

First Half Results for FY2013

(Six months ended August 31, 2013)

Lawson, Inc.
October 9, 2013

Financial Results for 1H-FY2013

Katsuyuki Imada
Chief Financial Officer

Earnings Summary, First Half of FY2013

(Consolidated: Billions of yen)	FY2011-1H	FY2012-1H	FY2013-1H		
	Actual	Actual	Actual	YoY	vs. Plan
Net sales of all stores	916.1	970.9	992.7	102.2%	96.9%
Operating profit	32.5	34.5	35.6	103.1%	100.3%
Operating profit ratio	3.6%	3.6%	3.6%	0.0%P	+0.1%P
Recurring profit	32.6	34.2	35.5	103.7%	102.7%
Net profit	8.9	17.8	19.0	106.6%	110.1%
EPS (Yen)	89.72	178.82	190.67	106.6%	110.1%
Dividend per share (Yen)	87	100	110	+10	-
Total no. of stores in Japan	10,221	10,912	11,384	+472	+84

Note: The number of stores is a total number of convenience stores in Japan operated by the Lawson group.

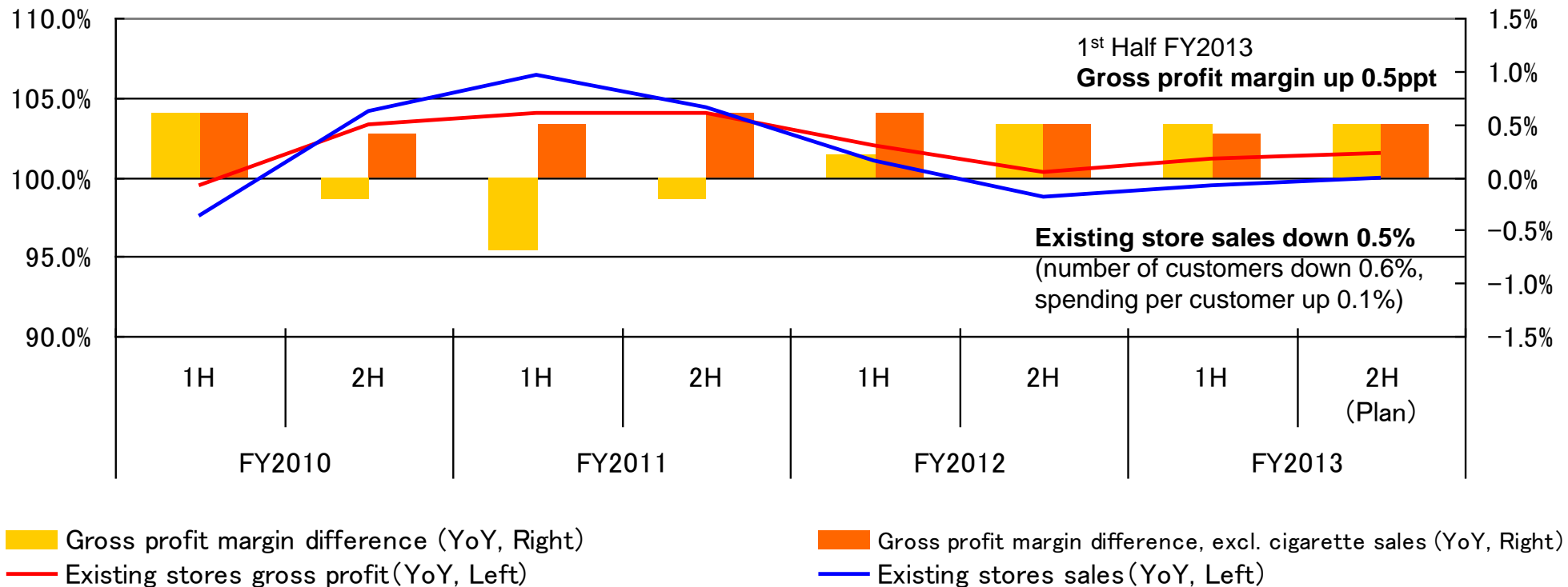
■ **Consolidated operating profit exceeded the plan by 0.1 billion yen, and rose 3.1% YoY**

A mark-up of prices of over-the-counter fast foods, processed foods, and non-food products led to an improvement in gross profit margin. The operating profit of subsidiaries contributed higher than expected.

■ **Consolidated net profit exceeded the plan by 1.7 billion yen and increased by 6.6% YoY**

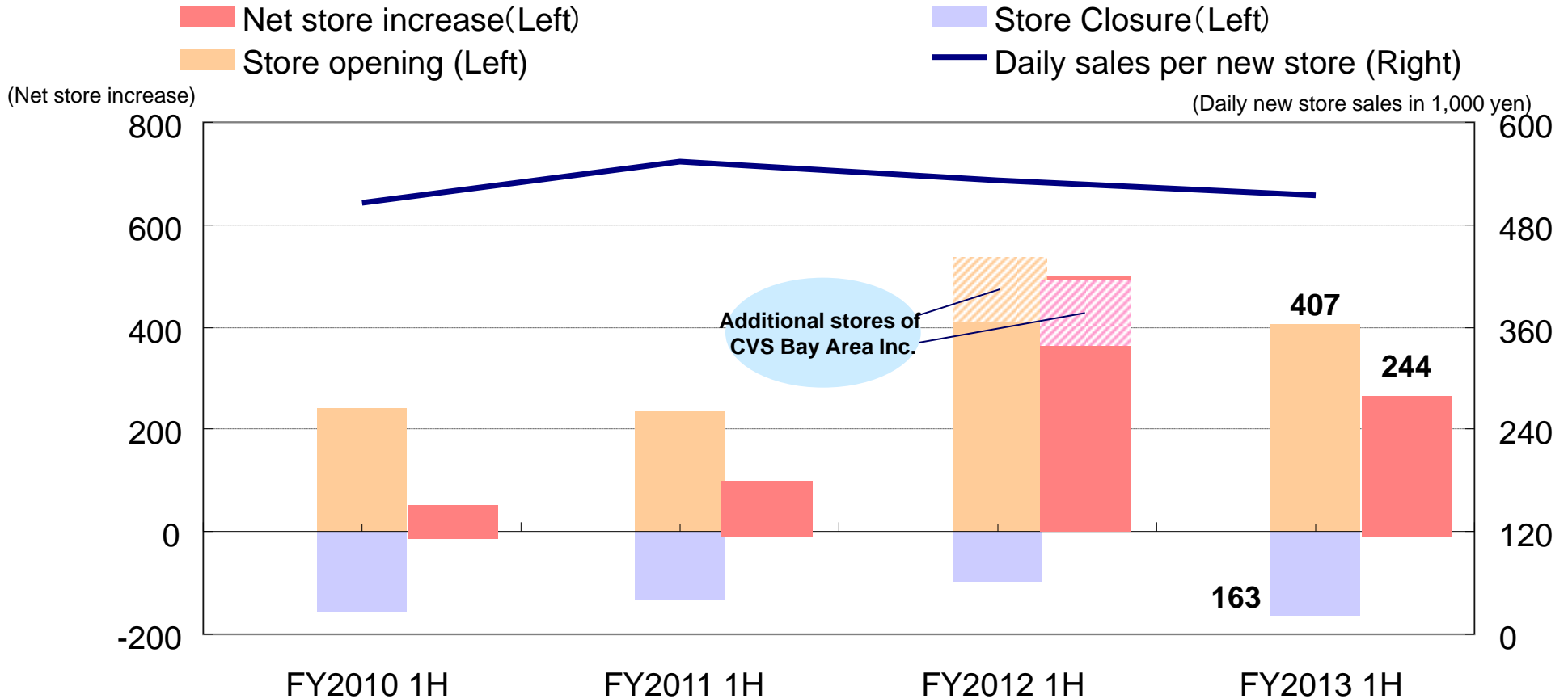
In addition to significant increase in recurring profit, extraordinary losses including impairment losses were lower than expected, reflecting our successful store-opening strategy that emphasized on investment efficiency.

