

Flash Report on the Consolidated Result

for the First Half Ended February 28, 2013

October 3, 2012

Listed Company Name: Lawson, Inc.

Code No.: 2651

(URL <http://www.lawson.co.jp/company/ir/index.html>)

Company Representative: Takeshi Niinami, Representative Director, President & CEO

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Scheduled date for submission of quarterly earnings report: October 15, 2012

Scheduled date for payment of dividend: November 9, 2012

Supplementary Documents quarterly results: Yes

Presentation of quarterly results: Yes

1. Consolidated Performance for the current first half of the current period (from March 1, 2012, to August 31, 2012)

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

	Total operating revenues		Operating profit		Recurring profit	
	¥ Million	%	¥ Million	%	¥ Million	%
Current 1st Half	248,963	3.7	34,554	6.1	34,260	5.1
Previous 1st Half	240,020	8.5	32,569	8.0	32,601	9.8

	Net profit		Net income per share	Fully diluted income per share
	¥ Million	%	¥	¥
Current 1st Half	17,861	99.3	178.82	178.54
Previous 1st Half	8,960	(27.1)	89.72	89.61

Notes: Comprehensive income August, 2012 17,548 million(86.4%) August, 2011 9,416 million(- %)

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	¥ Million	¥ Million	%
At August 31, 2012	563,270	222,814	38.9
Last fiscal year	531,453	214,662	39.7

Notes: Capital adequacy August, 2012 219,317 million February, 2012 211,154 million

2. Dividends status

	Annual dividends per share				
	1Q	2Q	3Q	Year-end dividend	Total
	¥	¥	¥	¥	¥
2011 fiscal year	—	87.00	—	93.00	180.00
2012 fiscal year		100.00			
2012 fiscal year (Forecast)			—	100.00	200.00

Notes: Revision of forecast for dividends in the first half: Yes

3. Forecast Consolidated Performance for 2012 fiscal year (from March 1, 2012, to February 28, 2013)

	Total operating revenues		Operating profit		Recurring profit		Net profit	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
2012 fiscal year	501,000	4.6	66,000	6.8	65,100	5.5	33,400	34.2

Reference: Forecast net profit per share for the 2012 fiscal year: 334.37yen

Note: Revision of forecasts for consolidated performance during the first half: Yes

4. Other

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): Yes

Lawson (China) Holdings, Inc.

(2) Adoptions of special accounting methods in presentation of quarterly financial statements: No

(3) Changes in accounting policies, changes in accounting estimation, retrospective restatement

1. Changes of accounting policies associated with revision in accounting standards: None

2. Other changes: None

3. Changes in accounting estimation: None

4. Retrospective restatement: None

(4) Number of issued shares:

i) The number of the stocks issued in the end of term

August, 2012: 100,300,000 February, 2012: 100,300,000

ii) The number of treasury shares in the end of term

August, 2012: 410,993 February, 2012: 416,166

iii) Average number of shares during the term

August, 2012: 99,885,014 August, 2011: 99,866,694

Note: Disclosure of progress of quarterly review procedures

At the time of disclosure of this quarterly flash report, review procedures for quarterly earnings reports based on the Financial Instruments and Exchange Act had not been completed.

Note: The above-mentioned forecast is based on the information, which is able to get hand at present, and including a potential risk and uncertainty. Therefore, actual achievements may differ from these forecasts due to many factors.

1. Review of Operations

(1) Review of Operating Results

During the first six months of fiscal 2012, the period from March 1 to August 31, 2012, the Lawson Group (hereinafter, the “Group”) implemented measures to reinforce its social infrastructure function that provides essential items at the local level with the aim of realizing the Group’s corporate philosophy of “Creating Happiness and Harmony in our Communities.” By promoting operational reform, PRiSM, that is based on analysis of card data from the multi-partner loyalty program, Ponta, the Group focused on customer relationship management (CRM)^{*1} and supply chain management (SCM)^{*2} in order to offer a merchandise assortment that meets the specific needs of customers in each neighborhood.

