



LAWSON, INC.
Interim Earnings Presentation
Six Months Ended August 31, 2002 (Year Ending February 28, 2003)



October 16, 2002 (Wed.)
 10:00-11:30
 Takeshi Niinami
 President and CEO
 (Room Harumi, Royal Park Hotel)

Fiscal 2002 First-Half Results



(Consolidated) (¥ billions)	Fiscal 2001 First Half		Fiscal 2002 First Half		
	Results	Results (A)	Projections (B)	YoY Change /Difference	Change/Difference A/B and A-B
<u>Total net sales</u>	664.4	667.3	671.0	100.4%	99.4%
<u>Operating income</u>	23.2	20.7	19.2	88.9%	107.7%
<u>Operating income ratio</u>	3.5%	3.1%	2.9%	-0.4%	0.2%
<u>Recurring profit</u>	22.5	18.7	16.8	83.1%	111.1%
<u>Net income</u>	11.5	4.6	3.5	39.8%	130.2%
<u>Daily sales at existing stores</u>	99.3%	97.0%	98.0%	-2.3%	-1.0%
<u>Daily sales at new stores (¥ thousands)</u>	476	476	-	0	-
<u>Total no. of stores</u>	7,571	7,648	7,671	77	-23
(Excluding stores in Shanghai, China)					
<u>Gross profit margin</u>	30.3%	30.6%	30.5%	0.3%	0.1%

***Figures for YoY change and the difference between results and projections are calculated using million-yen units (except no. of stores and sales at existing stores).**

Highlights of Fiscal 2002 First Half



Lawson cleared all earnings targets, despite slow sales, thanks to a strong focus on improving its cost structure and gross profit margin.

- ✓ *Sluggish sales at existing stores against target*
(Sales 1 percentage point below target)
- ✓ *Greater awareness of controlling costs*
(Costs down ¥1.8 billion against budget on non-consolidated basis)
- ✓ *Better-than-expected improvement in gross profit margin*
(Up 0.1 of a percentage point over target of 0.2 of a percentage point)
- ✓ *Improved operating results at Group companies*
(Lawson Tickets Co., Ltd. and LAWSON ATM Networks, Inc. ¥300 million improvement against projection)
- ✓ *As a result, operating income exceeded target by ¥1.5 billion, or 7.7%*

Greater Awareness of Controlling Costs



(¥ billions)	Fiscal 2002 First Half Results	Fiscal 2002 First Half Targets	Fiscal 2002 First Half Difference	Comments
Personnel expenses	18.9	19.1	0.2	Savings from early voluntary retirement program should appear in the year's second half. Expenses projected to be in line with target Should reap savings of at least ¥2.0 billion in the next fiscal year.
IT-related costs	6.3	6.9	0.6	Lawson is making deeper cost reductions than originally projected.
Advertising expenses	6.6	7.6	1.0	Lawson met full-year cost-cutting targets in the first half.
Savings from cost-cutting measures			1.8	

(Non-Consolidated)

Lawson Challenge 2004: Progress Report



	Actions in the First Half of Fiscal 2002	Actions in the Second Half of Fiscal 2002
<u>Target-Based Management System</u>	Applied new system down to all managerial employees (Approx. 17% of all employees) —See Slide 30	Prepare to apply the new system to all employees (Union is mostly in agreement)
<u>Disposal of Inefficient Assets</u>	Closed 157 Company-operated stores; 398 remaining at first-half end Information system write-offs (Approx. ¥2.0 billion) Headcount reductions (216 employees since February 28, 2002; around 300 through to September 30, 2002)	Review plan to convert Company-operated stores into franchised stores <u>Possibly close more franchised stores</u> Reduce headcount by a net 400 employees
<u>Optimization of Value Chain</u>	Formulated plan to rebuild vendor network Reduced raw materials costs by approx. ¥1.0 billion through systematic procurement	Introduce state-of-the-art facilities; improve product lineup, especially main dishes Negotiate raw material prices directly; Optimize raw material costs
<u>Energizing Front-Line Operations (in Management)</u>	Bolstered store supervisor network by adding a total of approx. 220 store supervisors (SVs) and ASVs assistant store supervisors (ASVs) Established the Franchise Support Station	Train SVs, especially in order placement and use of new systems Reduce administrative burden on SVs Invest in store remodeling Build new model for opening stores (Completed) Build framework for regional-centric development by Chubu and Kinki divisions (Completed)
<u>Greater Emphasis on Profitability When Opening New Stores</u>	Fostered a change in focus to profitability over daily sales 256 new store openings, 242 contracts remaining	Introduce new yardsticks for store development —See Slide 34 Aim for 300 contracts, and net increase of 300 stores from fiscal 2003

Listening to the Front Line



President Niinami has made a point of visiting many stores since June 2002. At Lawson seminars, he has met around 90% of all Lawson storeowners and SVs, who hold high hopes for the new management team.