Existing Stores (Non-Consolidated)



- Existing store sales decreased 0.5% YoY due to a substantial drop in cigarette sales. Excluding this factor, existing store sales increased 1.0% YoY.
- Gross profit margin improved 0.5 ppt, due to contributions by over-the-counter fast foods, processed foods, and non-food products. Excluding cigarettes, gross profit margin rose 0.4 ppt.
- As a result, gross profit of existing stores increased 1.1% YoY.

Store Openings (Non-Consolidated)



- Stores opened: 47 more than planned, as the successful expansion of customer base raised store opening potential, mainly in residential areas.
- Stores closed: 17 less than planned.
- Average daily sales per new store reached 514,000 yen which exceeded the target level of 500,000 yen.

Key Components of SG&A Expenses

		FY2012-1H	FY2013-1H		FY2013
		Actual	Actual	Change	Forecast
consolidated Non-	Selling, general & administrative expenses	100.8	105.8	4.9	Increase 5-10%
	Major Strategic Expenses				
	Personnel expenses	17.7	17.9	0.2	Increase 0-5%
	IT-related expenses (Hardware leasing, software amortization, maintenance, etc.)	7.6	7.5	▲ 0.1	<i>Increase 5-10%</i>
	Advertising and promotional expenses	7.0	5.0	▲ 2.0	<i>Increase 0-5%</i>
Consolidated SG&A expenses		138.8	146.1	7.2	Increase 5-10%

(Billions of yen)

Note: Figures in italic indicate the revised figures from the initial plan.

		Compared to Fiscal 2011	Compared to Plan
Non-consolidated		<ul style="list-style-type: none"> ➤ Advertising and promotional expenses: Accepted co-sponsorship by SCI, a subsidiary serving supply chain management of convenience store businesses. (Excluding this, adjusted expenses increased by 7%) ➤ Other: Increase in expenses such as facility expenses associated with net increase in stores and refurbishment. 	<p>0.9 billion yen less than the plan.</p> <ul style="list-style-type: none"> ➤ Advertising and promotional expenses were within the plan as result of ROI-focused efficient sales promotion.
Consolidated		<ul style="list-style-type: none"> ➤ Start-up cost of “Smart Kitchen” business in FY2013 ➤ Business expansion of Lawson HMV Entertainment increased expenses. 	<p>3.6 billion yen less than the plan.</p> <ul style="list-style-type: none"> ➤ In addition to a cut in expenses on a non-consolidated basis, Ninety-nine and Smart Kitchen restrained costs.

Earnings of Major Subsidiaries

(Billions of yen)

Operating Profit of Major Subsidiaries

			FY2013-1H		FY2013
	FY-end	Ownership	Actual	YoY change	Forecast
Lawson ATM Networks	Feb.	76.5%	3.18	+0.80	<i>5.60</i>
Lawson HMV Entertainment	Feb.	100.0%	1.38	+0.24	<i>3.00</i>
Ninety-nine Plus	Feb.	100.0%	0.89	▲ 0.19	<i>2.60</i>
Shanghai Hualian Lawson	Dec.	94.0%	▲ 0.35	+0.15	▲ <i>0.80</i>
Chongqing Lawson	Dec.	100.0%	▲ 0.38	▲ 0.11	▲ <i>0.80</i>
Smart Kitchen	Feb.	51.0%	▲ 0.82	▲ 0.78	▲ <i>1.10</i>

Note: Figures in italic indicate the revised figures from the initial plan.

Lawson ATM Networks

Increased operating profit due to growth in ATM installation in line with net growth in stores and cost control measures.

Lawson HMV Entertainment

Increased profit due to improved management of large-scale performances, that led to strong ticket sales.

Ninety-nine Plus

Sluggish market for perishables lowered operating profit YoY, but conversion to franchise stores progressed steadily. Re-strengthening perishables and daily delivered foods will contribute to improving profitability.

Shanghai Hualian Lawson

Shanghai subsidiary strengthened its existing stores and closed loss-making stores, which kept losses below plan.

Cash Flows and Capital Expenditures (Consolidated)

● Consolidated Capital Expenditures

(Billions of yen)

	FY2010	FY2011	FY2012	FY2013
	Actual	Actual	Actual	Plan
New stores	9.8	18.6	16.0	33.5
Existing stores	4.8	3.9	3.5	<i>12.0</i>
IT-related	3.7	2.7	2.4	7.5
Other	0.4	1.3	1.0	5.0
Subtotal for capital expenditure	18.8	26.7	23.1	<i>58.0</i>
Depreciation and amortization	17.9	20.8	22.8	<i>49.4</i>

Note: Figures in italic indicate the revised figures from the initial plan.

● Consolidated Cash flows

(Billions of yen)

	FY2011-1H	FY2012-1H	FY2013-1H	FY2013
	Actual	Actual	Actual	Forecast
Cash flows from operating activities	67.8	53.3	61.7	Approx. 85.0
Cash flows from investing activities	▲ 28.4	▲ 28.9	▲ 29.8	Approx. ▲ 65.0
Free cash flows	39.3	24.3	31.9	Approx. 20.0
Cash flows from financing activities	▲ 13.2	▲ 14.7	▲ 19.4	<i>Approx. ▲ 39.0</i>
(Cash dividends paid)	▲ 8.4	▲ 9.2	▲ 9.9	▲ <i>21.0</i>
Cash and cash deposits	94.3	90.5	100.2	—

Note: Figures in italic indicate the revised figures from the initial plan.