^{*1} Customer relationship management (CRM)

A marketing management method for providing merchandise and services that meet the specific needs of customers

^{*2} Supply chain management (SCM)

A business administration method for comprehensively managing all stages of business, from procurement to sales, to streamline and optimize the entire business process.

As a result, for the first six months of fiscal 2012 on a consolidated basis, total operating revenues increased by 3.7% from the corresponding period of the previous fiscal year to ¥248,963 million. Consequently, operating profit increased by 6.1%, year on year to ¥34,554 million. Recurring profit grew 5.1%, from the same period of the previous fiscal year to ¥34,260 million. At the same time, extraordinary loss declined by ¥12,117 million, or 77.2%, year on year to ¥3,570 million due to asset retirement obligations and losses stemming from the Great East Japan Earthquake disaster which were recognized in the previous fiscal year. As a result, net profit rose ¥8,900 million, or 99.3%, to ¥17,861 million.

Operating results by business segment are as follows.

(Convenience Store Operations)

The status of merchandising strategy and services, store operations, store development and other aspects of Convenience Store Operations and Overseas Businesses for the first six months of fiscal 2012 is outlined as follows.

[Merchandising Strategy and Services]

On the merchandising front, the Group developed original products that cater to customer needs such as ready-made meals (ex. lunch boxes, over-the-counter fast foods, and others) and items from our private brand, “Lawson select,” which is mainly comprised of prepared food and delicatessen items, processed foods, daily necessities, and beverages, by leveraging customer purchase data acquired through the Ponta program that the Group joined in March 2010. We also managed to provide appealing products that offer value for money as a result of the enhancement of added-value in the ingredients procurement process,

including bulk procurement of high-quality food materials via a dedicated section, which resulted in an improvement of gross profit margin ratio.

In an effort to expand our customer base, we strengthened our lineup of pre-cut vegetables and other fresh food items, while also striving to encourage multi-item purchasing by expanding our lineup of processed foods such as seasonings for cooking and eating at home.

In addition, we continued to fortify our fast food category to improve store profitability. Specifically, we promoted sales of prepared fast foods such as fried chicken, and increased the number of stores equipped with MACHI café, which totaled 1,681 stores as of August 31, 2012. MACHI café, which offers freshly ground drip coffee, is well-received by our customers and we intend to continue introducing the café to more stores.

In the dessert category, we launched “Ankoya,” an authentic Japanese dessert series from our Uchi Café SWEETS line. Pure Fresh Cream Daifuku (Japanese rice cake) and other premium dessert items offered from the series were especially popular among female and elderly customers.

[Breakdown of sales at chain stores by merchandise category]

Fiscal period Product group	Previous 1st Half March 1, 2011 to August 31, 2011		Current 1st Half March 1, 2012 to August 31, 2012	
	Sales (Millions of yen)	Percentage of Total (%)	Sales (Millions of yen)	Percentage of Total (%)
Processed foods	507,535	55.4	543,056	55.9
Fast foods	172,570	18.8	188,396	19.5
Daily delivered foods	140,708	15.4	141,211	14.5
Nonfood products	95,382	10.4	98,292	10.1
Total	916,197	100.0	970,956	100.0

In sales promotions, the Group implemented programs centered on tie-ups with popular characters/events such as the Spring Rilakkuma Fair with the aim of achieving a high return on investment (ROI). In addition, we implemented a number of loyalty point programs that target Ponta members in order to encourage customers to visit our stores in the evening and night time. Furthermore, we proactively implemented promotional campaigns based on social networking services (SNS). Total Ponta members reached 44.12 million as of August 31, 2012, including members that joined through other participating companies. In addition to expanding its Ponta membership base, the Group provided loyalty points exclusively to Ponta members, which resulted in an increase in the sales ratio of Ponta members to approximately 43.6%.

[Store Operations]

In store operations, we leveraged PRiSM, which was introduced with the aim of reforming our order placement system by adding enhanced accuracy, to reduce sales opportunity loss and product disposal loss. In addition, we strived to enhance our productivity in providing guidance to franchise stores by newly adopting the use of tablet devices as a tool.

