



LAWSON, INC.
Interim Earnings Presentation
Six Months Ended August 31, 2003 (Year Ending February 29, 2004)

October 15, 2003

The attached materials may contain forward-looking statements about the future plans, strategies, beliefs and performance of Lawson and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to 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.

Highlights of Fiscal 2003 First Half



Consolidated operating income exceeded target

- ✓ Existing store sales **98.0%** compared to previous year
(Customers per store per day: 97.8% / Amount spent per customer: 100.2%)
- ✓ Drop in customer footfall due to unseasonably cold summer
- ✓ Tighter cost control following roll out of regional headquarters system
- ✓ Company-wide cost control
- ✓ Improved operating results at Group companies
(Against both projections and previous year results)

Fiscal 2003 First Half Results



(¥ billions)	Results	Results (A)	Projections (B)	Change/Difference A/B and A-B	YoY Change/Difference
<u>Total Net Sales</u>	667.3	651.7	664.0	98.1%	97.7%
<u>Operating income</u>	20.7	21.1	20.8	101.3%	101.9%
<u>Operating income ratio</u>	3.1%	3.2%	3.1%	0.1%	0.1%
<u>Recurring profit</u>	18.7	20.0	19.4	103.1%	107.0%
<u>Net income</u>	4.6	10.2	8.8	115.9%	221.7%
(Store data)					
<u>Daily sales at existing stores</u>					
<u>(YoY)</u>	97.0%	98.0%	100.0%	-	1.0%
<u>Daily sales at new stores</u>					
<u>(¥ thousands)</u>	476	459	455	-	-17
<u>Total no. of stores</u>	7,648	7,711	7,825	-	63
(Excluding stores in Shanghai, China)					
<u>Gross profit margin</u>	30.6%	30.9%	31.1%	-0.2%	0.3%

Store owner revenue

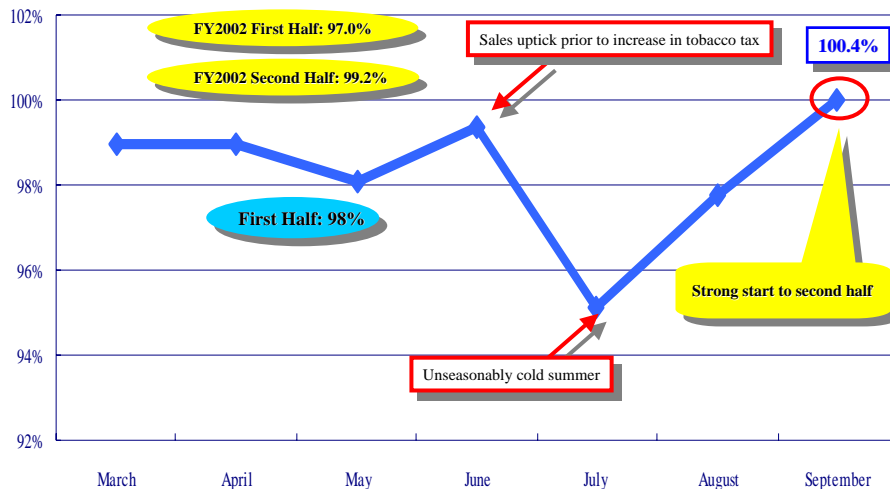


* Full-year projections

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Fiscal 2002 Total Net Sales Level Generally Maintained