FY2013 Company Forecast, Consolidated

	FY2011	FY2012	FY2013 Forecast	
	Actual	Actual	Plan	YoY
(Billions of yen)				
Net sales of all stores	1,825.8	1,906.5	<i>1,988.0</i>	104.3%
Operating profit	61.7	66.2	70.0	105.7%
Operating profit ratio	3.4%	3.5%	3.5%	0.0%P
Recurring profit	61.7	65.9	68.4	103.8%
Net profit	24.8	33.1	35.9	108.2%
EPS (Yen)	249.17	332.20	359.36	108.2%
Dividend per share (Yen)	180	200	220	+20
ROE	12.0%	15.2%	15.3%	+0.1%P
Total no. of stores in Japan	10,457	11,130	<i>11,630</i>	+500
(Non-consolidated)				
Gross profit of existing stores (YoY)	104.0%	101.2%	<i>101.3%</i>	+0.1%P
Net sales of existing stores (YoY)	105.4%	100.0%	<i>99.8%</i>	▲0.2%P
Gross profit margin ratio	30.1%	30.5%	31.0%	+0.5%P
Gross profit margin difference excluding cigarette sales (YoY)	+0.5%P	+0.5%P	+0.5%P	0.0%P

Note: Figures in italic indicate the revised figures from the initial plan.

Note: The number of stores is a total number of convenience stores in Japan operated by the Lawson group.

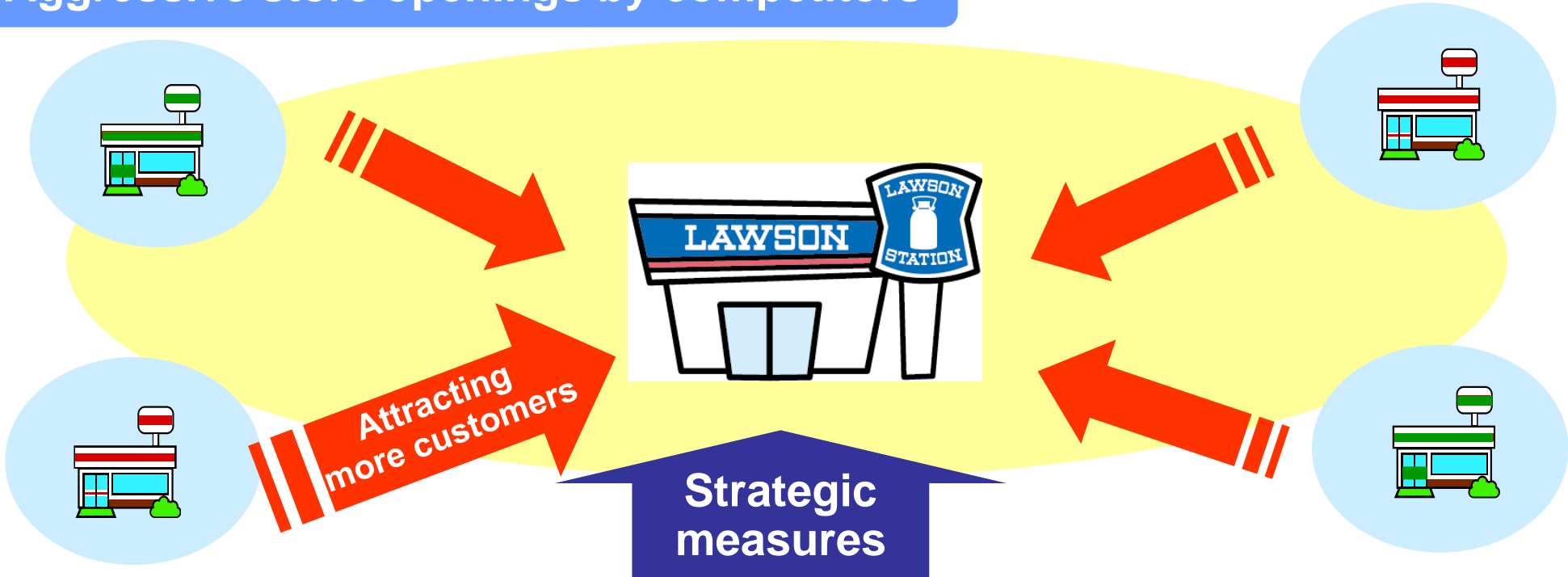
- Plan: Enhance existing stores by introducing health-conscious food, freshly-brewed coffee and in-store kitchen at more stores, and by strategic use of Ponta card data analysis.
- Strong use of promotional and other strategic spending to achieve sales target.
- Gross profit margin target: increase by 0.5 ppt, due to sales growth in high-margin products and improved SCM.

Lawson's Differentiation Strategy

Genichi Tamatsuka
Chief Operating Officer
Member of the Board

Strategic Measures to Win Against Competition

Aggressive store openings by competitors



Differentiation strategy

- ましかど 厨房 (Mashikado Kitchen)
- MACHI café
- Uchi Café SHEETS
- 郷土のうまい (Hometown's Delicious)
- LAWSON farm
- スマートキッチン (Smart Kitchen)

Ponta

Management Owner (MO) System

Raise Gross Margin of Existing Stores by Differentiation

Lawson's strategic measures

- Improve competitive advantage of existing stores by maintaining investment
- Continue development of high quality products and services
- Improve gross profit margin through SCM-CRM model
- Strengthen customer data analysis of individual stores by Ponta cards

