (currently called Lawson *Ponta* iD). The latter service allows holders of the Lawson Pass VISA (currently called Lawson *Ponta* Card 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.

Qol Co., Ltd.

In December 2008, Lawson signed a business alliance agreement with drug-dispensing pharmacy chain Qol Co., Ltd. Through personnel exchanges, Lawson is working to develop its number of registered pharmaceuticals salespersons* and, in August 2010, began opening stores that combined a drug-dispensing pharmacy with a convenience store. At February 29, 2012, Lawson was operating seven such stores.

* A newly established qualification following the June 2009 enforcement of revisions to the Pharmaceutical Affairs Act, the "registered pharmaceuticals salesperson" qualification allows the holder to sell OTC medications (types 2 and 3). The act requires holders to have a minimum of one year of experience.

CVS Bay Area Inc.

In January 2012, Lawson concluded a franchise agreement with CVS Bay Area Inc. ("Bay Area"). The company operates convenience stores in Tokyo and Chiba Prefecture and is listed on the First Section of the Tokyo Stock Exchange. Based on this agreement, Lawson began converting all of Bay Area's convenience stores to Lawson stores in March 2012 and completed the process by the end of May 2012.

OUTLOOK FOR FISCAL 2012

In fiscal 2012, Japan's economy is showing signs of a recovery trend against the backdrop of recovery demand after the major disaster as well as other positive factors. In addition, personal consumption is increasing slightly; however, there are many factors that could possibly put downward pressure on the economy that need to be carefully monitored. Outside Japan, economic conditions remain precarious surrounding the European sovereign debt crisis. In Japan, the economy faces many uncertainties, such as the potential for electric power shortages in July and August 2012 and the state of consumer sentiment following the decision to increase the consumption tax.

In the convenience store industry, Lawson's competitors that had previously adhered to the conventional type of store format of targeting young men changed their tune following the major disaster. Currently, they are serious about broadening their customer bases and expanding and enhancing their merchandise assortment and services for women and seniors by introducing perishable foods. Moreover, the retail industry as a whole is reconsidering the function of the neighborhood store that provides highly convenient goods and services for customers in their immediate surroundings. This rethinking has prompted supermarkets, general merchandise stores, and other types of retailers that previously distinguished themselves apart from the small commercial area business to begin developing mini-supermarkets that specialize in serving small commercial areas.

Under these business conditions, Lawson will carry out the following business initiatives, driving forward with a strategy of broadening the customer base that the Company began ahead of its competitors. In the implementation of these initiatives, we will aim to realize our corporate philosophy of "Creating Happiness and Harmony in Our Communities." We will also strive to improve customer satisfaction and, through growth in the customer base, expand corporate earnings and the earnings of franchise owners, thereby increasing our corporate value. Regarding Lawson's performance forecast for fiscal 2012, we expect consolidated operating income to grow 6.8% year on year, to ¥66,000 million—with the Company achieving 10 consecutive years of profit growth. We are forecasting consolidated net income of ¥33,400 million, a 34.2% improvement from the previous fiscal year.

Create Customer-driven Merchandise Assortment
Utilizing our backbone IT system PRiSM, which is based on a fundamental business reform plan PRiSM, we will work to reduce opportunity loss by improving the accuracy of placing orders for merchandise. We will seek to design sales floor spaces that meet the needs of customers in each local community by continuing to analyze the data from the multi-partner loyalty point program *Ponta*. Also, we will utilize the analysis of data from the *Ponta* card to further enhance our capabilities for customer-driven product development.

Provide Appealing Services through the *Ponta* Program
With the number of companies in the *Ponta* multi-partner loyalty point program expected to rise, we will collaborate in broader-based marketing analysis and sales promotion measures to provide more appealing services for customers. Furthermore, strengthening our e-commerce business, we plan to achieve a mutual flow of customers between our real and online stores through the interchangeable *Ponta* point system.

Promote fresh food-type convenience stores
In the growth business of fresh food-type convenience stores, Lawson will continue to expand LAWSON STORE100 and fresh food-type convenience store operations, primarily to serve residential areas. In particular, we will introduce more perishable foods and strengthen our private brand *Lawson select*, which focuses on lifestyle necessities, such as prepared foods, processed foods, daily sundries, and other items. Through these measures, we will meet customers' needs for cooking and eating at home. The measures will also enable Lawson to continue its expansion of the customer base through the inclusion of more women and seniors as well as men in their 20s and 30s, who are the main customers in conventional convenience stores.

Respond to demand for pharmaceuticals and healthcare
We will expand sales of pharmaceuticals and fortify development and sales of health-oriented foods by utilizing know-how accumulated at NATURAL LAWSON in helping customers enjoy a healthy and pleasant lifestyle. We will also press ahead with the full-scale development of our healthcare business by not only selling OTC drugs in convenience stores but also developing a network of drug-dispensing convenience stores. Seniors in particular will be able to place a high degree of trust in these drug-dispensing convenience stores because they will have an in-store pharmacist. Based on the concept of "food is medicine," meaning that food and medicine mutually benefit our health, 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 assortment and other merchandise lineups that meet customer needs both in real and online stores. Leveraging business alliances with other companies, we will provide new services in the e-commerce area.

Continuing overseas expansion
The Lawson Group has been opening LAWSON stores in Shanghai, Chongqing, and Dalian in China as well as in the special capital city district of Jakarta and surrounding area in Indonesia. In the future, we will consider additional store openings in countries or regions with high economic growth prospects while carefully monitoring their economic and political conditions. Further, should opportunities arise to introduce our business model in developed countries, such as the United States or in European countries, we will proactively consider them.

BUSINESS RISK FACTORS

The major risks that may influence the Group's performance and financial position are described below. Sufficiently aware that these risks may occur, the 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 they cover all potential risks relating to the Group's business operations.

Risks relating to changes in the business environment
Because the Group's main business is the operation of convenience stores, changes in consumer expenditure produced by fluctuations in the domestic or overseas economic environment, business cycle trends, or shifts in consumer behavior triggered by trends in social structure or weather conditions, as well as changes in competition with other companies in the convenience store sector or different retail sectors, may impact the Group's earnings and financial condition.

Risks relating to food safety, hygiene management, and labeling
In the Group's core business of convenience stores, we sell food products to customers. From the manufacturing process to sales in stores, in cooperation with suppliers, the Group implements strict quality control and properly labels items in terms of consumption date, expiry date, production region, ingredients or raw materials used, and other information. The Group also performs rigorous hygiene management and sales data management within stores. However, in the event of a serious incident such as food poisoning, contamination by foreign matter or food mislabeling, the resulting loss of customer trust could influence the Group's performance and financial position.

Risks relating to sharp rises in raw materials prices
If the prices of raw materials should rise sharply because of unpredictable events, such as a surge in the price of oil or abnormal weather, the Group's performance or financial position could be adversely affected.

Risks relating to the handling of personal information
In the process of business operations, the Group handles the 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 Group's performance or financial position may be affected.

Legal and regulatory risks
The Group operates numerous stores in all of Japan's 47 prefectures as well as in Shanghai, Chongqing, and Dalian in China and the special capital city district of Jakarta and surrounding area in Indonesia. The majority of the Group 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, Shanghai, Chongqing, and Dalian in China and the special capital city district of Jakarta and surrounding area in Indonesia 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 Group's performance or financial position.

Risks relating to franchise (FC) operations
In the convenience store business, the 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 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 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 franchise owners and Lawson is damaged for any reason, and, as a consequence, many franchise agreements are canceled, there may be an impact on the 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 Shanghai, Chongqing, and Dalian in China and the special capital city district of Jakarta and surrounding area in Indonesia. Therefore, an earthquake, tsunami, typhoon, or other natural disaster that physically damages Group stores, supplier factories, distribution centers, or other facilities could have an impact on the Group's performance or financial position.

Furthermore, to fulfill its role as a lifeline to the community, Lawson is committed to continuing to operate its convenience stores based on a business continuity plan in the event of a disaster or 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 Group's performance or financial position.

Risks involving problems with IT systems
Malfunctions or interruptions of the Group's IT system because of a computer virus or a natural disaster such as an earthquake in the Tokyo metropolitan area are expected to delay the delivery of products to stores and cause the suspension of store services. The result of such a malfunction or interruption of the IT system could have a negative impact on the Group's performance or financial position.