[Store Development and Store Format Strategy]

In opening new stores, the Group has focused on maximizing return on investment (ROI) and has strictly adhered to its proprietary standards for opening stores, in addition to prioritizing profitability.

Regarding the format strategy, we promoted store openings and refurbishment to meet the needs of customers specific to each neighborhood through LAWSON, NATURAL LAWSON and LAWSON STORE100.

[Change in the Total Number of Stores] (March 1, 2012 – August 31, 2012)

	LAWSON	NATURAL LAWSON	LAWSON STORE100	Total
Total stores as of March 1, 2012	9,038	100	1,172	10,310
Change during fiscal year	425	5	19	449
Total stores as of August 31, 2012	9,463	105	1,191	10,759

[Distribution of Stores in Japan by Region (As of August 31, 2012)]

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	570	Saitama	449	Mie	100	Okayama	129	Saga	63
Aomori	180	Chiba	429	Ishikawa	93	Hiroshima	152	Nagasaki	91
Akita	163	Ibaraki	122	Toyama	192	Yamaguchi	117	Oita	145
Iwate	157	Tokyo	1,513	Fukui	102	Tottori	95	Kumamoto	101
Miyagi	196	Kanagawa	773	Kyoto	262	Shimane	96	Miyazaki	86
Yamagata	67	Shizuoka	198	Shiga	132	Kagawa	102	Kagoshima	113
Fukushima	91	Yamanashi	87	Nara	100	Ehime	166	Total	10,759
Niigata	114	Nagano	139	Wakayama	116	Tokushima	106		
Tochigi	121	Aichi	506	Osaka	995	Kochi	63		
Gunma	73	Gifu	128	Hyogo	584	Fukuoka	382		

The number of LAWSON STORE100 fresh foods convenience stores, operated by the Group's consolidated subsidiary Ninety-nine Plus Inc., reached 1,191 as of August 31, 2012. We have been converting company operated stores into franchised stores to promote our franchise-based store

management, which is one of the Group's strengths. In addition, at our fresh food-type LAWSON stores, which are enhanced conventional LAWSON stores with a stronger assortment of perishable foods and daily delivered foods, we promoted a strategy to expand our customer base by attracting elderly customers and housewives. As of August 31, 2012, the number of these fresh food-type LAWSON stores totaled 4,601. With the aim of supplying high-quality products on a steady basis, we are operating 7 Lawson Farms in Japan, which are partially funded by the Group, and are selling fresh vegetables produced at these farms primarily at fresh food-type convenience stores.

The number of LAWSON chain stores operated by Lawson Toyama, Inc., a consolidated subsidiary of Lawson, Inc. (hereinafter, "the Company"), reached 73 as of August 31, 2012. The number of LAWSON chain stores operated by the Company's equity-method affiliate, Lawson Okinawa, Inc. through a business alliance agreement with SAN-A CO., LTD. totaled 153 as of August 31, 2012.

The number of LAWSON stores operated by CVS Bay Area, Inc., with which the Company concluded a franchise agreement during fiscal 2011 ended February 28, 2012, reached 132 as of August 31, 2012.

On August 29, 2012, the Company acquired five percent of the total number of shares issued by Qol Co., Ltd. with which the Company concluded a business alliance contract in 2008. The capital alliance aims to further strengthen the business alliance between the two companies and accelerate development of their business operations. The number of Pharmacy LAWSON (pharmaceutical convenience stores) operated by Qol totaled 16 as of August 31, 2012.

【Overseas Operations】

Regarding our business in the People's Republic of China (hereinafter, "China"), the Company established Lawson (China) Holdings, Inc. (hereinafter, "Lawson China") in Shanghai, China in May 2012, as a holding company (investment company) that controls business investment, license management, and administrative management functions within China. The Company's subsidiaries in Shanghai, Chongqing and Dalian will be controlled by Lawson China in the future. The number of LAWSON stores operated by Shanghai Hualian Lawson, Inc., the Company's 85% subsidiary, totaled 330 as of August 31, 2012. Chongqing Lawson, Inc., the Company's 100% subsidiary, was operating 56 LAWSON stores as of August 31, 2012 while Dalian Lawson, Inc., the Company's 95% subsidiary, was operating 7 LAWSON stores as of August 31, 2012.