Increase Gross Profit of Existing Stores

Key indicators for 1st Half, FY2013

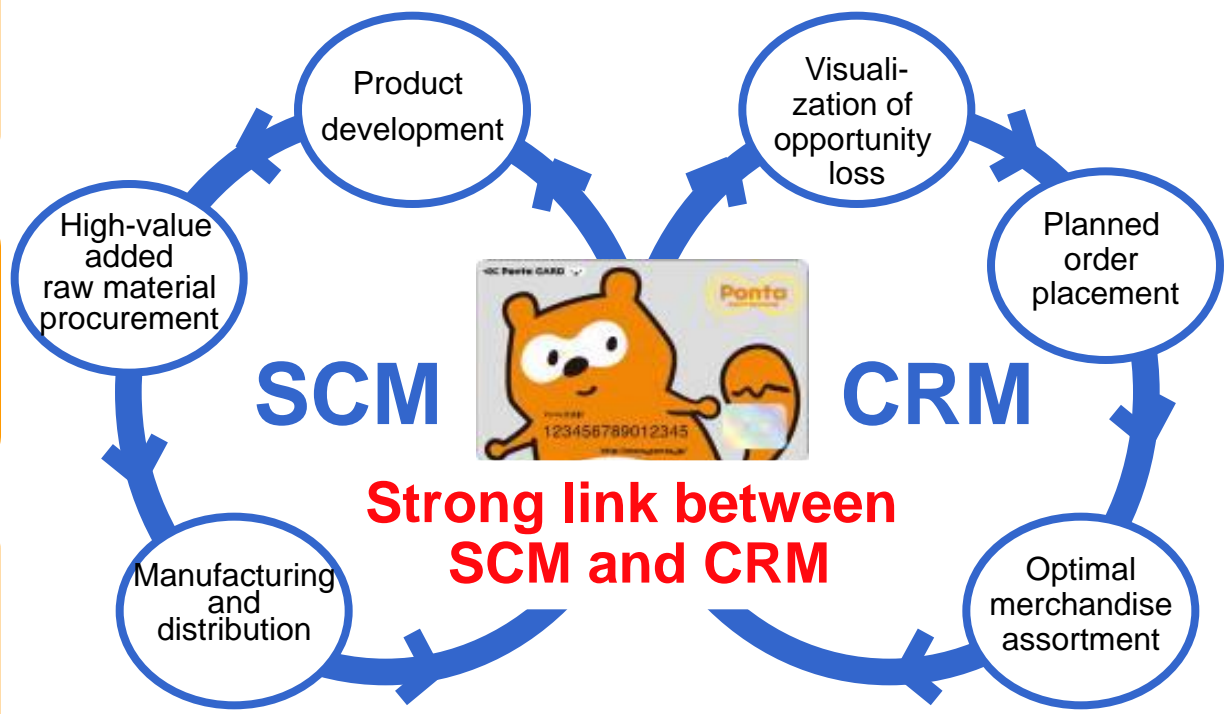
Average daily sales per new store = over 500 thousand Yen

Gross profit of existing stores (YoY) = 101.1%

Better Understanding of Customers with Ponta Card Data

- Rate of trials and rate of repeat customers
- More accurate, detailed data by customer segment than POS
- 57 million card members
- Card members contribute to 50% of sales
- 69 corporate partners (90 brands)
- 21,900 stores accept Ponta cards

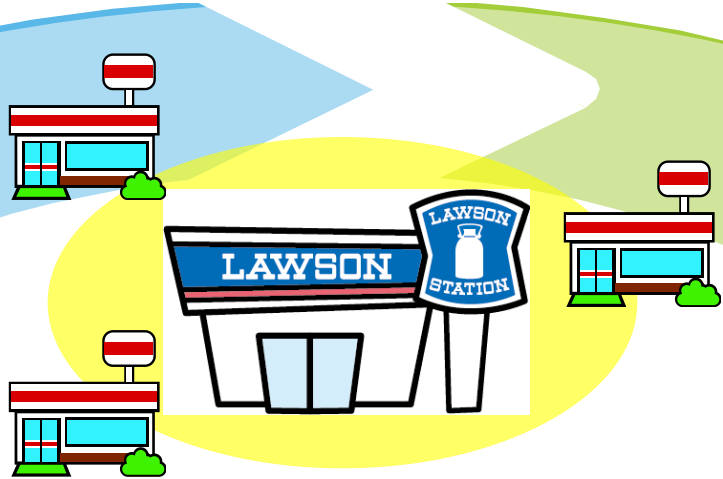
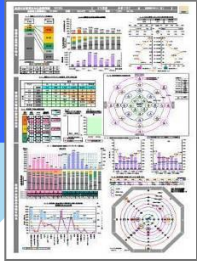
As of August, 2013



Lawson's competitive advantage is its ability to manage the purchasing data of over 10,000 stores by each store

Use of Stores' Ponta Member Reports (Example of Store X)

1
Identify and quantify customer needs through Ponta data



2
Select strategy and "tools" that best meet customer needs

Over-the-counter fast food

MACHI café

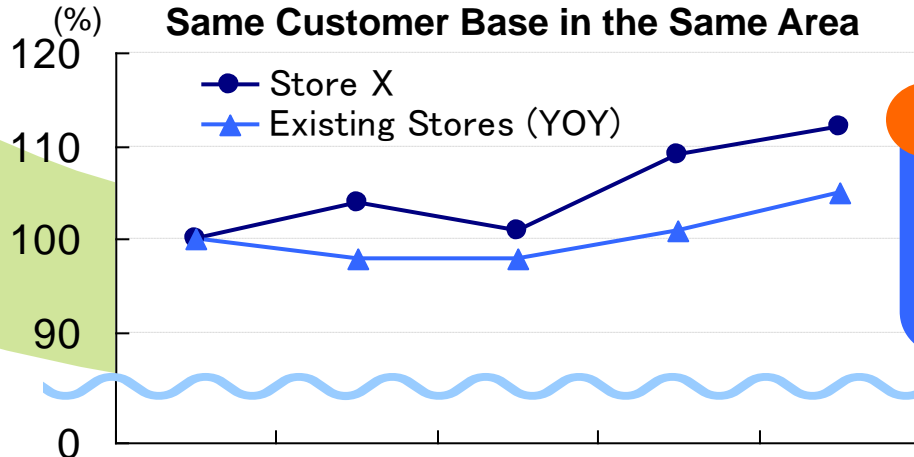
Machikado Chubo (In-store kitchen)

Perishable food

5
Re-evaluate results with reports

4
Verify results

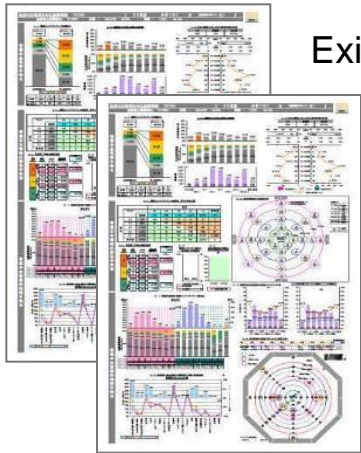
YoY Sales Growth of Store X and Average of Existing Stores with the Same Customer Base in the Same Area



3
Test hypothesis, create a plan, and take actions

Nearby Store Opening Strategy (Example of Branch Y)