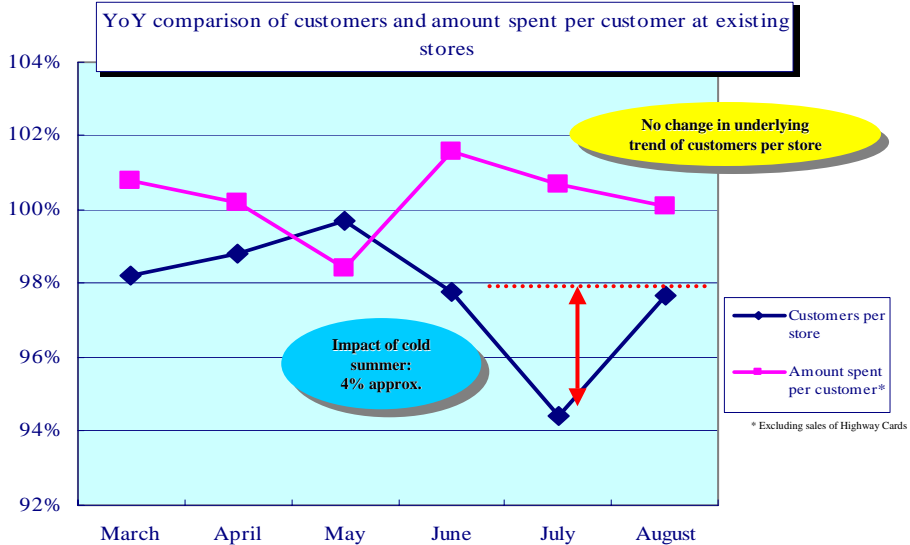


Note: Figures for FY2003 exclude sales of Highway Cards

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Cold Summer Impacted on Customer Footfall



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Analysis of First-Half Results (Consolidated)



YoY change in existing store sales

- 98% (Against projections: -1.5% / Against previous year: +1.0%)

Gross profit margin falls short of target due to cold summer

- 30.9% (Against projections: -0.2% / Against previous year: +0.3%)

Total net sales: ¥651.7 billion (Against previous year: -¥15.6 billion)

- RC: ¥34.4 billion
- FC: ¥617.3 billion

Operating income: ¥21.1 billion (Against projections: +¥300 million / Against previous year: +¥400 million)

Against Projections

- Total operating income: -¥2.3 billion (Non-consolidated: -¥2.6 billion)
- SG&A: ¥2.6 billion improvement (Non-consolidated: ¥2.5 billion improvement)
- Improvement in results at consolidated Group companies (Against both projections and previous year results)

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Breakdown of Key SG&A Expenses (¥2.6 billion better than projections)

(¥ billions)

	Fiscal 2003 First Half			YoY Change
	Results	Projections	Difference	
<u>Non-consolidated SG&A expenses</u>	-73.0	-75.5	2.5	0.1
<u>Fixed costs</u>				
IT-related costs (Hardware leases/software depreciation/maintenance costs etc)	-8.4	-8.7	0.3	-2.1
Personnel expenses	-16.6	-16.8	0.2	2.3
Advertising expenses	-6.8	-7.4	0.6	-0.1
<u>Other expenses</u>	-41.2	-42.6	1.4	0
*Significant reduction in store fixtures, equipment and refurbishment costs				
SG&A expenses at consolidated subsidiaries	-6.0	-6.1	0.1	-1.8

Head office and regional headquarters working closely to reduce SG&A expenses

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Earnings Improving at Consolidated Group Companies and Affiliates

Fiscal 2003 First Half (¥ billions)

<Operating Income>	Results	Projections	Difference	YoY Change
Lawson Tickets	0.50	0.26	0.24	0.11
i-Convenience	-0.14	-0.16	0.02	0.07
LANs	-0.12	-0.21	0.09	0.03
Shanghai Hualian Lawson	-0.05	-0.08	0.03	0.05
<u><Impact on consolidated results></u>	0.21	-0.20	0.41	0.30
LAWSON CS Card	-1.32	-1.48	0.16	0.94

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Fiscal 2003 Full-Year Forecasts



(Consolidated)	Fiscal 2002	Fiscal 2003	
	Results	Forecasts	YoY Change/Difference
(¥ billions)			
<u>Total net sales</u>	1,294	1,298	100.3%
<u>Operating income</u>	34.1	40.5	118.8%
<u>Operating income ratio</u>	2.6%	3.1%	0.5%
<u>Recurring profit</u>	30.7	38.0	123.8%
<u>Net income</u>	8.9	18.2	204.5%
		Excluding sales of Highway Cards	
<u>Daily sales at existing stores (YoY)</u>	98.1%	99.0%	0.9%
<u>Daily sales at new stores (¥ thousands)</u>	457	455	-2
<u>Total no. of stores</u>	7,625	7,825	200
(Excluding stores in Shanghai, China)			
<u>Gross profit margin</u>	30.3%	30.9%	0.6%