CONSOLIDATED BALANCE SHEETS

Lawson, Inc. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2012**	2011	**2012**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 73,670**	¥ 67,712	**$ 913,114**
Time deposits	**10,404**	10,104	**128,954**
Accounts receivable:			
Due from franchised stores (Notes 3 and 8)	**19,521**	16,159	**241,956**
Other	**32,645**	29,286	**404,623**
Allowance for doubtful accounts	**(149)**	(98)	**(1,847)**
Inventories	**8,076**	7,012	**100,099**
Deferred tax assets (Note 14)	**4,800**	4,944	**59,494**
Prepaid expenses and other current assets	**11,191**	9,891	**138,709**
Total current assets	**160,158**	145,010	**1,985,102**
PROPERTY AND STORE EQUIPMENT (Note 5):			
Land (Note 6)	**6,815**	6,610	**84,470**
Buildings	**221,344**	193,512	**2,743,480**
Furniture, fixtures, and equipment	**63,564**	61,156	**787,853**
Lease assets (Notes 2.o and 17)	**72,538**	51,055	**899,083**
Total	**364,261**	312,333	**4,514,886**
Accumulated depreciation	**(180,426)**	(153,499)	**(2,236,316)**
Net property and store equipment	**183,835**	158,834	**2,278,570**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**528**	642	**6,544**
Investments in associated companies	**7,175**	2,943	**88,932**
Long-term loans receivable	**32,139**	31,826	**398,352**
Goodwill	**10,872**	7,717	**134,755**
Software	**27,552**	27,902	**341,497**
Lease deposits	**83,666**	81,655	**1,037,010**
Deferred tax assets (Note 14)	**16,871**	13,253	**209,110**
Claims in bankruptcy and reorganization	**15,136**	15,372	**187,605**
Other assets	**9,374**	6,930	**116,188**
Allowance for doubtful accounts	**(15,852)**	(16,047)	**(196,480)**
Total investments and other assets	**187,461**	172,193	**2,323,513**
TOTAL	**¥ 531,454**	¥ 476,037	**$ 6,587,185**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	**2012**	2011	**2012**
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 7 and 20)	**¥ 88,263**	¥ 81,399	**$1,093,989**
Due to franchised stores (Note 8)	**1,390**	1,179	**17,229**
Other	**19,050**	21,135	**236,118**
Current portion of long-term debt (Note 9)	**11,754**	8,017	**145,687**
Income taxes payable	**15,305**	10,673	**189,700**
Money held as agent	**75,005**	62,341	**929,660**
Accrued expenses and other current liabilities	**7,212**	7,852	**89,389**
Total current liabilities	**217,979**	192,596	**2,701,772**
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 10)	**8,745**	7,530	**108,391**
Allowance for retirement benefits to executive officers and corporate auditors	**308**	235	**3,818**
Guarantee deposits received from franchised stores and other	**35,735**	37,139	**442,923**
Allowance for impairment loss on leased property (Note 17)	**679**	667	**8,416**
Long-term debt (Note 9)	**37,908**	28,778	**469,856**
Asset retirement obligations (Notes 2.m and 11)	**15,161**		**187,915**
Other	**276**	625	**3,421**
Total long-term liabilities	**98,812**	74,974	**1,224,740**
EQUITY (Note 12):			
Common stock—authorized, 409,300,000 shares in 2012 and 2011; issued, 100,300,000 shares in 2012 and 2011	**58,507**	58,507	**725,174**
Capital surplus	**47,707**	47,696	**591,311**
Stock acquisition rights	**443**	406	**5,491**
Retained earnings	**107,249**	99,608	**1,329,313**
Treasury stock—at cost, 416,166 shares in 2012 and 433,040 shares in 2011	**(1,628)**	(1,694)	**(20,178)**
Accumulated other comprehensive income:			
Net unrealized loss on available-for-sale securities	**(12)**	(5)	**(149)**
Land revaluation difference (Note 6)	**(567)**	(634)	**(7,027)**
Foreign currency translation adjustments	**(101)**	1	**(1,252)**
Total	**211,598**	203,885	**2,622,683**
Minority interests	**3,065**	4,582	**37,990**
Total equity	**214,663**	208,467	**2,660,673**
TOTAL	**¥531,454**	¥476,037	**$6,587,185**

CONSOLIDATED STATEMENTS OF INCOME

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2012 and February 28, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING REVENUES:			
Franchise commissions from franchised stores	**¥215,574**	¥197,673	**$2,671,963**
Net sales from Company-operated stores	**174,116**	183,236	**2,158,106**
Other	**89,267**	60,369	**1,106,433**
Total operating revenues	**478,957**	441,278	**5,936,502**
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 20)	**156,246**	143,101	**1,936,614**
Selling, general, and administrative expenses	**260,942**	242,636	**3,234,283**
Total costs and operating expenses	**417,188**	385,737	**5,170,897**
Operating income	**61,769**	55,541	**765,605**
OTHER (EXPENSES) INCOME:			
Interest expense—net	**(447)**	(322)	**(5,540)**
Equity in earnings of associated companies	**381**	312	**4,722**
Gain on negative goodwill	**291**		**3,607**
Gain on step acquisitions	**1,571**		**19,472**
Loss on disposal of property and store equipment	**(2,069)**	(3,018)	**(25,645)**
Loss on sales of property and store equipment	**(41)**	(1,304)	**(508)**
Impairment of long-lived assets (Note 5)	**(3,319)**	(4,990)	**(41,138)**
Loss on adjustment for adoption of accounting standard for asset retirement obligations	**(8,293)**		**(102,789)**
Loss on disaster (Note 15)	**(3,461)**		**(42,898)**
Other—net	**(97)**	(1,808)	**(1,202)**
Other expenses—net	**(15,484)**	(11,130)	**(191,919)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**46,285**	44,411	**573,686**
INCOME TAXES (Note 14)**:**			
Current	**22,963**	16,552	**284,618**
Deferred	**(2,321)**	1,668	**(28,768)**
Total income taxes	**20,642**	18,220	**255,850**
NET INCOME BEFORE MINORITY INTERESTS	**25,643**	26,191	**317,836**
MINORITY INTERESTS IN NET INCOME	**(758)**	(804)	**(9,395)**
NET INCOME	**¥ 24,885**	¥ 25,387	**$ 308,441**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 22)**:**	2012	2011	2012
Net income—basic	**¥249.17**	¥254.61	**$3.09**
Net income—diluted	**248.80**	254.31	**3.08**
Cash dividends applicable to the year	**180.00**	170.00	**2.23**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2012 and February 28, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2012	2012
NET INCOME BEFORE MINORITY INTERESTS	**¥25,643**	**$317,836**
OTHER COMPREHENSIVE INCOME:		
Unrealized loss on available-for-sale securities	**(7)**	**(87)**
Land revaluation difference (Note 6)	**67**	**831**
Foreign currency translation adjustments	**(116)**	**(1,439)**
Share of other comprehensive income in associates	**16**	**198**
Total other comprehensive income	**(40)**	**(497)**
COMPREHENSIVE INCOME	**¥25,603**	**$317,339**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18)**:**		
Owners of the parent	**¥24,843**	**$307,920**
Minority interests	**760**	**9,419**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2012 and February 28, 2011

Thousands of Shares/Millions of Yen

	Common Stock		Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	
	Shares	Amount				Shares	Amount
BALANCE, MARCH 1, 2010	99,600	¥58,507	¥41,520	¥346	¥ 94,172	(432)	¥(1,714)
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						(903)	(3,510)
Disposal of treasury stock							1
Retirement of treasury stock	(902)				(3,529)	902	3,529
Others—net				60			
BALANCE, FEBRUARY 28, 2011	100,300	58,507	47,696	406	99,608	(433)	(1,694)
Net income					**24,885**		
Year-end cash dividends, ¥85 per share					**(8,489)**		
Interim cash dividends, ¥87 per share					**(8,688)**		
Reversal of revaluation reserve for land					**(67)**		
Purchase of treasury stock						**(1)**	**(3)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)			**11**			**18**	**69**
Others—net				**37**			
BALANCE, FEBRUARY 29, 2012	**100,300**	**¥58,507**	**¥47,707**	**¥443**	**¥107,249**	**(416)**	**¥(1,628)**

Thousands of Shares/Millions of Yen

	Accumulated Other Comprehensive Income					
	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 1, 2010	¥14	¥(634)	¥ 66	¥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				(3,510)		(3,510)
Disposal of treasury stock				1		1
Retirement of treasury stock						
Others—net	(19)		(65)	(24)	(1,277)	(1,301)
BALANCE, FEBRUARY 28, 2011	(5)	(634)	1	203,885	4,582	208,467
Net income				**24,885**		**24,885**
Year-end cash dividends, ¥85 per share				**(8,489)**		**(8,489)**
Interim cash dividends, ¥87 per share				**(8,688)**		**(8,688)**
Reversal of revaluation reserve for land		**67**				
Purchase of treasury stock				**(3)**		**(3)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)				**80**		**80**
Others—net	**(7)**		**(102)**	**(72)**	**(1,517)**	**(1,589)**
BALANCE, FEBRUARY 29, 2012	**¥(12)**	**¥(567)**	**¥(101)**	**¥211,598**	**¥3,065**	**¥214,663**

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
BALANCE, FEBRUARY 28, 2011	$725,174	$591,175	$5,032	$1,234,606	$(20,997)
Net income				**308,441**	
Year-end cash dividends, $1.05 per share				**(105,218)**	
Interim cash dividends, $1.08 per share				**(107,685)**	
Reversal of revaluation reserve for land				**(831)**	
Purchase of treasury stock					**(37)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)		**136**			**856**
Others—net			**459**		
BALANCE, FEBRUARY 29, 2012	**$725,174**	**$591,311**	**$5,491**	**$1,329,313**	**$(20,178)**