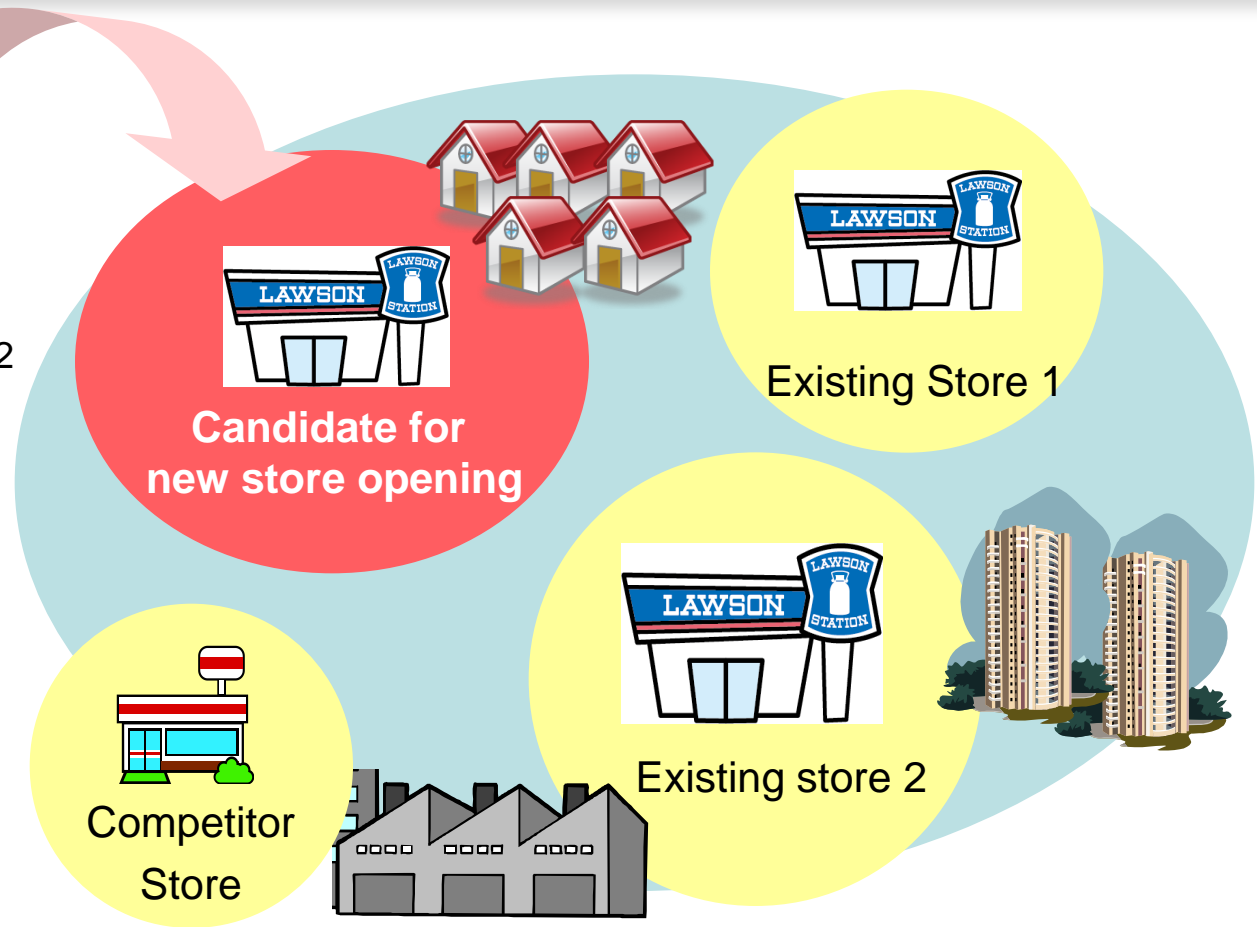
Individual store reports of Ponta card members



Existing Store 1

Existing Store 2

The reports are used to determine critical points and potential factors for new store opening and help prioritize candidate sites



Enables highly accurate new store opening strategy to be formulated driven by the combination of Ponta data analysis and existing database

Key to Expand Customer Base: Perishable Food



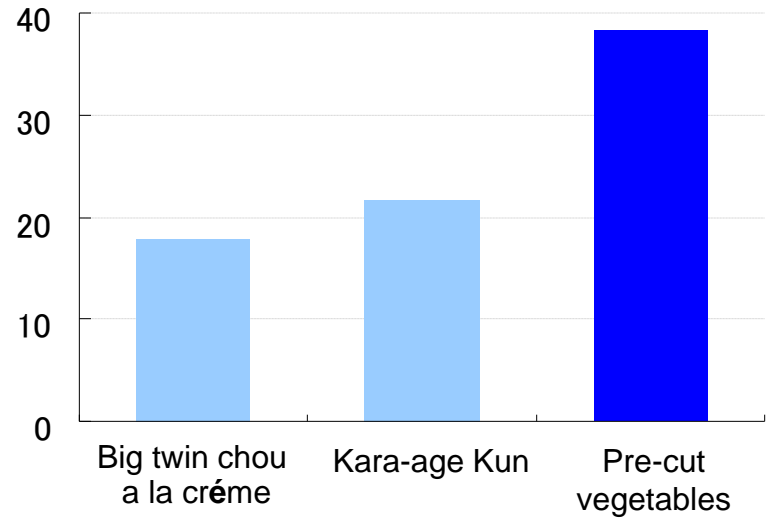
Fresh-food type LAWSON
(as of August, 2013)

5,985 stores

60% of regular LAWSON stores

Well-established image of Lawson as “fresh-food convenience store”

Higher repeat rate than other merchandise



Improved gross margin driven by enhanced assortment of high gross margin products that are often bought together



Nakashima Farming Method

Initiatives to offer high-quality perishable food

Key to Expand Customer Base: Reinforce Fast Food



MACHI café



**Kara-age Kun
fried chicken nuggets**



**“Genkotsumenchi”
(fried minced meat ball)**

**1st Half of FY2013
Contributed a +0.5 ppt gross
profit margin improvement YoY**



**“Frozen Sweets”
(different flavors of sorbet)**



**Extra-thick cut
pork cutlet sandwiches**

Key to Expand Customer Base: MACHI café

Value-added products and hospitality help improve customer satisfaction and realize sustainable growth of stores



Average gross margin **65%**



Greater prominence for MACHI café's experts (Fantasistas)