Outside of China, within the Republic of Indonesia, Pt Midi Utama Indonesia Tbk (hereinafter, "MIDI"), in which the Company's wholly-owned consolidated subsidiary Lawson Asia Pacific Holdings Ptd. Ltd. has a 30% equity stake, operates 574 stores in its own store format and 66 LAWSON stores in Jakarta and its outskirts as well as in Bali Island as of August 31, 2012.

In preparation for opening stores in the United States, the third overseas country to be entered after China and Indonesia, on January 13, 2012, the Company established Lawson USA Hawaii, Inc. in Honolulu, Hawaii. On July 7, 2012, two stores were opened in Honolulu as the Company's first stores in the United States.

(Other Businesses)

In addition to convenience store operations, the Group is involved in the entertainment/e-commerce business, and other businesses.

We continued to leverage our alliance with Yahoo JAPAN Corporation and expanded e-commerce business with a primary focus on the Group's online shopping mall, Loppi.

In April, we launched "LAWSON Wi-Fi," an unlimited wireless LAN access for smart phones that can be used to connect free of charge to any websites 24 hours a day (excluding maintenance hours after midnight). This service has been introduced to almost all LAWSON stores, excluding some stores located within hospitals. By enabling customers with Ponta cards to connect to the Internet using their smartphones provided by major mobile phone service operators KDDI, NTT DoCoMo and Softbank Mobile, this service has enhanced their motivation to visit our stores.

The Company's consolidated subsidiary Lawson HMV Entertainment, Inc., which is engaged in entertainment/e-commerce-related business, posted an increase in operating profit due to strong sales of tickets for large-scale shows and performances.

Lawson ATM Networks, Inc., which operates a financial services-related business, posted a rise in operating profit as a result of an increase in the number of ATMs installed nationwide in LAWSON stores, along with an increase in the number of transactions. As of August 31, 2012, the number of ATMs installed nationwide totaled 9,459.

(2) Qualitative Information Regarding Changes in Consolidated Financial Indicators

(A) Financial Position at the First Half end

Total Assets, Total Liabilities and Net Assets at First Half-End

"Assets"

At August 31, 2012, total assets stood at ¥563,270 million, an increase of ¥31,816 million from February 29, 2012. This mainly reflected a ¥11,439 million increase in cash and bank deposits.

"Liabilities"

Total liabilities increased ¥23,664 million from February 29, 2012 to ¥340,455 million at August 31, 2012. This mainly reflected a ¥17,433 million increase in accounts payable-trade because of an increase in newly opened stores.

"Net assets"

Net assets stood at ¥222,814 million, an increase of ¥8,152 million from February 29, 2012. This mainly due to the payment of ¥9,289 million in dividends although quarterly net profit of ¥17,861 million.

(B) Cash Flows During First Half

Cash and cash equivalents at August 31, 2012 were ¥83,309 million, up ¥9,639 million compared with February 29, 2012.

Operating activities provided net cash of ¥53,321 million, a decrease of ¥14,569 million from the corresponding period of the previous first half, mainly due to decrease in an increase in deposits received.

Investing activities used net cash of ¥28,957 million, an increase of ¥458 million from the corresponding period of the previous first half, mainly due to an increase in payment for acquisition of property and store equipment.

Financing activities used net cash of ¥14,736 million, an increase of ¥1,452 million over the corresponding period of the previous first half, mainly due to repayments of lease obligations.

2. Other

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): Yes

Lawson (China) Holdings, Inc.