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income					
	Net Unrealized Loss on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 28, 2011	$ (62)	$(7,858)	$ 12	$2,527,082	$ 56,792	$2,583,874
Net income				**308,441**		**308,441**
Year-end cash dividends, $1.05 per share				**(105,218)**		**(105,218)**
Interim cash dividends, $1.08 per share				**(107,685)**		**(107,685)**
Reversal of revaluation reserve for land		**831**				
Purchase of treasury stock				**(37)**		**(37)**
Exercise of stock acquisition rights to shares (delivery of treasury stock)				**992**		**992**
Others—net	**(87)**		**(1,264)**	**(892)**	**(18,802)**	**(19,694)**
BALANCE, FEBRUARY 29, 2012	**$(149)**	**$(7,027)**	**$(1,252)**	**$2,622,683**	**$ 37,990**	**$2,660,673**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2012 and February 28, 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 46,285	¥ 44,411	$ 573,686
Adjustments for:			
Income taxes paid	(18,405)	(15,677)	(228,123)
Payments for loss on disaster	(3,373)		(41,807)
Depreciation and amortization	37,846	33,084	469,088
Impairment of long-lived assets	3,319	4,990	41,138
(Reversal of) provision for allowance for doubtful accounts	(384)	1,352	(4,760)
Loss on disposal of property and store equipment	2,065	1,468	25,595
Equity in earnings of associated companies	(291)	(312)	(3,607)
Loss on adjustment for adoption of accounting standard for asset retirement obligations	8,293		102,789
Loss on disaster	3,461		42,898
Gain on step acquisitions	(1,571)		(19,472)
Other—net	408	2,686	5,057
Changes in assets and liabilities:			
Decrease (increase) in claims in bankruptcy and reorganization	236	(1,789)	2,925
(Increase) decrease in accounts receivable	(2,794)	3,394	(34,631)
Increase in prepaid expenses and other current assets	(1,252)	(215)	(15,519)
(Increase) decrease in inventories	(921)	57	(11,415)
Increase in accounts payable	1,328	3,678	16,460
Increase (decrease) in money held as agent	12,656	(3,560)	156,867
Decrease in accrued expenses and other liabilities	(242)	(744)	(3,000)
Increase in allowance for retirement benefits to employees and executive officers and corporate auditors	1,289	959	15,977
Decrease in guarantee deposits received from franchised stores and other	(1,596)	(1,572)	(19,782)
Total adjustments	40,072	27,799	496,678
Net cash provided by operating activities	86,357	72,210	1,070,364
INVESTING ACTIVITIES:			
Payments into time deposits	(20,404)	(26,304)	(252,900)
Proceeds from withdrawal of time deposits	20,104	25,374	249,182
Proceeds from redemption of marketable securities		2,500	
Acquisition of a subsidiary, net of cash paid	(982)	(809)	(12,172)
Purchases of property and store equipment	(28,867)	(22,883)	(357,796)
Purchases of software and other intangible assets	(7,449)	(7,511)	(92,328)
(Increase) decrease in lease deposits—net	(1,933)	2,299	(23,959)
Increase in long-term loans	(298)	(2,069)	(3,694)
Acquisition of associated companies	(6,335)	(650)	(78,520)
Payments for transfer of business	(3,415)		(42,328)
Other—net	(3,333)	(469)	(41,310)
Net cash used in investing activities	(52,912)	(30,522)	(655,825)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(10,434)	(8,867)	(129,326)
Cash dividends paid	(17,177)	(16,422)	(212,903)
Purchase of treasury stock		(3,510)	
Other—net	66		818
Net cash used in financing activities	(27,545)	(28,799)	(341,411)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	8	(20)	100
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,908	12,869	73,228
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,712	54,843	839,266
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF CONSOLIDATION	50		620
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 73,670	¥ 67,712	$ 913,114

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lawson, Inc. and Consolidated Subsidiaries
Years Ended February 29, 2012 and February 28, 2011

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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011, and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended February 28, 2011, is disclosed in Note 18. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended February 29, 2012.

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 2011 financial statements to conform to the classifications used in 2012.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Lawson, Inc. (formerly, 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 ¥80.68 to $1, the approximate rate of exchange at February 29, 2012. 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 29, 2012, which represent 32.4% of the total voting rights of the Company. Accordingly, Mitsubishi is a principal shareholder.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements include the accounts of the Company and its ten (seven in 2011) 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 three (two in 2011) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

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

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period not exceeding 20 years.

b. **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 companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In March 2008, the Accounting Standards Board of Japan (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 applied this accounting standard effective March 1, 2011. There was no effect on applying this change.

c. Business Combination—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, 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.

d. 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.

e. 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.

f. 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.

g. 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.

h. 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.

i. 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.

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

k. 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.

l. 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.

m. 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 applied this accounting standard effective March 1, 2011. The effect of this change was to decrease operating income by ¥967 million ($11,986 thousand) and income before income taxes and minority interests by ¥9,157 million ($113,498 thousand).

n. 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.

o. 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 continue 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.

p. 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.

q. 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.

r. 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" and "Minority interests" 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.

s. 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 99,871 thousand shares for 2012 and 99,705 thousand shares for 2011.

Diluted net income per share for the years ended February 29, 2012 and February 28, 2011, 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.

t. New Accounting Pronouncements

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.

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 29, 2012 and February 28, 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Non-current—Marketable and other equity securities	**¥528**	¥642	**$6,544**

The costs and aggregate fair values of marketable and investment securities at February 29, 2012 and February 28, 2011, were as follows:

	Millions of Yen			
February 29, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as— Available-for-sale— Equity securities	**¥169**		**¥54**	**¥115**

	Millions of Yen			
February 28, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as— Available-for-sale— Equity securities	¥166		¥22	¥144

	Thousands of U.S. Dollars			
February 29, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as— Available-for-sale— Equity securities	**$2,094**		**$669**	**$1,425**

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 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 29, 2012 and February 28, 2011:

			Millions of Yen		Thousands of U.S. Dollars
Category	Related Assets	Location	**2012**	2011	**2012**
Stores	Buildings and Furniture, fixtures, and equipment	Tokyo	**¥ 547**	¥1,223	**$ 6,780**
		Osaka	**558**	192	**6,916**
		Others	**2,214**	2,130	**27,442**
Other	Software			1,439	
	Others			6	
Total			**¥3,319**	¥4,990	**$41,138**

The above-noted assets, which incurred impairment losses for the years ended February 29, 2012 and February 28, 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Fixed assets and lease assets:			
Land	**¥ 155**		**$ 1,921**
Buildings	**2,102**	¥2,043	**26,054**
Furniture, fixtures, and equipment	**251**	381	**3,111**
Lease assets	**674**	1,095	**8,354**
Software		1,439	
Others	**137**	32	**1,698**
Total	**¥3,319**	¥4,990	**$41,138**

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 4.3% and 3.3% for the years ended February 29, 2012 and February 28, 2011, 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 29, 2012, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥287 million ($3,557 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 29, 2012 and February 28, 2011, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Accounts payable—trade for franchised stores	**¥74,501**	¥68,384	**$ 923,413**
Accounts payable—trade for Company-operated stores	**13,762**	13,015	**170,576**
Total	**¥88,263**	¥81,399	**$1,093,989**

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 29, 2012 and February 28, 2011.

The annual interest rates applicable to the current portion of long-term debt ranged from 1.00% to 5.01% at February 29, 2012 and ranged from 2.24% to 3.28% at February 28, 2011.

Long-term debt less the current portion at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Loans from banks and leasing companies, due serially through 2019 with interest rates ranging from 1.00% to 5.01% (2012) and from 1.00% to 3.28% (2011)—Unsecured	**¥ 49,662**	¥36,795	**$ 615,543**
Less current portion	**(11,754)**	(8,017)	**(145,687)**
Long-term debt, less current portion	**¥ 37,908**	¥28,778	**$ 469,856**

Annual maturities of long-term debt as of February 29, 2012, for the following five years (and thereafter) are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2013	¥11,754	$145,687
2014	11,197	138,783
2015	8,902	110,337
2016	6,957	86,230
2017 and thereafter	10,852	134,506
Total	¥49,662	$615,543

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 29, 2012 and February 28, 2011, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Projected benefit obligation	**¥14,890**	¥13,676	**$184,556**
Fair value of plan assets	**(5,577)**	(5,577)	**(69,125)**
Unrecognized prior service cost	**(351)**	(527)	**(4,351)**
Unrecognized actuarial loss	**(217)**	(42)	**(2,689)**
Net liability	**¥ 8,745**	¥ 7,530	**$108,391**

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 29, 2012 and February 28, 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Service cost	**¥1,076**	¥1,029	**$13,337**
Interest cost	**265**	249	**3,285**
Amortization of prior service cost	**173**	175	**2,144**
Recognized actuarial loss	**92**	85	**1,140**
Contribution to defined contribution plan	**278**	271	**3,446**
Net periodic benefit costs	**¥1,884**	¥1,809	**$23,352**

Assumptions used for the years ended February 29, 2012 and February 28, 2011, were as follows:

	2012	2011
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. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the year ended February 29, 2012, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	**2012**
Balance at beginning of year:	**¥14,305**	**$177,305**
Additional provisions associated with the acquisition of property, plant, and equipment	**1,151**	**14,266**
Reconciliation associated with passage of time	**214**	**2,652**
Reduction associated with settlement of asset retirement obligations	**(407)**	**(5,044)**
Total	**15,263**	**189,179**
Less current portion	**(102)**	**(1,264)**
Asset retirement obligations, less current portion	**¥15,161**	**$187,915**

12. 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.