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Main P/L Items: Fiscal 2002 Results / Fiscal 2003 Forecasts



(¥ billions)		Fiscal 2002	Fiscal 2003	
		Results	Forecasts	YoY Change/Difference
Non-consolidated	Total operating income	181.4	187.9	6.5
	<u>SG&A expenses</u>	-146.9	-146.9	0
	<u>Fixed costs</u>			
	<u>IT-related costs</u> (Hardware leases/software depreciation/maintenance costs etc)	-16.1	-17.0	-0.9
	<u>Personnel expenses</u>	-35.8	-32.9	2.9
	<u>Advertising expenses</u>	-13.0	-12.0	1.0
	Operating income	34.5	41.0	6.5
Consolidated operating income		34.1	40.5	6.4

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Breakdown of Significant Second-Half Improvement in Consolidated Operating Income(Forecast +¥6.0 billion YoY)



Revenues

1. Existing store sales (excluding impact of Highway Card sales): 100% YoY
2. Effect of net increase in no. of stores
3. Improvement in gross profit margin (excluding impact of Highway Card sales)

1-3
¥6.5 billion increase

Expenses

4. Store-related variable costs
Rents, leases, etc
5. Other expenses
 - Personnel expenses
 - IT costs
 - Advertising expenses

4
¥2.9 billion increase

5
¥2.7 billion reduction

6. Revenues from consolidated Group companies

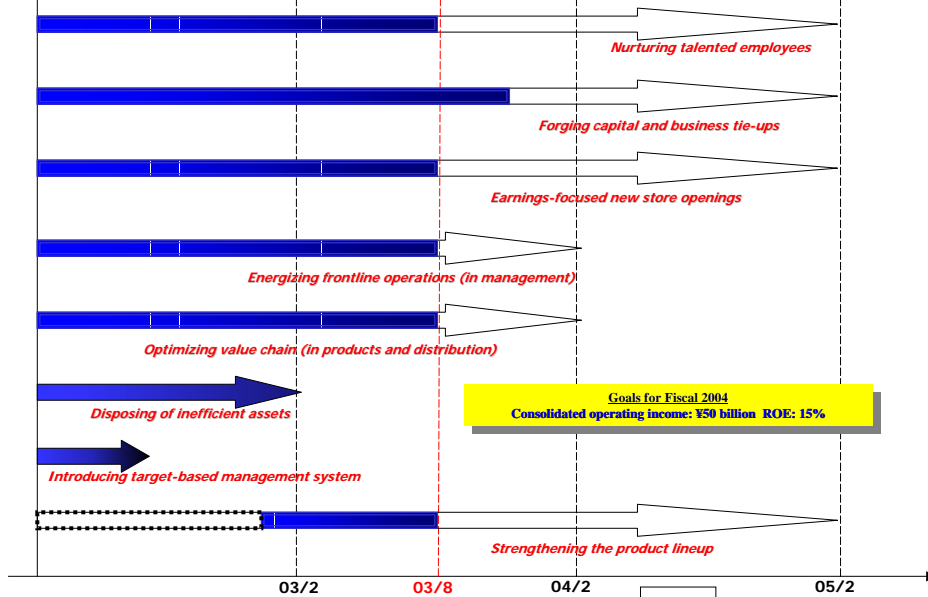
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¥0.3 billion reduction