Requests From Storeowners

1. Enhance the skills of SVs
2. Support region-centric store development
3. Develop products targeted at a wide customer base (main dishes/delicatessen items)

Requests From Supervisors

1. Enhance product quality, especially of main dishes
2. Facilitate SV's activities for helping store owners achieve better store settings
3. Revamp store supervisor training
4. Overhaul framework for opening new stores
(Stop rushing to open new stores in February; enhance educational programs for new store owners)

Lawson is Energizing Front-Line Operations

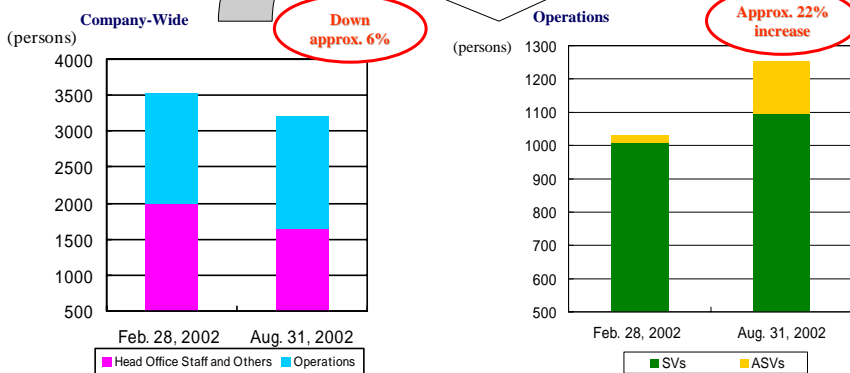


Significantly increased the number of SVs and ASVs (Assistant SVs) on the front line through reassignment and other means, while reducing the company-wide headcount.

Shifting 2002 resources to key areas

“Focus on front-line operations”

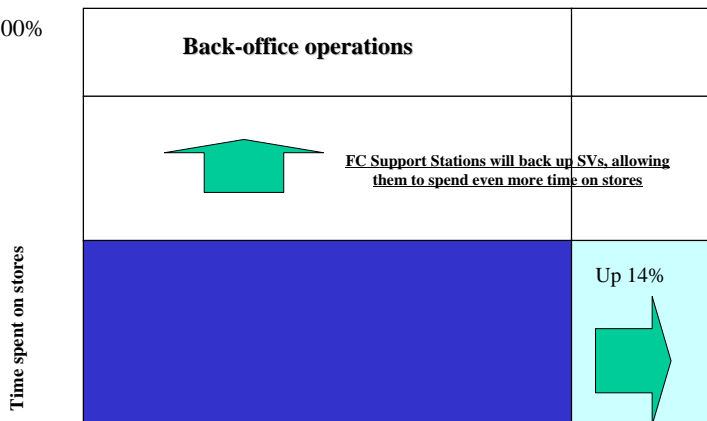
Number of SVs at Feb. 28: 1,009 On Aug. 31: 1,095
 Number of ASVs at Feb. 28: 21 On Aug. 31: 159 —will eventually become SVs



More Time for SVs to Devote to Stores

SVs' Time

100%



Time spent per store

8 stores per SV 7 stores per SV

Lesson No.1 From First Half: Lawson Has Unseen Hurdles to Overcome



Discussions, fact-finding visits and efforts to foster unity at front lines have pinpointed the need to:

(1) Improve products, especially main dishes

- Lacking ability to develop products that cater to changing customer needs (customer base is too narrow).*
- Not all main dish vendors are created equal in terms of production capacity.*
- The latest equipment is not being used.*

(2) Formulate strategies to counter competition on a regional basis

- Existing store sales are slumping in Kinki, Chugoku and Shikoku due to intensifying competition.*

(3) Train to improve order placement

- Shift from merely ordering to replenish stock, to ordering based on projected sales trends.*

Lesson No. 2: The Importance of Safety, Trustworthiness and Health



Through Natural Lawson, a Lawson offshoot, we have reaffirmed the value customers place on safe, trustworthy and healthy products.

(1) Lawson has acquired a wealth of knowledge and information on customer needs through Natural Lawson.

(2) Leveraging this knowledge and information, as well as our first-mover advantage, Lawson will develop new product lines for regular Lawson outlets that address customer needs for even safer, more trustworthy and healthier products.

Without Action, Lawson's Inefficiencies Will Only Worsen



Lawson can achieve its earnings target for the current fiscal year by redoubling efforts to control costs and building on greater awareness of the necessity to do so, but...

·Lawson must resolve pressing issues now, without hesitation, to enhance corporate value over the medium term. This requires allocating resources to key areas.

·Lawson must leverage the first-mover advantage of Natural Lawson to advance product differentiation based on a clear understanding of shifting customer needs.

Rising to the Challenge

Redirect the "Lawson Family" spirit onto the offensive.