(2) Adoptions of accounting methods particular to presentation of quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimation, retrospective restatement: None

3. Consolidated Financial Statements etc.

(1) Consolidated Balance Sheets (Unaudited)

As of August 31, 2012 and February 29, 2012

(Millions of yen)

	February 29, 2012	August 31, 2012
Current assets:		
Cash and bank deposits	79,074	90,514
Accounts receivable—due from franchised stores	19,521	19,116
Merchandise inventories	8,075	8,220
Accounts receivable—other	32,645	38,321
Deferred tax assets	4,800	3,497
Other	16,190	18,319
Allowance for doubtful accounts	(149)	(199)
Total	160,157	177,790
Fixed assets:		
Property and store equipment		
Buildings and structures	219,536	231,753
Accumulated depreciation	(112,475)	(118,330)
Buildings and structures-net	107,061	113,422
Vehicles, tools, furniture and fixtures	63,563	65,828
Accumulated depreciation	(49,549)	(50,879)
Vehicles, tools, furniture and fixtures-net	14,013	14,949
Lease assets	72,538	82,808
Accumulated depreciation	(18,400)	(24,075)
Lease assets-net	54,137	58,732
Other	8,622	9,783
Subtotal	183,835	196,888
Intangible fixed assets;		
Software	27,551	25,496
Goodwill	10,871	10,400
Other	553	559
Subtotal	38,977	36,457
Investments and Other;		
Long-term loans receivable	32,138	33,664
Lease deposits	83,665	85,099
Deferred tax assets	16,870	17,197
Claims provable in bankruptcy, claims provable in rehabilitation and other	15,136	660
Other	16,523	16,815
Allowance for doubtful accounts	(15,851)	(1,303)
Subtotal	148,483	152,134
Total	371,295	385,479
Total assets	531,453	563,270

	(Millions of yen)	
	February 29, 2012	August 31, 2012
Current liabilities:		
Accounts payable — trade	88,262	105,696
Accounts payable— due to franchised stores	1,390	1,864
Lease obligations	11,223	12,882
Income taxes payable	15,305	12,526
Deposits received	75,004	76,368
Accrued employees' bonuses	3,204	2,014
Provision for use of points granted	701	353
Other	22,886	25,040
Total	217,978	236,746
Long-term Liabilities;		
Lease obligations	37,902	41,626
Allowance for employees' retirement benefits	8,745	9,329
Allowance for retirement benefits to executive officers and corporate auditors	308	290
Deposits received from franchisees and lessees	35,735	35,497
Asset retirement obligations	15,161	16,082
Other	960	882
Total	98,812	103,709
Total Liabilities	316,791	340,455
Shareholders' equity;		
Common stock	58,506	58,506
Capital surplus	47,707	47,707
Retained earnings	107,249	115,821
Treasury stock	(1,627)	(1,608)
Total Shareholders' equity	211,835	220,429
Valuation and translation adjustments;		
Net unrealized gain on available-for-sale securities	(11)	41
Land revaluation difference	(567)	(567)
Foreign currency translation adjustments	(101)	(584)
Valuation and translation adjustments	(680)	(1,111)
Stock acquisition rights	442	429
Minority interests	3,064	3,067
Total net assets	214,662	222,814
Total Liabilities and net assets	531,453	563,270

(2) Consolidated Statements of Income (Unaudited)

For the 1st Half of the fiscal year (From March 1, 2011 to August 31, 2011) (From March 1, 2012 to August 31, 2012)

(Millions of yen)