13. STOCK OPTIONS

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

The stock options outstanding as of February 29, 2012, are as follows:

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 ($51.56)	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 ($50.24)	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 ($48.95)	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 ($64.13)	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, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 ($0.01)	From February 18, 2012 to February 1, 2032

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 ($1,115.52)	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	11th Stock Option	Ninety-nine Plus, Inc.'s 2nd Stock Option
	(Shares)											
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		
Year Ended February 29, 2012												
Non-vested												
February 28, 2011—Outstanding												
Granted											27,000	
Canceled												
Vested											(27,000)	
February 29, 2012—Outstanding												
Vested												
February 28, 2011—Outstanding		15,000	21,300	80,000	18,000	42,000	26,400	36,000	21,500	18,900		
Vested											27,000	
Exercised				(8,700)		(9,000)						
Canceled				(71,300)								
February 29, 2012—Outstanding		15,000	21,300		18,000	33,000	26,400	36,000	21,500	18,900	27,000	
Exercise price	¥4,160 ($51.56)	¥1 ($0.01)	¥1 ($0.01)	¥4,053 ($50.24)	¥1 ($0.01)	¥3,949 ($48.95)	¥1 ($0.01)	¥5,174 ($64.13)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥90,000 ($1,115.52)
Average stock price at exercise				¥4,478 ($55.50)		¥4,636 ($57.46)						
Fair value price at grant date			¥3,178 ($39.39)	¥618 ($7.66)	¥2,852 ($35.35)	¥397 ($4.92)	¥3,477 ($43.10)	¥582 ($7.21)	¥2,652 ($32.87)	¥2,689 ($33.33)	¥3,339 ($41.39)	

The assumptions used to measure the fair value of the 10th stock option (2011) and 11th stock option (2012) were as follows:

	10th Stock Option	11th Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	31.33%	28.19%
Estimated remaining outstanding period	10 years	10 years
Estimated dividend	¥165 per share	¥172 per share
Risk-free interest rate	1.25%	0.97%

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended February 29, 2012 and February 28, 2011.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 29, 2012 and February 28, 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥ 1,282	¥ 935	$ 15,890
Accrued employees' bonuses	1,304	1,562	16,163
Excess of depreciation	9,052	6,832	112,196
Excess of amortization of software	740	788	9,172
Employees' retirement benefits	5,231	5,333	64,836
Allowance for doubtful accounts	3,503	3,377	43,419
Impairment loss	2,930	3,288	36,316
Tax loss carryforwards	5,609	5,421	69,522
Other	3,503	3,305	43,418
Less valuation allowance	(9,433)	(10,304)	(116,919)
Total	23,721	20,537	294,013
Deferred tax liabilities—affiliates' stock (paid-in capital decrease)	2,050	2,340	25,409
Net deferred tax assets	¥21,671	¥ 18,197	$268,604

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after March 1, 2013 through February 29, 2016, and to 35% afterwards. The effect of this change was to decrease "Deferred taxes" in the consolidated balance sheet as of February 29, 2012, by ¥1,586 million ($19,658 thousand) and to increase "Income taxes—deferred" in the consolidated statement of income for the year then ended by ¥1,586 million ($19,658 thousand).

At February 29, 2012, certain domestic subsidiaries have tax loss carryforwards aggregating to approximately ¥14,282 million ($177,020 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	¥ 1,020	$ 12,643
2014	1,164	14,427
2015	220	2,727
2016	752	9,321
2017	942	11,676
2018	9,158	113,509
2019	1,026	12,717
Total	¥14,282	$177,020

15. LOSS ON DISASTER

Loss on disaster is attributable to the Great East Japan Earthquake, and the details are as described below:

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Loss relating to support activities for franchisees	¥1,793	$22,224
Loss on fixed assets	644	7,982
Other losses	1,024	12,692
Total	¥3,461	$42,898

16. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 29, 2012, amounted to ¥21,969 million ($272,298 thousand).

(2) Increase of the asset retirement obligations for the year ended February 29, 2012: ¥15,263 million ($189,179 thousand).

(3) Shanghai Hualian Lawson, Inc., became a consolidated subsidiary this year. 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
	2012	2012
Current assets	¥ 1,241	$ 15,382
Non-current assets	590	7,313
Goodwill	2,675	33,156
Current liabilities	(1,226)	(15,196)
Non-current liabilities	(36)	(446)
Foreign currency translation adjustments	29	359
Minority interests	(85)	(1,054)
Acquired price of stock	3,188	39,514
Gain on step acquisitions	(1,571)	(19,472)
Consolidated book value prior to additional acquisitions of capital investments	(278)	(3,446)
Foreign currency translation adjustments	11	136
Cash and cash equivalents of acquired company	(368)	(4,560)
Difference: Acquisition of a subsidiary, net of cash acquired	¥ 982	$(12,172)

(4) The breakdown of assets and liabilities of the transferred business at the time of acquisition was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Current assets	¥ 281	$ 3,483
Non-current assets	2,665	33,032
Goodwill	1,546	19,162
Current liabilities	(359)	(4,450)
Non-current liabilities	(526)	(6,520)
Consideration for transferred business	3,607	44,707
Cash and cash equivalents of the business	(192)	(2,379)
Difference: Payments for transfer of business	¥3,415	$ 42,328

17. 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 29, 2012 and February 28, 2011 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2012		2011		2012	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥11,224	¥ 910	¥ 7,953	¥ 785	$139,117	$11,279
Due after one year	37,902	1,527	28,254	1,321	469,782	18,927
Total	¥49,126	¥2,437	¥36,207	¥2,106	$608,899	$30,206

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	2012	2011	2012
Acquisition cost	¥30,181	¥44,128	$374,083
Accumulated depreciation	21,058	27,881	261,006
Accumulated impairment loss	755	1,128	9,359
Net leased property	¥ 8,368	¥15,119	$103,718

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥4,324	¥ 6,970	$11,279
Due after one year	5,411	10,077	18,927
Total	¥9,735	¥17,047	$30,206

Allowance for impairment loss on leased property of ¥667 million ($8,267 thousand) and ¥760 million as of February 29, 2012 and February 28, 2011 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
	2012	2011	2012
Depreciation expense	¥6,627	¥8,973	$82,139
Interest expense	389	631	4,822
Lease payments	6,940	9,290	86,019
Reversal of allowance for impairment loss on leased property	444	553	5,503
Impairment loss	388	861	4,809

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.

18. COMPREHENSIVE INCOME

Total comprehensive income for the year ended February 28, 2011, was the following:

	Millions of Yen
	2011
Total comprehensive income attributable to:	
Owners of the parent	¥25,303
Minority interests	803
Total comprehensive income	¥26,106

Other comprehensive income for the year ended February 28, 2011, consisted of the following:

	Millions of Yen
	2011
Other comprehensive income:	
Unrealized loss on available-for-sale securities	¥(19)
Foreign currency translation adjustments	(20)
Share of other comprehensive income of associates accounted for using equity method	(44)
Total other comprehensive income	¥(83)

19. SEGMENT INFORMATION

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 segment information for the year ended February 28, 2011, under the revised accounting standard is also disclosed hereunder as required.

(a) Description of reportable segments

The Company's financial information is provided separately by reporting segment and is subject to regular review by the board of directors with regard to the allocation of managerial resources and performance evaluation. The Companies' primary business is the operation of convenience stores, which is undertaken by the incorporation of related businesses.

Therefore, the Companies have made the convenience store unit its main reporting segment, based on consideration of financial characteristics and the nature of the services provided.

Lawson, Inc.; Ninety-nine Plus, Inc.; and Lawson Toyama, Inc. running the LAWSON, NATURAL LAWSON, LAWSON STORE100, and other chains—the convenience store unit operates a franchise system as well as undertaking the direct management of stores in Japan.

(b) Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

The accounting policies of each reportable segment are basically consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

Operating income is applied in "Segment profit." "Intersegment sales or transfers" are calculated based on market price.