+

**Differentiate Lawson by quickly launching new services
(Cashing, FSP Card/ATMs/Tickets)**

Details of Downward Revision to Fiscal 2002 Projections (Consolidated)



·Initial projection of fiscal 2002 operating income	¥36.5 billion
·Difference between first-half operating income and first-half projection (Non-consolidated)	+¥1.2 billion
·Additional expenses (Second half; non-consolidated)	-¥2.9 billion
·YoY change in existing store sales (Revise second-half sales at existing stores from 100% to 98% of last year's level.)	-¥1.8 billion
·Revised projection of fiscal 2002 operating income	¥33.0 billion

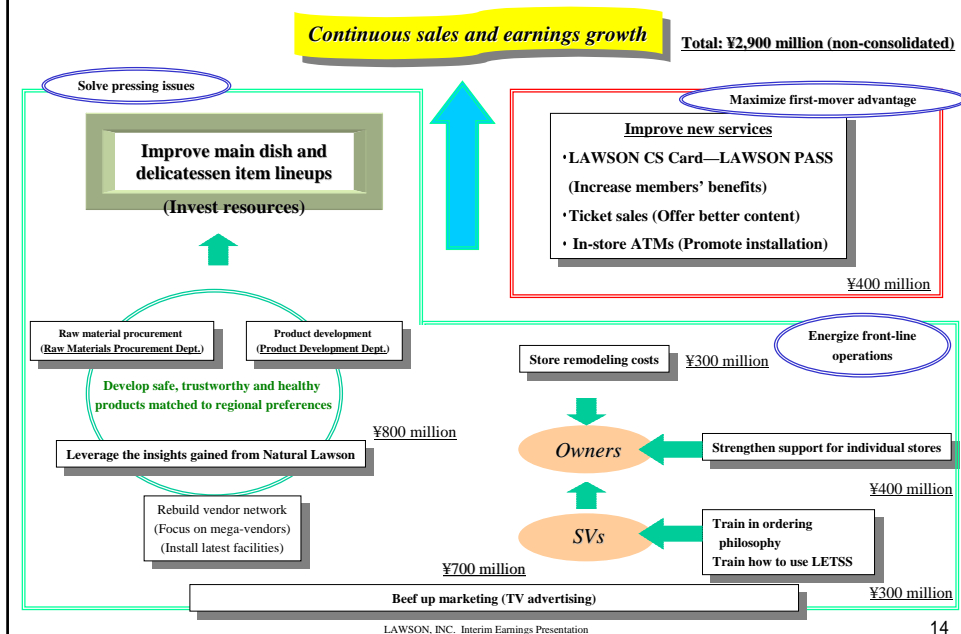
Fiscal 2002 Projections



(Consolidated) (¥ billions)	Fiscal 2001 Results	Fiscal 2002			
		Revised Projections (A)	Initial Projections (B)	YoY Change/ Difference	Change/Difference A/B and A-B
<u>Total net sales</u>	1,285.6	1,295.0	1,313.0	100.7%	98.6%
<u>Operating income</u>	36.4	33.0	36.5	90.8%	90.4%
<u>Operating income ratio</u>	2.8%	2.5%	2.8%	-0.3%	-0.3%
<u>Recurring profit</u>	35.2	29.8	33.0	84.6%	90.3%
<u>Net income</u>	16.1	8.1	10.0	50.2%	81.0%
<u>Daily sales at existing stores</u>	98.4%	97.5%	99.0%	-0.9%	-1.5%
<u>Daily sales at new stores (¥ thousands)</u>	431	460	460	29	0
<u>Total no. of stores</u>	7,734	7,734	7,734	0	0
(Excluding stores in Shanghai, China)					
<u>Gross profit margin</u>	30.3%	30.55%	30.5%	0.25%	0.05%

*Figures for YoY change and the difference between results and projections are calculated using million-ven units (except no. of stores and sales at existing stores)

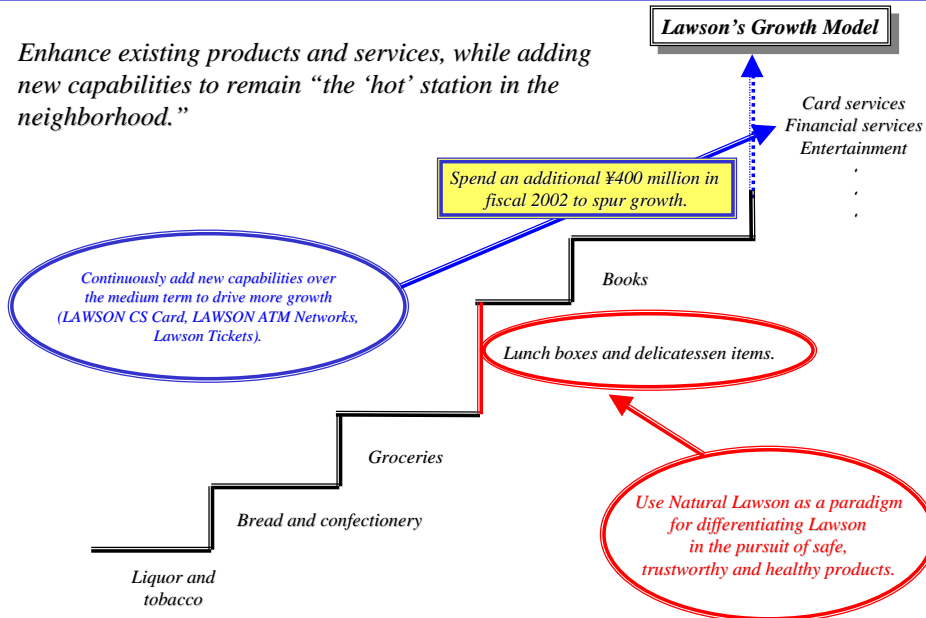
Invest to Drive Sales and Earnings Growth (1)