	August 31, 2011	August 31, 2012
Total operating revenues	240,020	248,963
Net sales	104,882	100,843
Cost of goods sold	78,722	75,580
Gross Profit	26,159	25,263
Franchise commission from franchised stores	108,217	117,183
Other	26,159	30,936
Operating revenues	135,138	148,119
Operating gross profit	161,298	173,382
Selling, general and administrative expenses	128,728	138,828
Operating profit	32,569	34,554
Non – operating income and expenses;		
Non – operating income;	1,165	925
Interest received	326	360
Other	838	564
Non – operating expenses;	1,133	1,219
Interest expense	541	602
Other	591	616
Recurring profit	32,601	34,260
Extraordinary income and losses;		
Extraordinary income;	237	309
Gain on sales of investment securities	-	145
Gain on negative goodwill	184	153
Other	53	10
Extraordinary losses;	15,688	3,570
Impairment loss	2,574	2,700
Loss on disaster	3,392	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	8,292	-
Other	1,428	870
Income before income taxes and minority interests	(17,150)	30,998
Income taxes;	7,719	13,024
Income taxes - current	11,075	12,085
Deferred income taxes	(3,355)	939
Income before minority interests	9,431	17,974
Minority interests in net income	470	112
Net profit	8,960	17,861

Consolidated Statements of Comprehensive Income (Unaudited)

For the 1st Half of the fiscal year (From March 1, 2011 to August 31, 2011) (From March 1, 2012 to August 31, 2012)

	(Millions of yen)	
	August 31, 2011	August 31, 2012
Income before minority interests	9,431	17,974
Other comprehensive income		
Valuation difference on available-for-sale securities	(16)	52
Foreign currency translation adjustment	(4)	(179)
Share of other comprehensive income of associates accounted for using equity	6	(299)
Total other comprehensive income	(15)	(425)
Comprehensive income	9,416	17,548
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	8,945	17,430
Comprehensive income attributable to minority interests	470	117

(3) Consolidated Statements of Cash Flows (Unaudited)

For the 1st Half of the fiscal year (From March 1, 2011 to August 31, 2011) (From March 1, 2012 to August 31, 2012)

(Millions of yen)

	August 31, 2011	August 31, 2012
Operating activities;		
Income before income taxes	17,150	30,998
Depreciation of fixed assets	17,907	20,825
Increase in provision for allowance for retirement benefits to employees	617	584
Decrease in allowance for doubtful accounts	(257)	(14,499)
Interest received	(326)	(360)
Interest expense	541	602
Loss on impairment of long-lived assets	2,574	2,700
Loss on disaster	3,392	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	8,292	-
Other-net	1,204	(19)
Decrease in accounts receivable due from franchised stores	1,115	415
Increase in accounts receivable-other	(3,452)	(5,669)
Decrease in claims provable in bankruptcy, claims provable in Rehabilitation	192	14,475
Increase in accounts payable—trade and due to franchised stores	19,523	17,885
Increase in accounts payable—other	198	1,374
Increase in deposits received	16,280	1,363
Decrease in lease deposits from franchisee and lessees	(976)	(238)
Other-net	(3,331)	(2,416)
Subtotal	80,648	68,021
Interest income received	325	355
Interest expenses paid	(539)	(598)
Income taxes paid	(10,068)	(14,456)
Payments for loss on disaster	(2,473)	-
Net cash flows provided by operating activities	67,891	53,321
Investing activities;		
Payments into time deposits	(10,100)	(11,900)
Proceeds from withdrawal of time deposits	9,700	10,100
Purchase of investment securities	(43)	(1,105)
Purchase of stocks of subsidiaries and affiliates	(5,743)	(625)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	-	480
Payment for acquisition of property and store equipment	(12,919)	(20,130)
Payment for acquisition of intangible fixed assets	(3,744)	(2,589)
Payments for transfer of business	(3,415)	-
Other – net	(2,233)	(3,186)
Net cash used in investing activities	(28,499)	(28,957)

Financing activities;		
Net increase in short-term loans payable	-	1,128
Repayments of lease obligations	(4,762)	(6,578)
Cash dividends paid	(8,488)	(9,289)
Other	(32)	2
Net cash used in financing activities	(13,284)	(14,736)
Effect of exchange rate change on cash and cash equivalents	(5)	12
Net increase in cash and cash equivalents	26,102	9,639
Cash and cash equivalents, beginning of year	67,712	73,670
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	49	-
Cash and cash equivalents at end of period	93,864	83,309

(3) Notes to Going Concern

Not Applicable.

(4) Notes to Significant Changes in Shareholders' Equity

Not Applicable