(c) Information about sales, profit (loss), assets, and other items is as follows:

	Millions of Yen				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥413,899	¥65,058	¥478,957		¥478,957
Intersegment sales or transfers	1,976	2,129	4,105	¥ (4,105)	
Total	¥415,875	¥67,187	¥483,062	¥ (4,105)	¥478,957
Segment profit	¥ 57,371	¥ 4,445	¥ 61,816	¥ (47)	¥ 61,769
Segment assets	520,992	46,607	567,599	(36,145)	531,454
Other:					
Depreciation	34,376	2,520	36,896		36,896
Amortization of goodwill	677	306	983	(34)	949
Payment for associated companies	2,786	4,241	7,027		7,027
Increase in property, plant, and equipment and intangible assets	35,288	1,027	36,315		36,315

	Millions of Yen				
	2011				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥403,647	¥37,631	¥441,278		¥441,278
Intersegment sales or transfers	1,651	2,073	3,724	¥ (3,724)	
Total	¥405,298	¥39,704	¥445,002	¥ (3,724)	¥441,278
Segment profit	¥ 51,396	¥ 4,108	¥ 55,504	¥ 37	¥ 55,541
Segment assets	459,902	30,638	490,540	(14,503)	476,037
Other:					
Depreciation	30,700	1,684	32,384		32,384
Amortization of goodwill	558	175	733	(34)	699
Payment for associated companies	1,724		1,724		1,724
Increase in property, plant, and equipment and intangible assets	29,854	540	30,394		30,394

	Thousands of U.S. Dollars				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$5,130,131	$806,371	$5,936,502		$5,936,502
Intersegment sales or transfers	24,492	26,388	50,880	$ (50,880)	
Total	$5,154,623	$832,759	$5,987,382	$ (50,880)	$5,936,502
Segment profit	$ 711,093	$ 55,094	$ 766,187	$ (583)	$ 765,604
Segment assets	6,457,511	577,677	7,035,188	(448,003)	6,587,185
Other:					
Depreciation	426,078	31,235	457,313		457,313
Amortization of goodwill	8,391	3,793	12,184	(421)	11,763
Payment for associated companies	34,531	52,566	87,097		87,097
Increase in property, plant, and equipment and intangible assets	437,382	12,730	450,112		450,112

Notes: 1. "Other" is operating segments that are not included in reportable segments, consisting of entertainment/e-commerce business, financial services-related business, overseas business, and so on.
2. Reconciliations for segment profit, segment assets, and amortization of goodwill are due to the elimination of intersegments transactions.

(d) Information regarding loss on impairment of long-lived assets of reportable segments:

	Millions of Yen				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥3,276	¥43	¥3,319		¥3,319

	Thousands of U.S. Dollars				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	$40,605	$533	$41,138		$41,138

(e) Information regarding amortization of goodwill and carrying amount of reportable segments:

	Millions of Yen				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2012	¥7,666	¥3,825	¥11,491	¥(619)	¥10,872

	Thousands of U.S. Dollars				
	2012				
	Reportable segments				
	Convenience store	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2012	$95,017	$47,410	$142,427	$(7,672)	$134,755

The amount under "Other" is for the entertainment/e-commerce business and overseas business.

Amortization of goodwill has been omitted, as similar information is disclosed in "(c) Information about sales, profit (loss), assets, and other items."

20. RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with subsidiaries of Mitsubishi as of and for the years ended February 29, 2012 and February 28, 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥ 7,851	¥ 5,560	$ 97,310
Purchases	104,340	77,994	1,293,257
Food Service Network Co., Ltd.:			
Accounts payable—trade	22,280	20,119	73,860
Purchases	276,918	237,581	3,432,300

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 29, 2012 and February 28, 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥ 5,959	¥ 5,002	$ 73,860
Purchases	72,459	59,324	898,104

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

21. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Companies primarily use short-term deposits, etc., to manage their funds and raise funds as necessary through borrowings from financial institutions and leasing according to the financing 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 responsible department monitors these risks on receivables 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 that 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.

	Millions of Yen		
February 29, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 73,670	¥ 73,670	
Time deposits	10,404	10,404	
Accounts receivable	52,040	52,040	
Investment securities	528	528	
Long-term loans receivable	32,044	32,109	¥ 65
Lease deposits	83,064	75,662	(7,402)
Claims in bankruptcy and reorganization	36	36	
Total	¥251,786	¥244,449	¥(7,337)
Accounts payable	¥108,703	¥108,703	
Money held as agent	75,005	75,005	
Long-term debt (incl. current portion of long-term debt)	49,662	49,955	¥ 293
Guarantee deposits received from franchised stores and other	35,735	32,484	(3,251)
Total	¥269,105	¥266,147	¥(2,958)

	Millions of Yen		
February 28, 2011	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 (incl. 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)

	Thousands of U.S. Dollars		
February 29, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 913,114	$ 913,114	
Time deposits	128,954	128,954	
Accounts receivable	645,017	645,017	
Investment securities	6,544	6,544	
Long-term loans receivable	397,174	397,980	$ 806
Lease deposits	1,029,549	937,804	(91,745)
Claims in bankruptcy and reorganization	446	446	
Total	$3,120,798	$3,029,859	$(90,939)
Accounts payable	$1,347,336	$1,347,336	
Money held as agent	929,660	929,660	
Long-term debt (incl. current portion of long-term debt)	615,543	619,174	$ 3,631
Guarantee deposits received from franchised stores and other	442,923	402,627	(40,296)
Total	$3,335,462	$3,298,797	$(36,665)

Cash and cash equivalents, time deposits, and accounts receivable

The carrying values of cash and cash equivalents, time deposits, and accounts receivable (including 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 (including 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 (including allowance for doubtful accounts) are determined by discounting future cash flows which reflect the collectibility 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 (including allowance for doubtful accounts) are stated at book value because the estimated amount of bad debt is calculated based on collectibility, 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		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Investments in equity instruments that do not have a quoted market price in an active market	¥ 273	¥ 391	$ 3,384
Investments in unconsolidated subsidiaries and affiliated companies	2,295	1,875	28,446
Others	140	106	1,735

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

	Millions of Yen			
	2012			
	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	¥ 73,670			
Time deposits	10,404			
Accounts receivable	52,166			
Long-term loans receivable	3,125	¥11,234	¥10,575	¥ 7,205
Lease deposits	4,769	18,957	19,781	40,159
Total	¥144,134	¥30,191	¥30,356	¥47,364

	Millions of Yen			
	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

	Thousands of U.S. Dollars			
	2012			
	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	$ 913,114			
Time deposits	128,954			
Accounts receivable	646,579			
Long-term loans receivable	38,733	$139,242	$131,073	$ 89,304
Lease deposits	59,110	234,965	245,178	497,757
Total	$1,786,490	$374,207	$376,251	$587,061

22. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 29, 2012 and February 28, 2011 is as follows:

	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars
Year Ended February 29, 2012	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥24,885	99,871	¥249.17	$3.09
Effect of dilutive securities—Stock options		149		
Diluted EPS—Net income for computation	¥24,885	100,020	¥248.80	$3.08
Year Ended February 28, 2011				
Basic EPS—Net income available to common shareholders	¥25,387	99,705	¥254.61	
Effect of dilutive securities—Stock options		121		
Diluted EPS—Net income for computation	¥25,387	99,826	¥254.31	

23. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 29, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥93 ($1.15) per share	¥9,289	$115,134

INDEPENDENT AUDITORS' REPORT

Deloitte.

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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. (formerly, LAWSON, INC., the "Company") and consolidated subsidiaries as of February 29, 2012 and February 28, 2011, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended February 29, 2012, and the related consolidated statements of 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 29, 2012 and February 28, 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.m to the consolidated financial statements, the Company adopted "Accounting Standard for Asset Retirement Obligations" and "Guidance on Accounting Standard for Asset Retirement Obligations" effective from the fiscal year ended February 29, 2012.

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

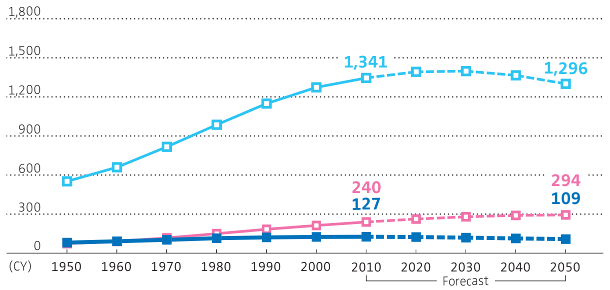
May 29, 2012

Member of
Deloitte Touche Tohmatsu Limited

MARKET DATA

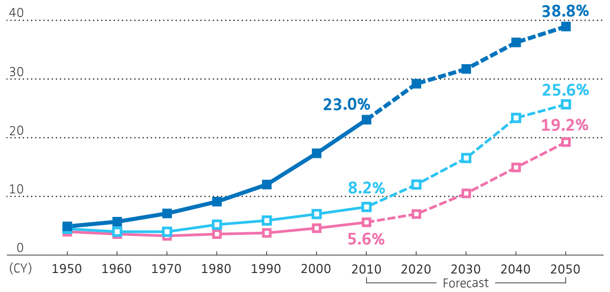
RETAIL MARKET ENVIRONMENT

Population of Major Asian Countries



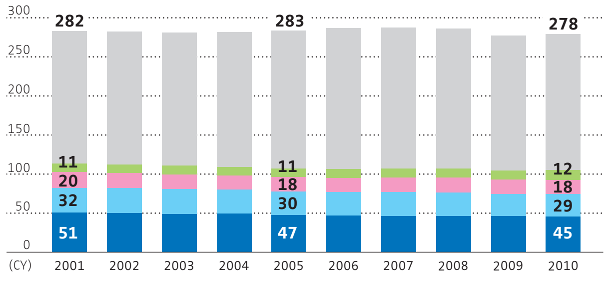
Source: United Nations, "World Population Prospects: The 2010 Revision"