Total: ¥6 billion improvement in operating income



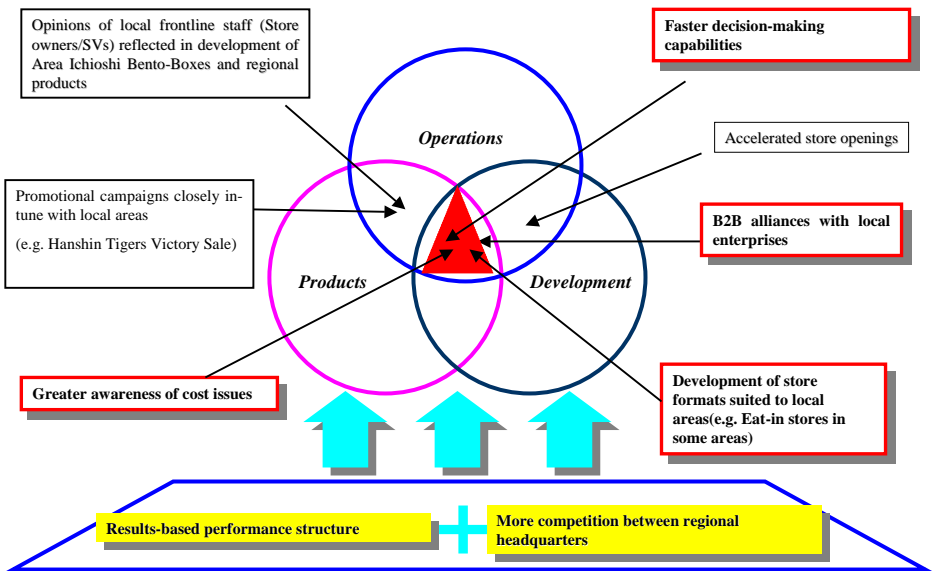
Lawson Challenge 2004 Progress Report

Lawson Challenge 2004: Steady Progress in Rolling Out Measures



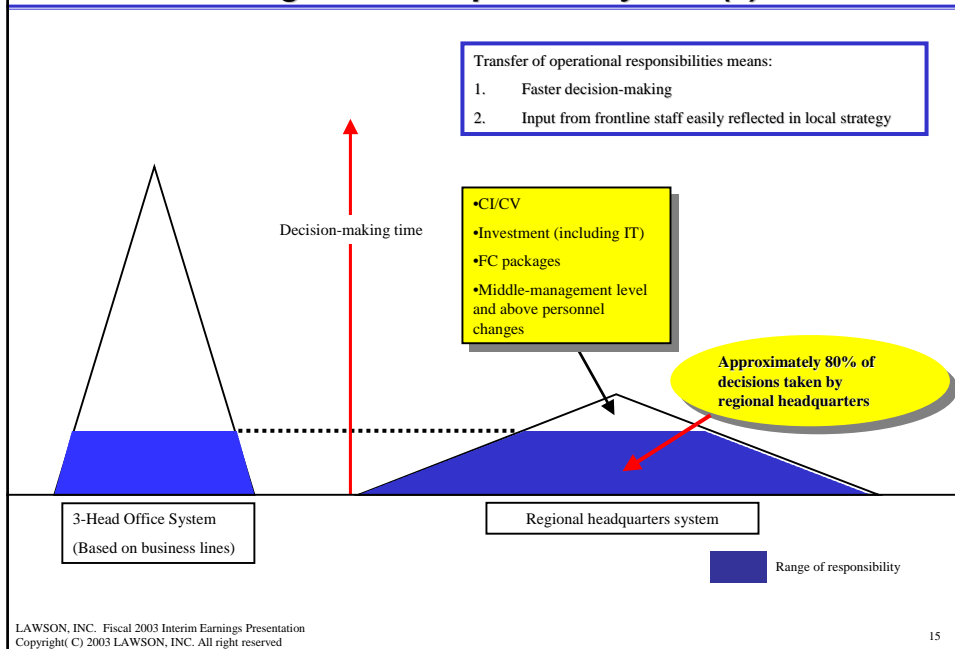
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First Fruits of Regional Headquarters System (1)



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First Fruits of Regional Headquarters System (2)