High-quality raw materials
Wide variety of latte menu

Beyond merely coffee, providing "café" services

**MACHI café
Growth Plan**

End of 1st Half

4,294 stores

2nd Half

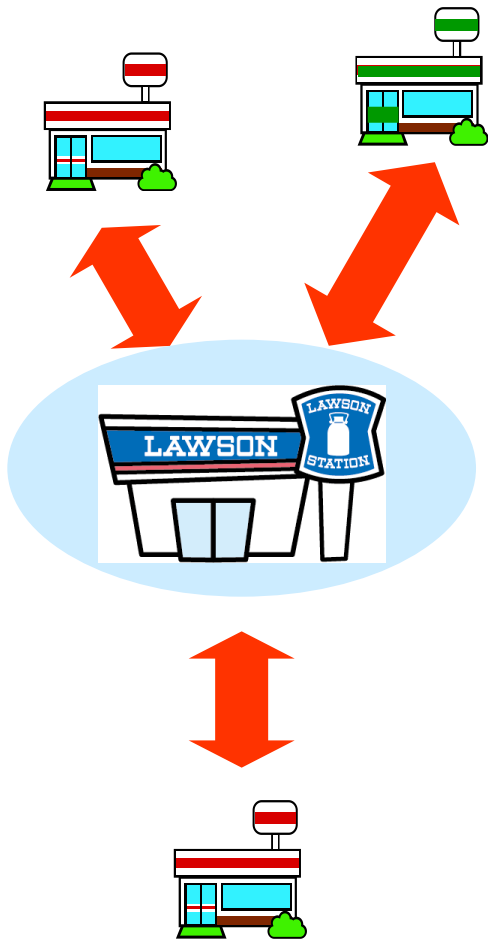
Expand to 8,000 stores

Strategy for Corporate Value Creation

Takeshi Niinami
Chief Executive Officer
Representative Director

Lawson's Differentiation Strategy for a Competitive Market

Current competitive environment



■ Assumption

- Regional economies have yet to recover
- Cost inflation occurs and consumption tax will increase
- Lead to increase in the need for value-added products

■ Challenge: How to earn the trust of our customers?

1. **Innovation as corporate culture**
→ Individual store customer analysis by using Ponta data
2. **R&D, centering on the management owner (MO) system**
→ Quick development and improvement of merchandise
○ **Convert company-operated stores to franchise stores (toward mutual growth and prosperity)**
3. **Home delivery business run by franchise owners**
→ Further development of Smart Kitchen business

Stores

The Three Essential Practices

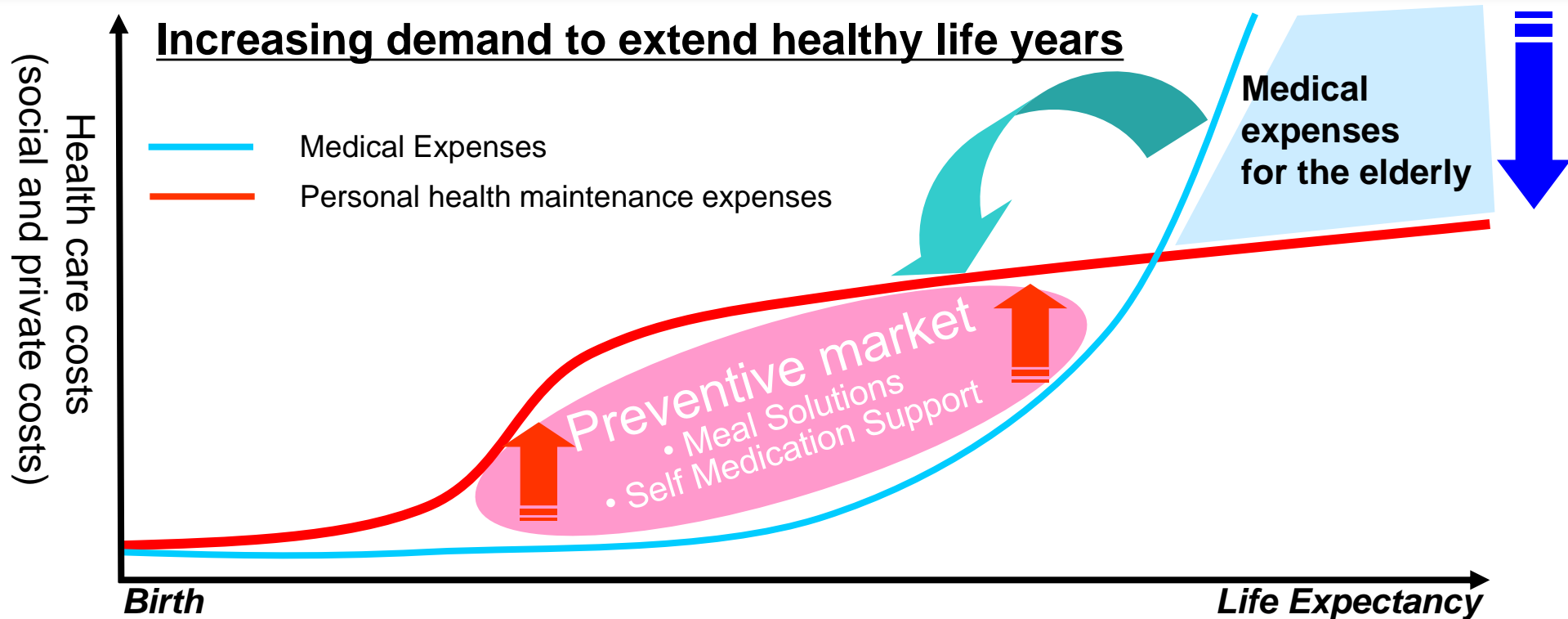
- Quality
- Service
- Cleanliness

Headquarters

- Merchandise
- Services
- Promotions/ Campaign

Increase gross profit margin of existing stores to achieve higher profits for franchise owners and headquarters

Health Care Initiatives: Target Business Areas 3 Years Ahead



Tens of millions of people are suspected of suffering from lifestyle related diseases

40 million potential high-blood pressure persons (1 in 3 adults)

22.1 million potential diabetes persons (1 in 4 adults)

Lawson Group will support communities to extend “healthy life expectancy”

Examples of Healthy Products Series



Bran series

More emphasis on “Made in Japan”

Expand “Nakashima Farming Method”



July, 2013

Lawson acquired a 70% stake of Eisai Seikaken, a manufacturer of soil fertilizers.