People Aged 65 Years and Older in Major Asian Countries



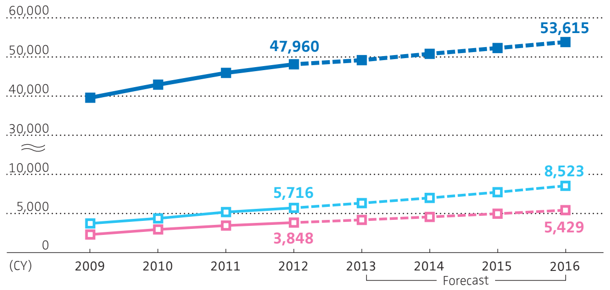
Source: United Nations, "World Population Prospects: The 2010 Revision"

Japanese Household Final Consumption Expenditure



Source: National Accounts (Economic and Social Research Institute, Cabinet Office)

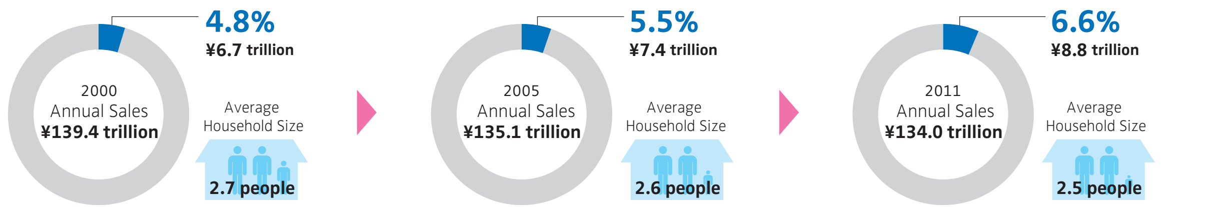
Per Capita GDP of Major Asian Countries



Source: International Monetary Fund, "World Economic Outlook"

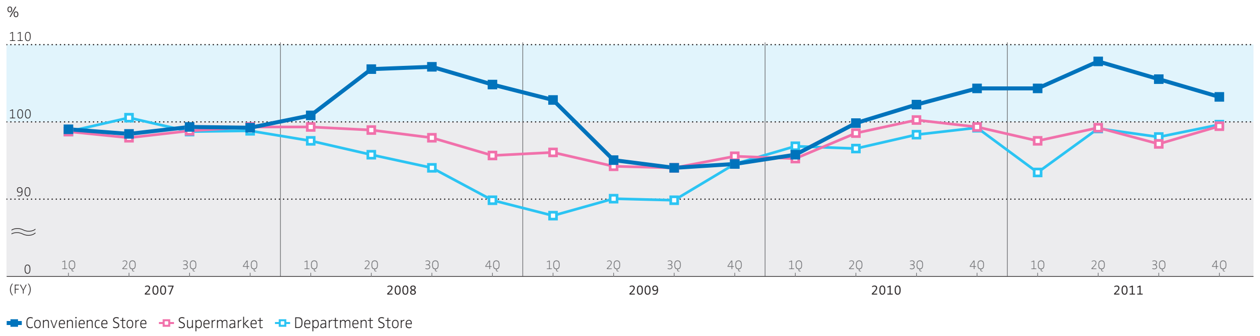
JAPANESE RETAIL INDUSTRY DATA

Convenience Store Sales' Share of the Japanese Retail Market and Average Household Size



Notes: Annual sales do not include restaurant, catering, fast food, or take-out delivery food.
Average number of households for 2005 and prior years are actual numbers. Numbers for 2011 are estimates.
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce," and National Institute of Population and Social Security Research, estimated in March 2008 "Household Projections for Japan"

Year-on-Year Changes in Existing Store Sales by Major Types of Retailers



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

CONVENIENCE STORE INDUSTRY DATA

Number of Stores in Japan by Convenience Store Chain

Stores

Seven-Eleven Japan	14,005
Lawson	10,457
FamilyMart	8,834
Circle K Sunkus	6,169
Mini Stop	2,105
DAILY YAMAZAKI	1,647
Seicomart	1,134
Cocostore	767
POPLAR	700
Three F	639
SAVEON	577

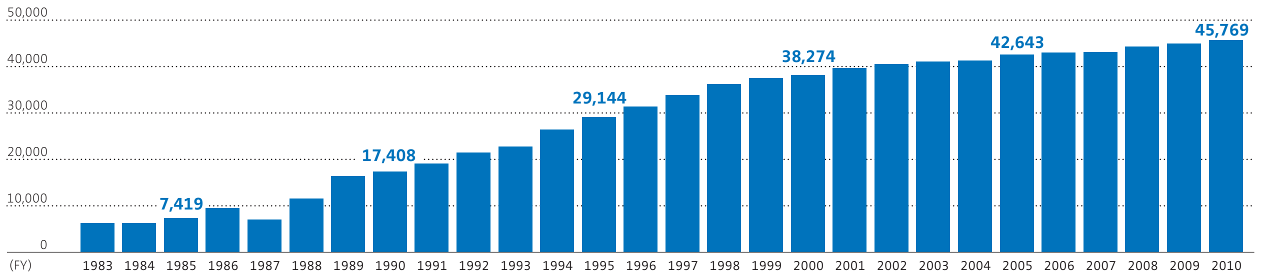
Net Sales of All Stores by Convenience Store Chain

Millions of yen

Seven-Eleven Japan	3,280,512
Lawson	1,825,809
FamilyMart	1,534,652
Circle K Sunkus	979,815
Mini Stop	355,525
DAILY YAMAZAKI	229,294
Seicomart	181,987
Cocostore	108,987
Three F	106,355
POPLAR	92,432
SAVEON	66,351

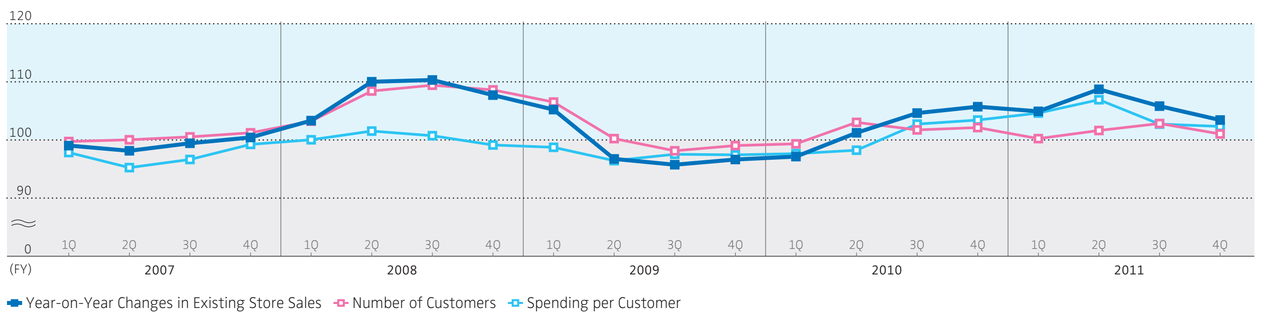
Notes: FamilyMart's number of stores includes am/pm stores. Their sales amount is on a non-consolidated basis.
Lawson's number of stores includes 147 stores operated by Lawson Okinawa, Inc.
Circle K Sunkus's number of stores includes stores operated by area franchisers but excludes those operated by 99 ICHIBA Co., Ltd.
Mini Stop's number of stores includes area franchise stores. Their sales amount is on a non-consolidated basis.
Figures for DAILY YAMAZAKI and Seicomart are as of December 2011, while those for Cocostore (total of Cocostore East and West) are as of May 2012. All other figures are as of February 2012.
Sources: Publicly announced fiscal data for each company as of February 29, 2012, and the August 2012 issue of the monthly trade magazine *Konbini*.