Issues Arising With the New Regional Headquarters System



- Issues with the system have been identified
 - Head Office finding it more difficult to monitor measures initiated by regional headquarters
 - More challenging to communicate merchandiser (MD) concept for newly developed company-wide products
 - Harder to share information on success/failure of new products on a company-wide basis



- Failure to deal with these issues will lead to widening of communication gap between Head Office and regional headquarters
 - ➡ **Solution: Chief Marketing Office set up to coordinate communication of shared information between Head Office and regional headquarters. Taketoshi Kunisaki appointed to oversee the Division.**
 - DOM-MD meetings
 - Weekly meetings between DOMs and MDs responsible for development of new product to be held
 - Regional headquarters will share information company-wide on new product success rate
 - Discuss company-wide measures 2/3 months from now

Improved Product Quality



Vendor realignment

Completion of move from 40 rice dish vendors to 6 mega-vendor structure now in sight

Roll out of new manufacturing/processing infrastructure started in first half of FY2003



New Quality Control Division set up (independent of Merchandise & Logistics Division)

Responsible for directly monitoring manufacturing processes at vendor facilities



**Result: Steady improvement in
quality of Bento-box products**

Overview of New Store Formats and Alliances



Natural Lawson (NL) poised to move into the black

- Efforts centered on improving profitability
- Next hurdle: develop NL into a multi-store operation
- Offer popular NL products at regular Lawson stores

Steady progress in forging store format alliances

- Postal Lawson
- CCC
- ENEOS
- Convenience Banks
- Teito Rapid Transport Authority (TRTA), and others

Expansion of new store format
development & increase in
customer base



1. Strengthen Product Lineup

(1) Change MD operational approach

(2) Improve product quality

-Aiming to offer safe, healthy and tasty products customers can trust

(3) Strengthen development capabilities for original products

2. Further Enhance Operational Capabilities

Raise store owner revenues

-Improve merchandise ordering (Introduce new system + SV training)

-The 3 Challenge Practices (Focus on doing simple things well)

-Translation of successful actions/products to other parts of Lawson

3. Earnings-Focused Store Openings

-Raise productivity of Recruit Field Counselors (RFCs), responsible for new store openings

-Bolster B2B business with top sales performers

Product Development Process Changed (Merchandizing & Logistics Division)



<Previous>

Developed products to coincide with existing product price ranges



<Current>

Develop products that offer new value



MD now focused more on achieving cost efficiencies in product development to offer customers new value

Close cooperation with Raw Materials Purchasing Division
(Framework completed in first half)

Changed MD Operational Approach



5 MD Operational Approaches (Focus on doing simple things well)

1. Work closely with store owners to develop the products customers want
2. Identify benchmark products and thoroughly analyze the market
3. Be personally convinced of the need for/quality of the new product
4. Think of how best to push the product to the customer
5. Aim high (avoid copying rivals' products/concepts)



Real Success Already Showing Through

20% reduction in rice dish stock keeping units (SKU)

Sales levels constant

Efficiency improvement at vendors More time given to preparation of each product, leading to higher quality

Bakery Dept. "Good News Declaration"

Radical review of amount of raw material/baking method used per SKU

Close cooperation with manufacturers to raise quality

Higher YoY sales at Bakery Dept.

Stronger entertainment products

High margin products

Review of DVD sales methods

Excellent sales of "Minority Report"

Realignment Leading to Change in Relationships With Vendors



Greater share of business per vendor

- Improved Win-Win relationship for both parties
- Earning stronger commitment from vendors

Role of Quality Control Division

- Direct monitoring of manufacturing process
- Creation of high quality products
- Safe, healthy and tasty products customers can trust

Average volume of business per vendor

(Fiscal 2002)



Average volume of business per vendor

(After realignment)



Elimination of all preservatives in food products and system to control overall volume of other additives

- Nationwide introduction during FY2004 in conjunction with vendor realignment

(Scheduled completion in Tokyo, Nagoya and Osaka areas by the end of October 2003)