“Safe, reliable, and tasty”

Provide mineral-rich vegetables and fruits
“Pre-cut Vegetables,”
“Lawson Farm Vegetables”



Use of healthy oil

Cholesterol-free oil is used for fried foods



High-oleic canola oil



Contains more oleic acid than regular canola oil and has weaker smell

Palm olein oil



High oxidative stability (saturation) when used for frying and results in high-quality

Corn oil

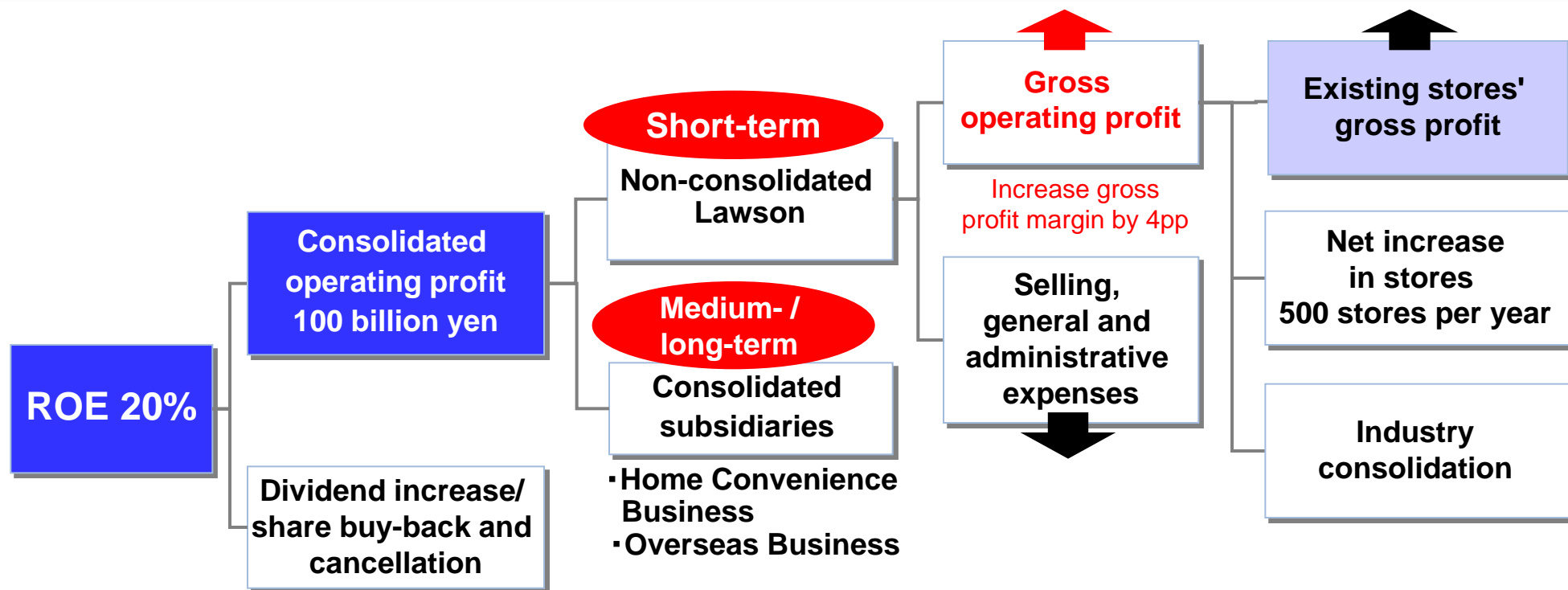


Rich roasted flavor and suited for keeping fried food tasty and safe

Boxed lunches supervised by TANITA



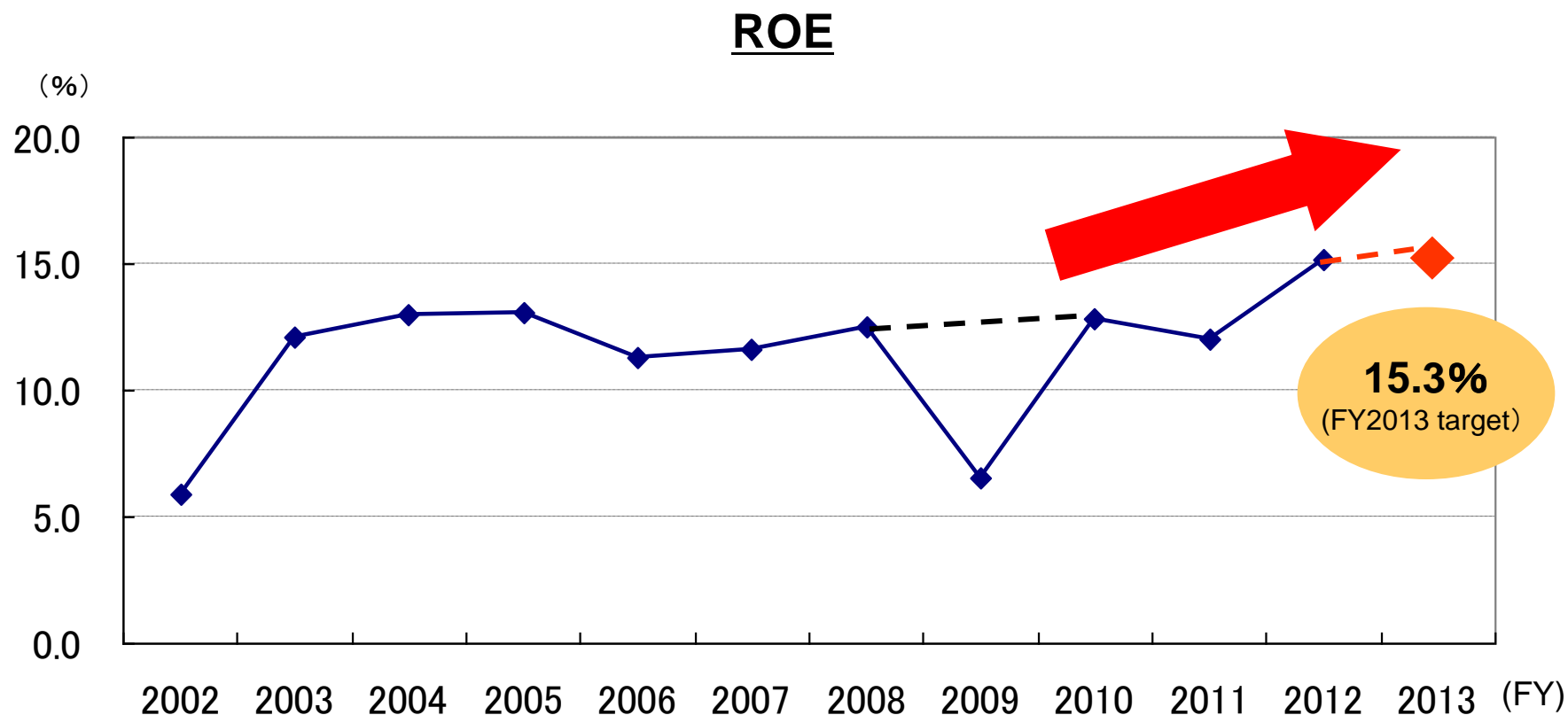
Roadmap to Medium-term Continuous Growth and ROE 20%



Triggers for the roadmap to ROE 20% and 100 billion Yen in consolidated operating profit

- Investments complying with ROIC criteria for better capital efficiency
- Improve differentiated products, CRM (Customer Relationship Management) via Ponta card and Advanced SCM reform for better gross profit margin
- Lead industry consolidation utilizing past M&A expertise