Growth in Convenience Store in Japan



Source: Japan Franchise Association, FC Statistics

Year-on-Year Changes in Existing Store Sales, Number of Customers, and Spending per Customer



Source: Japan Franchise Association, FC Statistics

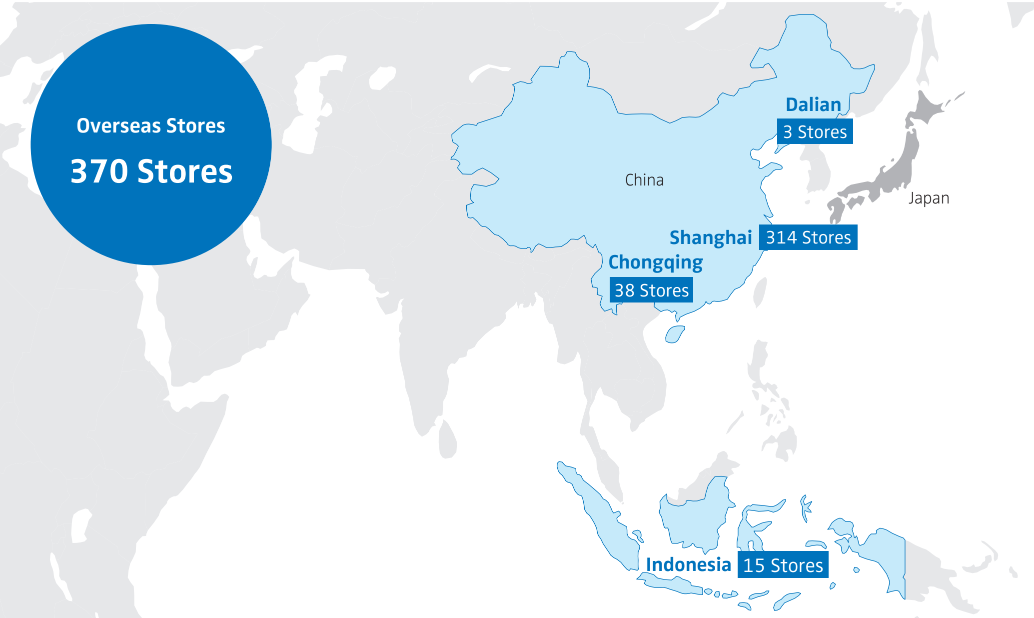
LAWSON AT A GLANCE

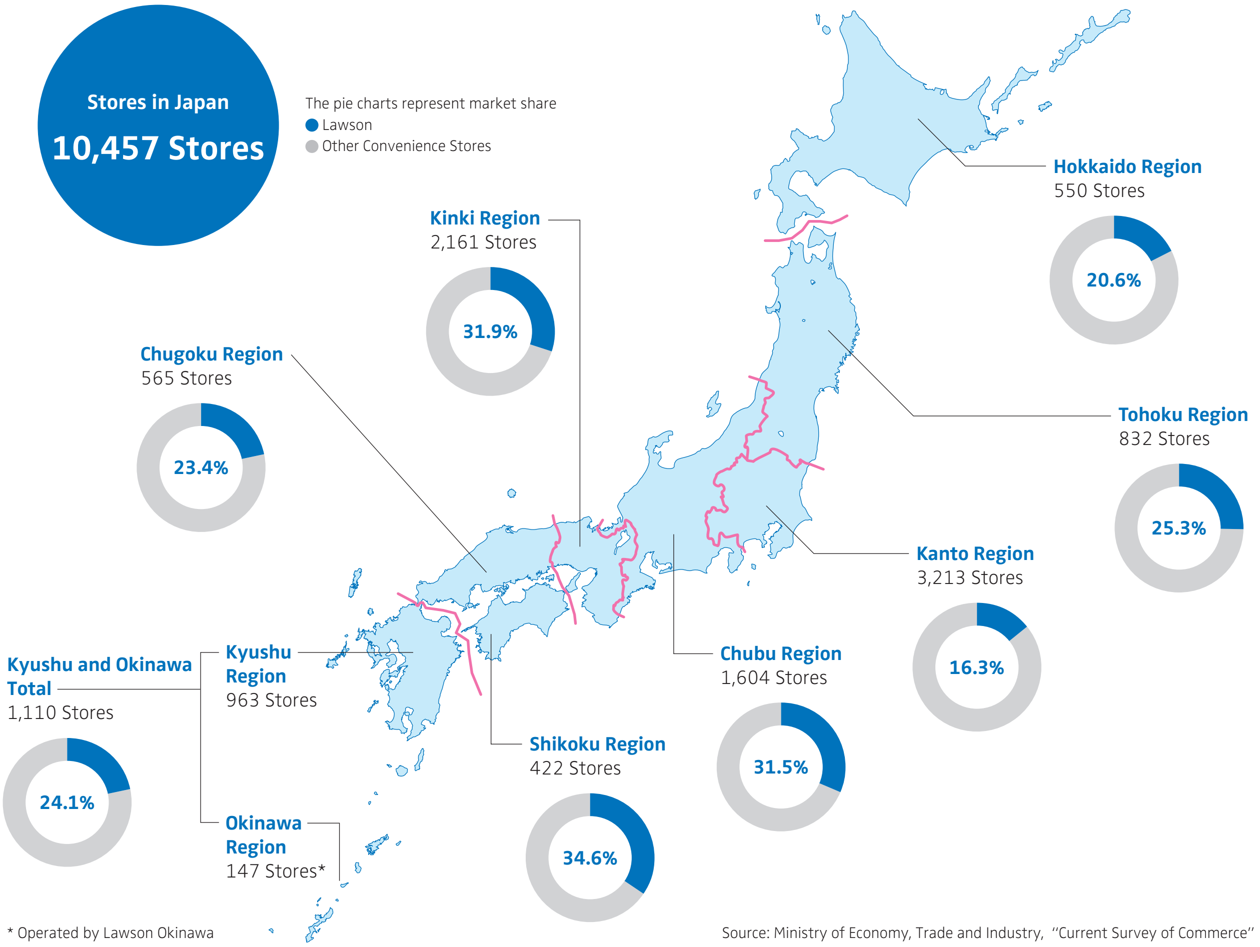
As of February 29, 2012

STORE NETWORK EXPANSION AREA

Total Number of Stores (worldwide total)

10,827 Stores





* Operated by Lawson Okinawa

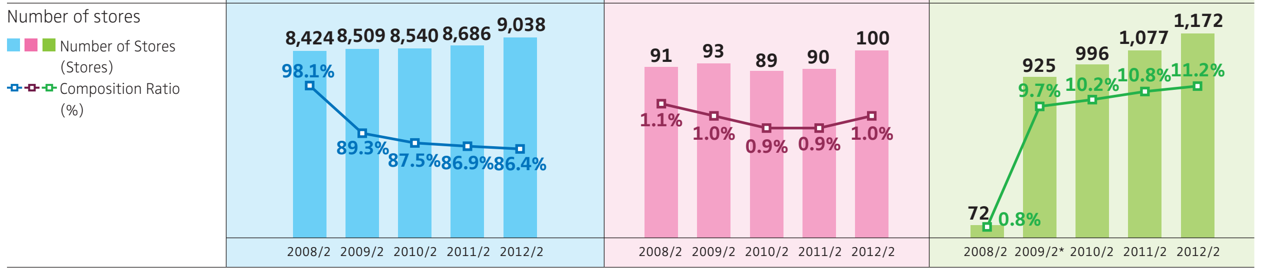
Source: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"

STORE-RELATED DATA

Lawson Store Formats

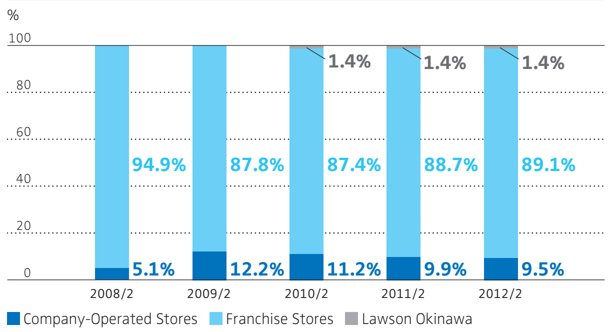
	LAWSON	NATURAL LAWSON	LAWSON STORE100
Operations begun	April 1975	July 2001	May 2005
Features	The Lawson store concept is shifting from the traditional convenience store format that targets men in their 20s and 30s to a format where individual stores match their merchandise assortment with their own catchment areas. This store format is aiming to become a highly convenient neighborhood store. Recently, taking into consideration locations, the Company is increasing the number of stores that offer fresh food (fresh food-type stores).	This store format promotes a beautiful, healthy, and comfortable lifestyle. Its merchandise assortment mainly targets health-conscious working women in their 20s, 30s, and 40s.	These convenience stores feature fresh foods in their merchandise and product lineup. With housewives and seniors in mind, the LAWSON STORE100 format focuses on small and appropriately sized portions, simple pricing, and bargain value to attract customers.
Percentage of female customers (estimate)	Approx. 30%	Approx. 45%	Approx. 40%
Network regional-orientation	Nationwide	Office and residential districts in major metropolitan areas	Residential districts and nearby train stations in metropolitan Tokyo
Items handled	Approx. 2,800 items	Approx. 2,500 items	Approx. 4,000 items
Percentage of merchandise items shared with Lawson stores	—	Approx. 60%	Approx. 10%
Total stores (At February 29, 2012)	9,038 stores	100 stores	1,172 stores

Number of stores

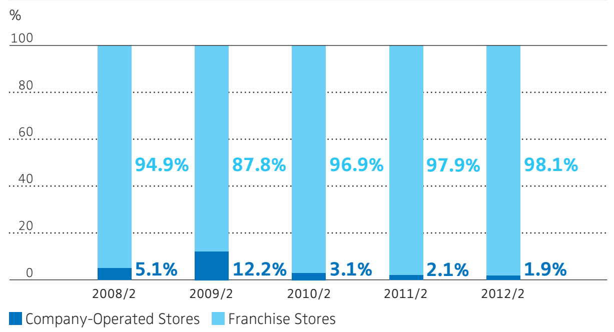


* As of September 2008, Ninety-nine Plus, Inc. became a consolidated subsidiary.