Making Lawson Even More Convenient



Enhance existing products and services, while adding new capabilities to remain “the ‘hot’ station in the neighborhood.”



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Short-Term Priority: Improve Main Dishes to Attract More Customers



Actions to improve main dishes...

•Rice balls: Significantly improve the quality of rice used and select better fillings

Lawson's Rice Ball Project aims to launch new products in November.

“Lawson wants customers to think of Lawson when they think of rice balls.”

•Create a strong, regular product lineup that caters to regional preferences

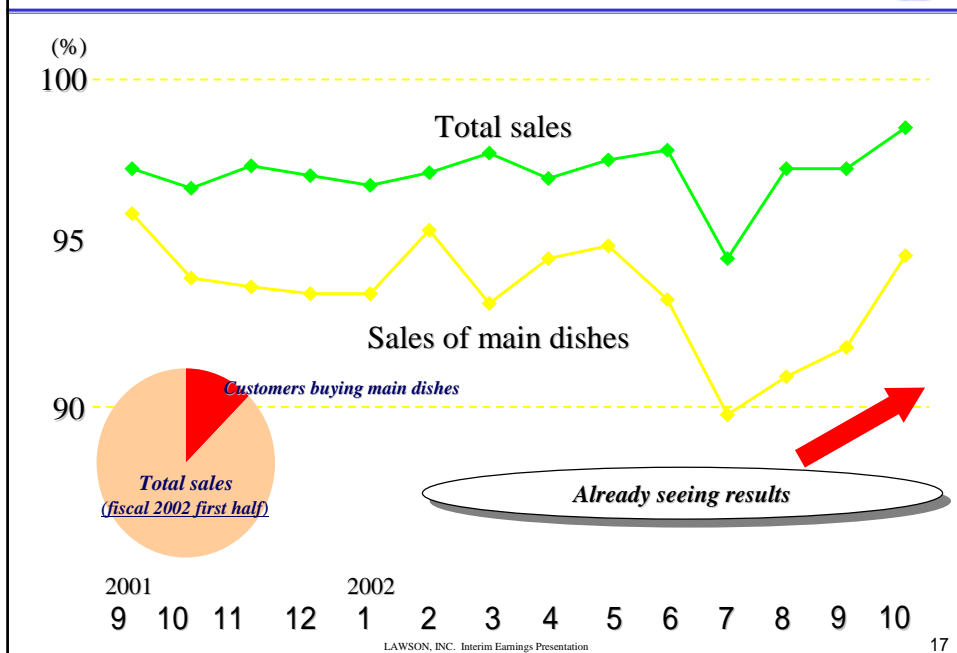
• Start to develop products based on the keywords of safe, trustworthy and healthy

Increased sales of main dishes = Higher revenues for owners

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Sales of Main Dishes in Fiscal 2002 (YoY Change at Existing Stores)



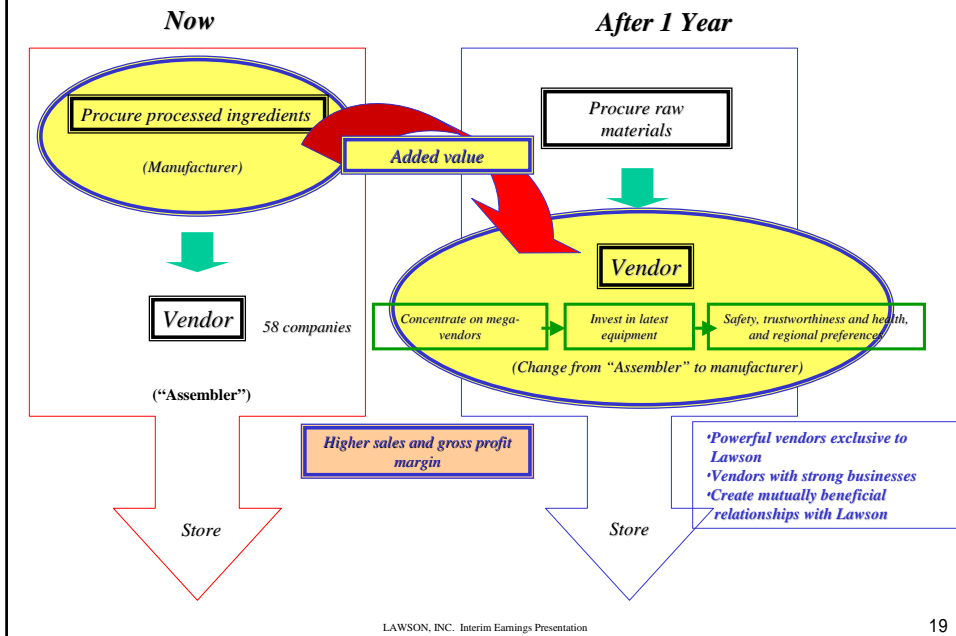
Optimizing the Value Chain (1): Strategy for Rebuilding the Vendor Network