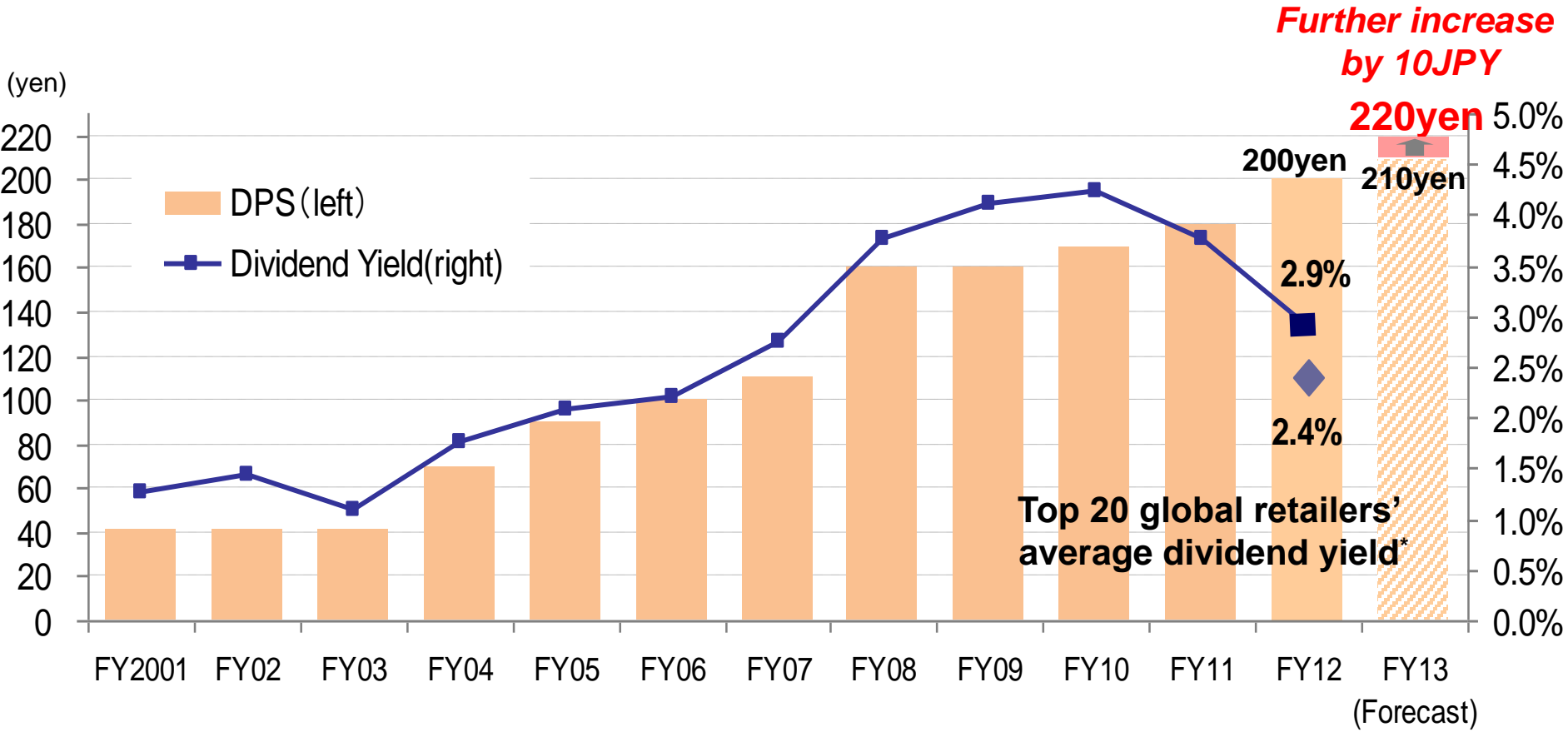
ROE Growth Cycle through Optimal Cash Flow Allocation



Emphasis on ROI for optimal reinvestments based on economic rationality
 ⇒ Increase operating cash flow ⇒ Create free cash flow after reinvestments
 ⇒ Better shareholder return (dividend increase)
 ⇒ Realize sustainable growth

Continuous Dividend Growth

Changes in annual dividends per share and dividend yield



* Top 20 retailers of total market value excl. apparel retailers

Continuous return execution independent of temporal ups and downs

Reference

Half Year Breakdown of FY2013 Forecast

(Consolidated: Billions of yen)	FY2013 Forecast			
	1H Initial Plan	1H Actual	2H Plan	Full-Year Plan
Net sales of all stores	1,025.0	992.7	995.2	<i>1,988.0</i>
Operating profit	35.5	35.6	34.3	70.0
Operating profit ratio	3.5%	3.6%	3.5%	3.5%
Recurring profit	34.6	35.5	32.8	68.4
Net profit	17.3	19.0	16.8	35.9
(Non-consolidated)				
Gross profit of existing stores (YoY)	101.5%	101.1%	101.5%	<i>101.3%</i>
Net sales of existing stores (YoY)	100.0%	99.5%	100.0%	<i>99.8%</i>
Gross profit margin ratio	30.9%	30.9%	31.1%	31.0%

Note: Figures in italic indicate the revised figures from the initial plan.

First Half of FY2013 Balance Sheet

			(Billions of yen)	
	As of Aug. 31, 2013	Change from Feb. 28, 2013	As of Aug. 31, 2013	Change from Feb. 28, 2013
Total current assets	216.5	36.2	Total current liabilities	270.2
(Cash and deposits)	100.2	15.5	(Accounts payable -trade)	108.4
(Marketable securities)	–	–	(Deposits payable)	84.6
(Accounts receivable -other)	57.1	11.1	Total noncurrent liabilities	113.9
Total noncurrent assets	409.6	10.0	(Long-term guarantee deposits)	33.3
Property, plant and equipment	219.7	10.5	Net Assets	241.9
Intangible assets	32.0	▲ 2.0	(Common stock)	58.5
Investments and other assets	157.8	1.5	(Retained earnings)	130.2
(Long-terms loans receivable	33.3	▲ 1.2	Liabilities and net assets	626.1
(Lease deposits)	85.9	▲ 0.1		46.3
Total Assets	626.1	46.3		

Cautionary Statement

This presentation contains forward-looking statements and forecasts regarding the future plans, strategies and performances of Lawson and its subsidiaries and affiliates. These statements and forecasts are not historical facts. They are expectations based on assumptions and beliefs derived from information currently available to the Company and are subject to risks and uncertainties including, but not limited to, economic trends, heightened competition in the domestic convenience store sector, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from estimates.

Figures in this presentation have been rounded down.