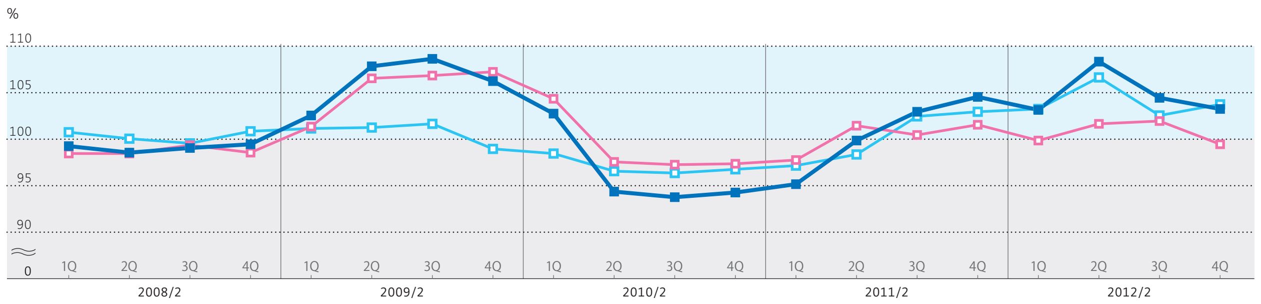
Lawson's Store Composition by Company-Operated and Franchise Stores (Consolidated)



Lawson's Store Composition by Company-Operated and Franchise Stores (Non-consolidated)



Year-on-Year Changes in Existing Store Sales, Number of Customers, and Spending per Customer



Note: Quarterly year-on-year figures are the simple average of the year-on-year figures for each of the three months in the quarterly period.

DIRECTORS, CORPORATE AUDITORS, AND EXECUTIVE OFFICERS

As of May 30, 2012

President and CEO	Takeshi Niinami	President and CEO; Group CEO, International Group; President, LAWSON University
Member of the Board, Senior Executive Vice President and COO	Genichi Tamatsuka	Member of the Board, Senior Executive Vice President and COO; Group CEO, CVS Operating Group and Division Director, CRM Promotion Office and Marketing Office
Member of the Board, Senior Executive Vice President	Yoshiyuki Yahagi	Member of the Board, Senior Executive Vice President and CFO; Division Director, Corporate Planning Office
Member of the Board	Toru Moriyama	Executive Vice President; Group CEO, Living Essentials Group, Mitsubishi Corporation
Members of the Board (Outside)	Reiko Okutani	President, The R Co., Ltd.
	Takehiko Kakiuchi	Senior Vice President; General Manager, Living Essentials Group CEO Office, and Division COO, Foods (Commodity) Division, Mitsubishi Corporation
	Emi Osono	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
Standing Corporate Auditor	Atsuhiko Seki	
Standing Corporate Auditor (Outside)	Shinichi Hokari	
Corporate Auditors (Outside)	Tetsuo Ozawa	Lawyer
	Eiko Tsujiyama	Professor, School of Commerce and Graduate School of Commerce, Waseda University
Senior Executive Vice President	Takatoshi Kawamura	Executive Assistant to CEO; in charge of Healthcare Business; Division Director, Healthcare Division
Executive Vice Presidents	Syuichi Imagawa	Group COO, CVS Operating Group; Division Director, Regional Offices Support Division; Division Director, Fresh Food Business Division
	Masaharu Kamo	Group CEO, Entertainment & e-Commerce Group; President and CEO, Lawson HMV Entertainment, Inc.
Senior Vice Presidents	Norikazu Nishiguchi	Executive Assistant to CEO; in charge of Innovation and BPR; Division Director, SCM Innovation Office
	Takaki Mizuno	Region Director, Kinki LAWSON Branch, CVS Operating Group
	Jun Miyazaki	Division Director, Corporate Communications Office
	Ichiro Kijima	Division Director, New Business Initiative Division
	Hisashi Yasuhira	Region Director, Tohoku LAWSON Branch, CVS Operating Group; Deputy Division Director, Merchandizing & Logistics Division
	Masayuki Sawada	Division Director, Merchandizing & Logistics Division, CVS Operating Group; Deputy Division Director, SCM Innovation Office
	Masahiro Oyama	Deputy Division Director, Merchandizing & Logistics Division, CVS Operating Group
	Kiyoteru Suzuki	Executive Assistant to CEO; in charge of Human Resources
	Tetsu Yamada	Group COO, International Group
	Shigeaki Kawahara	Executive Assistant to CEO; Assistant to Group CEO, CVS Operating Group; President and CEO, Ninety-nine Plus, Inc.
	Tatsushi Satou	Chief Information Officer (CIO); Division Director, Information Systems Office
	Kei Murayama	Chief Human Resources Officer (CHO); Division Director, Human Resources Office
	Masakatsu Gounai	CCO; in charge of CSR; Division Director, Compliance & Risk Management Office
	Yasuhiro Iseki	Division Director, Management Owner Promotion Division, CVS Operating Group
	Hajime Nakai	Executive Assistant to CEO, International Group
	Atsushi Maeda	Deputy Division Director, Merchandizing & Logistics Division, CVS Operating Group
	Kazuo Tougasa	Assistant to Group CEO, CVS Operating Group

CORPORATE DATA

As of February 29, 2012; consolidated basis

Company Name	Lawson, Inc.
Address	Head Office: East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan
President & CEO	Takeshi Niinami
Established	April 15, 1975
Capital	¥58,506.644 million
Number of Employees	6,475
Business Activities	Franchise chain development of LAWSON, NATURAL LAWSON, and LAWSON STORE100
All Store Sales	¥1,825.8 billion
Number of Stores	10,457 (in Japan)
Operating Areas	All 47 prefectures in Japan; China (Shanghai, Chongqing, Dalian), Indonesia

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

SHAREHOLDER INFORMATION

As of February 29, 2012; consolidated basis

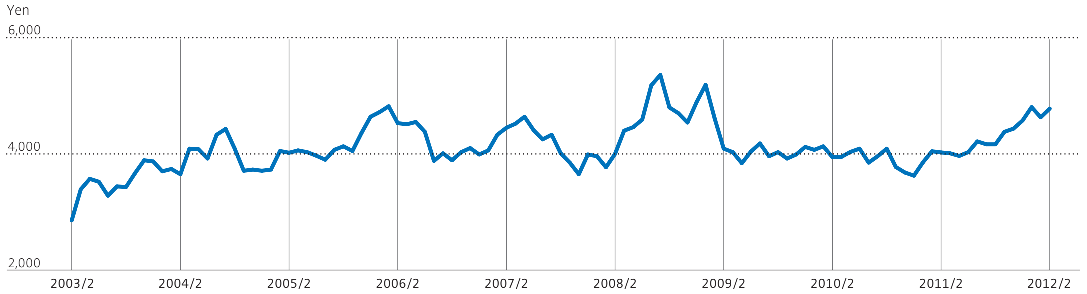
Authorized Shares	409,300,000
Shares Issued	100,300,000
Shareholders	37,300
Stock Exchange Listings	Tokyo Stock Exchange (1st Section) Osaka Securities Exchange (1st Section)
Stock Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Major Shareholders

	Number of Shares Held (Thousands)	Percentages of Total Shares Held*
1. Mitsubishi Corporation	32,089	32.1
2. Japan Trustee Services Bank, Ltd. (Trust account)	2,794	2.8
3. STATE STREET BANK AND TRUST COMPANY 505223	2,726	2.7
4. The Master Trust Bank of Japan, Ltd. (Trust account)	2,447	2.5
5. STATE STREET BANK AND TRUST COMPANY	2,348	2.4
6. NTT DOCOMO, INC.	2,092	2.1
7. STATE STREET BANK AND TRUST COMPANY 505225	1,787	1.8
8. The Chase Manhattan Bank NA, London SL, Omnibus Account	1,643	1.6
9. STATE STREET BANK AND TRUST COMPANY 505202	1,610	1.6
10. MELLON BANK N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1,451	1.5

* The above percentages of total shares held exclude treasury stock (416,166 shares).

Stock Price on the Tokyo Stock Exchange



	2004/2	2005/2	2006/2	2007/2	2008/2	2009/2	2010/2	2011/2	2012/2
Interim dividend	20	35	45	50	55	80	80	85	87
Year-end dividend	21	35	45	50	55	80	80	85	93
Annual dividend	41	70	90	100	110	160	160	170	180
Stock price as of February 28 or 29	3,780	3,980	4,350	4,540	4,000	4,250	3,885	4,025	4,780

LAWSON

Lawson, Inc.

Corporate Planning Office
East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome,
Shinagawa-ku, Tokyo 141-8643, Japan
http://lawson.jp/en/

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