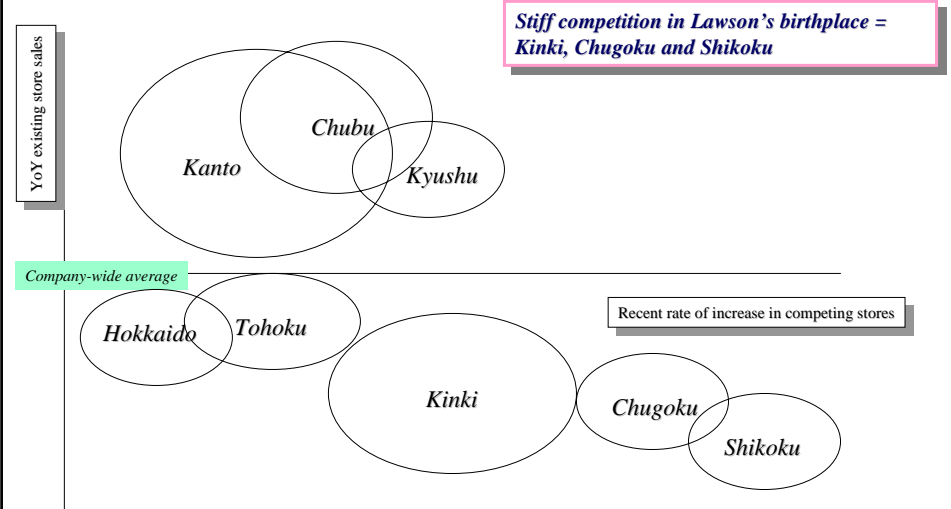
- ✓ Lawson has already decided on its schedule for the next year for rebuilding its vendor network.
 - Concentrate procurement on a few mega-vendors rather than the existing 58 vendors
 - Greatly increase the average transaction volume per vendor
 - Build mutually beneficial relationships with vendors to improve quality and lift earnings

- ✓ Mega-vendors will install the latest equipment, with the aim of increasing productivity and product competitiveness.
 - Follow the example of the Kinki and Kanto regions, where progress is being made rebuilding the vendor network. Progressively introduce the latest equipment to develop more attractive products.
 - Switch from processed ingredients to raw materials in pursuit of three key themes: safety, trustworthiness and health. And cater to regional preferences such as flavoring.

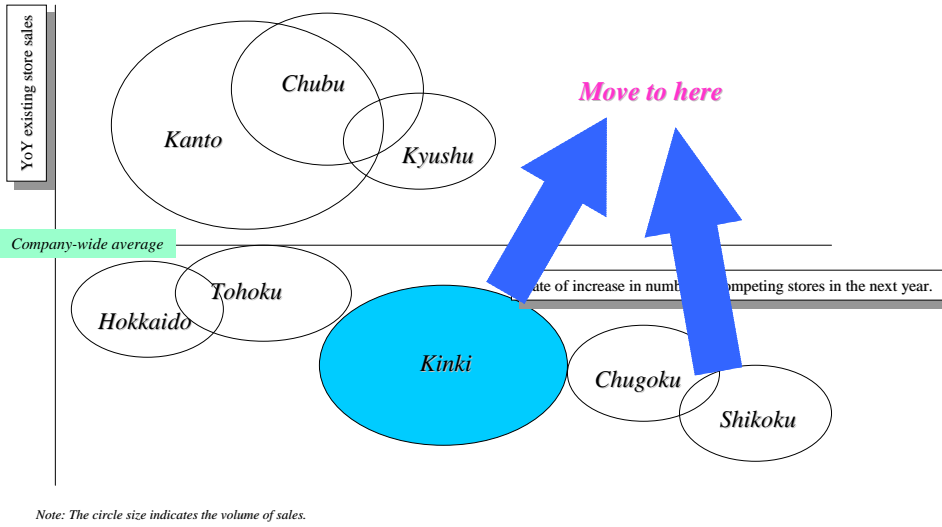
Supply Chain—Change Stage Where Value is Added



Lawson's Operating Environment: Stiff Competition in Some Regions



Note: The circle size indicates the volume of sales.