Enhancing Operational Capabilities The 3 Challenge Practices



The 3 Challenge Practices (3 years of continuous implementation)

1. Understand local customers to create stores and layouts they enjoy



Individual stores must take the lead

2. Keep stores and surrounding areas clean
3. Service customers in a sincere way so they keep coming back

Translates into higher earnings for store owners

Quality Improvements

Store Image

- Customer Service
- Cleanliness

Products

- Product lineup based on individual store customer needs
- Development of sales areas

Mobilization of store crew essential



Higher Sales / Earnings

Fundamental Review of Store Opening Program (1)



**Aiming to further boost customer convenience
(Expanding catchment areas and customer base)**



Use of B2B Approaches

**More store openings using "grid & point" method
Higher RFC productivity
Team system to improve business development**

Fundamental Review of Store Opening Program (2)



More store openings using "grid & point" system

Higher RFC productivity

- Expand information gathering network (Financial Institutions/ Property Management/ Mitsubishi Corporation)
- Share case studies (success and failure)
- Improve workflow processes

Team system to improve business development

- Separation of responsibility for sales forecasts/property rentals/FC contracts
- Efficient store openings using new business formats/tie-ups

Maintaining Our Basic Approach



It's all about keeping it simple!



**Increasing focus on the
Lawson fundamentals**

- 1. Enhancing store capabilities**
- 2. Improving customer service**
- 3. Keeping stores and catchment areas neat and tidy**

**Essential to steadily build on these
basic concepts**



**Supplementary
Information**

(3 pages)

Fiscal 2003 First-Half Results



(Non-Consolidated)	Fiscal 2002 First Half	Fiscal 2003 First Half			
	Results	Results (A)	Projections (B)	Change/Difference A/B and A-B	YoY Change/Difference
(¥ billions)					
<u>Total Net Sales</u>	665.8	650.0	662.0	98.2%	97.6%
<u>Operating income</u>	20.8	20.9	21.0	99.5%	100.7%
<u>Operating income ratio</u>	3.1%	3.2%	3.2%	0.0%	0.1%
<u>Recurring profit</u>	20.0	20.5	20.5	100.0%	102.6%
<u>Net income</u>	5.9	10.6	9.9	107.1%	180.0%
(Store data)					
<u>Daily sales at existing stores</u>					
(YoY)	97.0%	98.0%	100.0%	-	1.0%
<u>Daily sales at new stores</u>					
(¥ thousands)	476	459	455	-	-17
<u>Total no. of stores</u>	7,648	7,711	7,825	-	63
(Excluding stores in Shanghai, China)					
<u>Gross profit margin</u>	30.6%	30.9%	31.1%	-0.2%	0.3%

Store owner revenue
➔
* Full-year projections

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Fiscal 2003 First-Half Results/Full-Year Targets



	Fiscal 2003 First-Half Results	Fiscal 2003 Full-Year Targets
<u>New store openings</u>	321	600
<u>Store closures</u>	235	400
<u>RC change</u>	-49	-
<u>FC change</u>	112	-
<u>Relocations</u>	122	-
<u>Net increase in no. of stores</u>	86	200
<u>No. of stores at term-end</u>	7,711	7,825
<u>Outstanding contracts</u>	341	-

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Cash Flows: FY02 Full-Year Results/FY03 First-Half Results/FY03 Full-Year Forecasts



(Consolidated), (¥ billions)

	Fiscal 2002	Fiscal 2003 First Half	Fiscal 2003
	Results	Results	Forecasts
<u>Operating activities</u>	33.9	32.4	40.6
<u>Investing activities</u>	-28.7	-18.1	-39.1
<u>Free cash flow</u>	5.2	14.4	1.5
<u>Financing activities</u>	-7.2	-7.5	-12.0
<u>Term-end cash and cash equivalents</u>	94.0	100.8	83.5
<u>Shareholders' equity ratio</u>	44.3%	41.8%	-
<u>ROE</u>	5.9%	13.3%	11.0%

*Calculated on a yearly basis