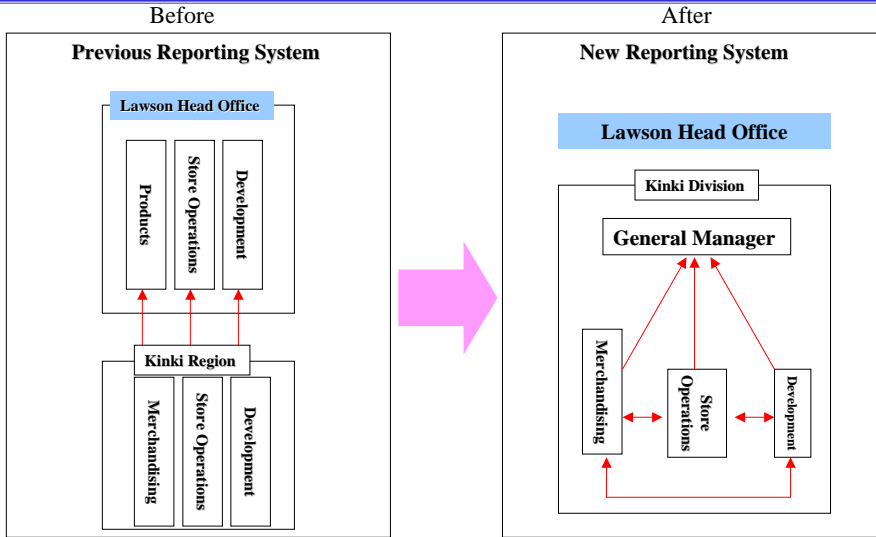


Drastic Rebuilding in Kinki



- ✓ Established Kinki Division on October 1 to promote Lawson's strategy in this region.
- Gave broad authority to the general manager of the Kinki Division. Encourage cooperation between departments in operations, store development and merchandising.
Aims: Promote speedy decision-making and act more swiftly.
(Lawson will channel major resources into the Kinki region.)
- Established the Chubu Division.

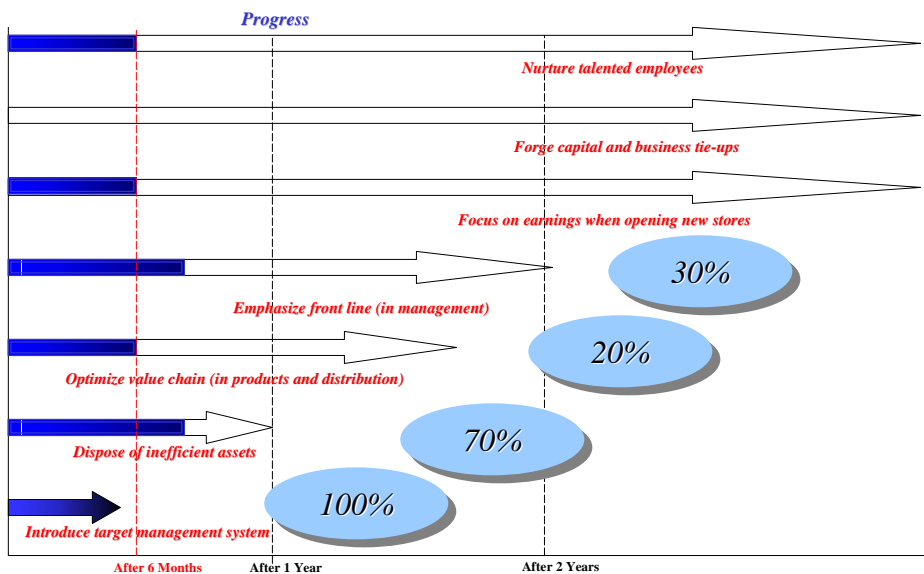
Lawson Will Promote Regionalism in the Kinki Division



Each regional section reported to their equivalent section at Head Office.

The general manager will make speedy decisions and act more swiftly.

Lawson Challenge 2004: Step-by-Step Achievement of Goals





The Challenge: ROE 15%

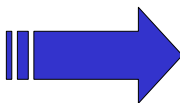
Increase shareholder value = Capital efficiency (~~Not Size~~)

Fiscal 2004 consolidated operating income target...

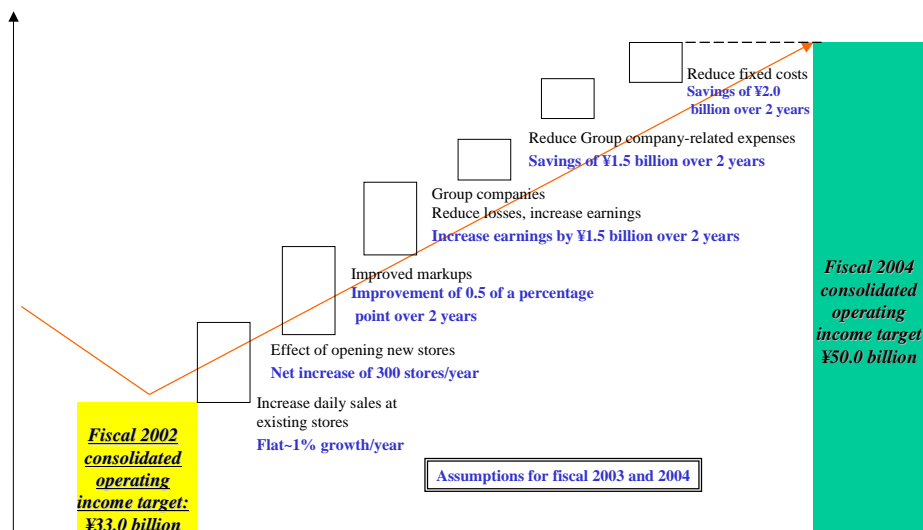
¥50.0 billion

(Get everyone on board)

Set ambitious goals and carry out reforms that challenge our conventional thinking



Higher Corporate Value



Promises Made at the Previous Earnings Presentation



We promised to:

- ✓ Report on progress toward meeting goals at each earnings presentation
- ✓ Explain each step of the Lawson Challenge 2004 action plan
- ✓ Disclose store ROI and franchisee earnings

We Look Forward to Seeing You at “the ‘Hot’ Station in the Neighborhood!”



Thank you.

Forward-Looking Statements

This presentation contains forward-looking statements about the future plans, strategies, beliefs and performance of Lawson and its subsidiaries. These forward-looking statements are not historical facts. Rather 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.



Supplementary Information

(7 pages)

Target-Based Management System for Achieving Profit Targets

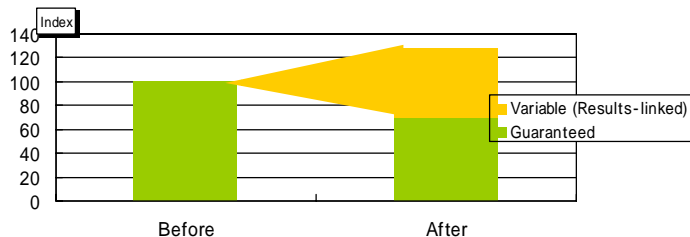


Target-Based Management System (e.g. General Managers, Store Operation Division and Divisional Offices)

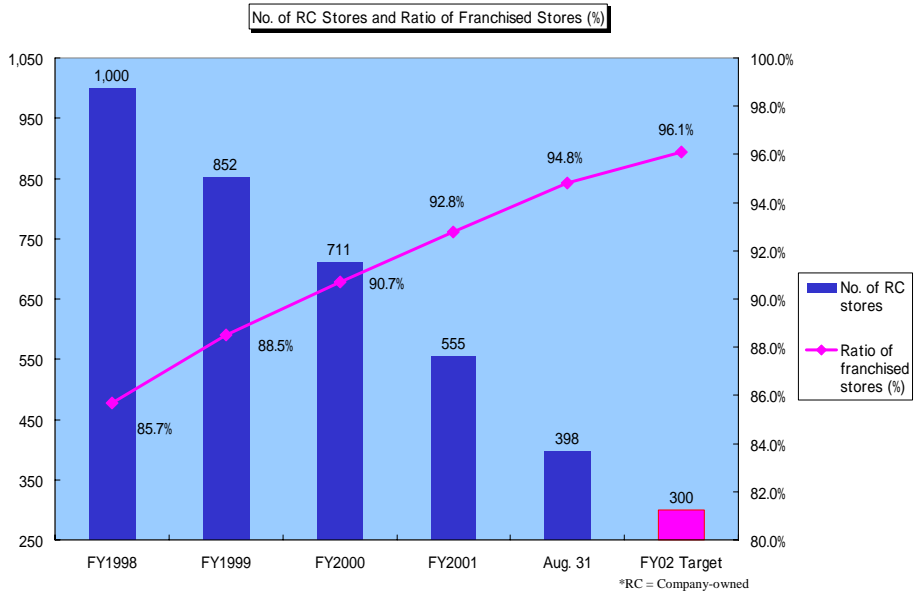
Quantitative Targets—Evaluations based on:

- (1) *Lawson operating income*
- (2) *Product sales*
- (3) *Store Operation Division operating income*

Previously, performance evaluation was based mostly on qualitative benchmarks, with almost no remuneration linked to results. Now, both quantitative and qualitative factors are being taken into account and 40% of remuneration is linked to results.



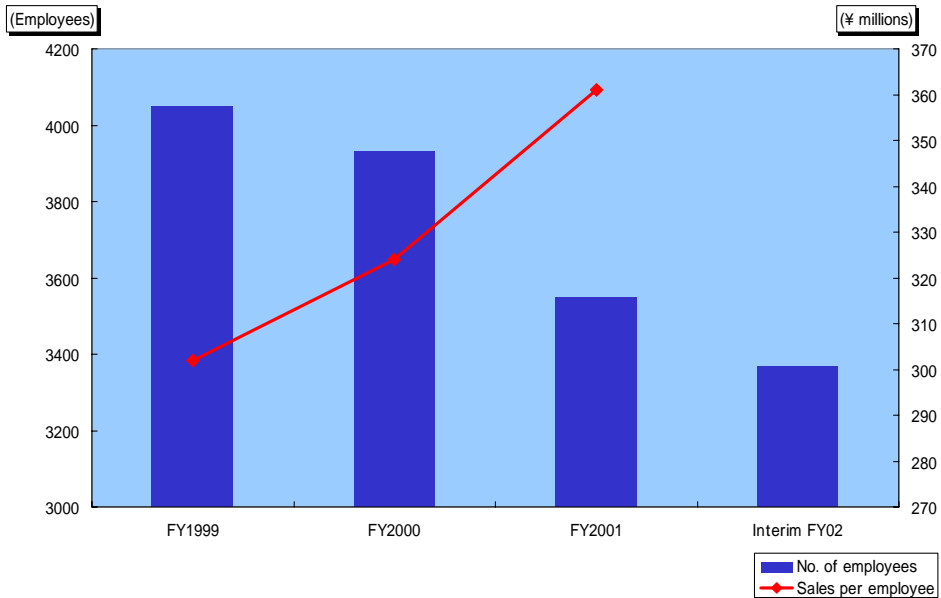
Company-Operated Stores



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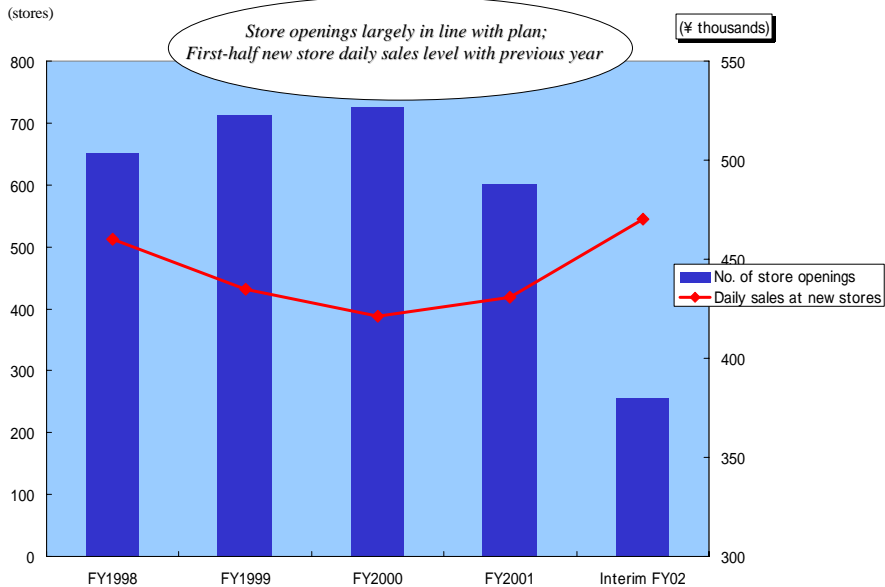
Number of Employees and Sales per Employee



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Store Openings and Daily Sales at New Stores



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Promoting Greater Emphasis on Profitability When Opening Stores



- Introduce new store development yardsticks that factor in differences in regional economic conditions and franchise owner profitability (from October).

Yardsticks

1. ROI (recovery period): 100% or above in 5 years
2. Owner's profits in first year: Set by area

Based on the yardsticks above, Lawson has reset the minimum standards that must be satisfied for opening a new store. This reflects regional economic conditions and store running costs by area.

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FY2002 First-Half Results



(Non-Consolidated)

(¥ billions)

	Fiscal 2002 First-Half Results	Fiscal 2002 First-Half Projections	Change
Total net sales	665.8	670.0	99.4%
Operating income	20.8	19.6	105.9%
Recurring profit	20.0	18.5	108.0%
Net income	5.8	5.1	113.7%

Consolidated

(¥ billions)

Operating income	20.7	19.2	107.7%
Recurring profit	18.7	16.8	111.1%
Net income	4.6	3.5	131.4%

FY2002 First-Half Results



	Fiscal 2002 First-Half Results	Fiscal 2002 First-Half Targets	Difference
Store openings	256	250	6
Store closures	342	313	29
Closures (RC)	157	160	5
Relocations	78	-	-
Total no. of stores	7,648	7,671	23

(Excluding stores in Shanghai, China)

Daily sales at existing stores	97.0%	98.0%	1.0%
Daily sales at new stores (¥ thousands)	476	-	-
Gross profit margin	30.6%	30.5%	0.1%