

LAWSON, Inc.

Fiscal 2004

Earnings Presentation

Year ended February 28, 2005

April 14, 2005

Cautionary Statement

This presentation may contain forward-looking statements and forecasts regarding the future plans, strategies and performances of Lawson and its subsidiaries. These statements and forecasts are not historical fact. 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.

★ Today's Topics

- 1. Fiscal 2004 results and fiscal 2005 estimates**
- 2. Review Lawson Challenge 2004**
- 3. Lawson Challenge 2007**

★FY 2004 Results

(Billions of yen)

Consolidated	FY2003	FY2004		
	Results	Results	YoY change/ difference	Change/difference from targets
Net sales of all stores	1,288.3	1,329.1	3.2%	-1.4%
Operating income	38.1	42.9	12.6%	1.9%
Operating income margin	3.0%	3.2%	0.2 point	0.1 point
Recurring profit	36.6	42.3	15.6%	4.4%
Net income	18.6	20.4	9.8%	2.0%
ROE	12.1%	13.0%	0.9 point	0.3 point
EPS (yen)	175.78	198.47	12.9%	1.6%

(Store-related data)

Gross profit at existing stores (YoY)	-	100.0%	-	-0.8%
Sales at existing stores (YoY)	-0.8%	-0.3%	0.5%	-1.3%
Daily sales at new stores (thousands of yen)	436	448	12	-
Total number of stores	7,821	8,077	256	-4

(Excluding Shanghai Hualian Lawson CO., Ltd.)

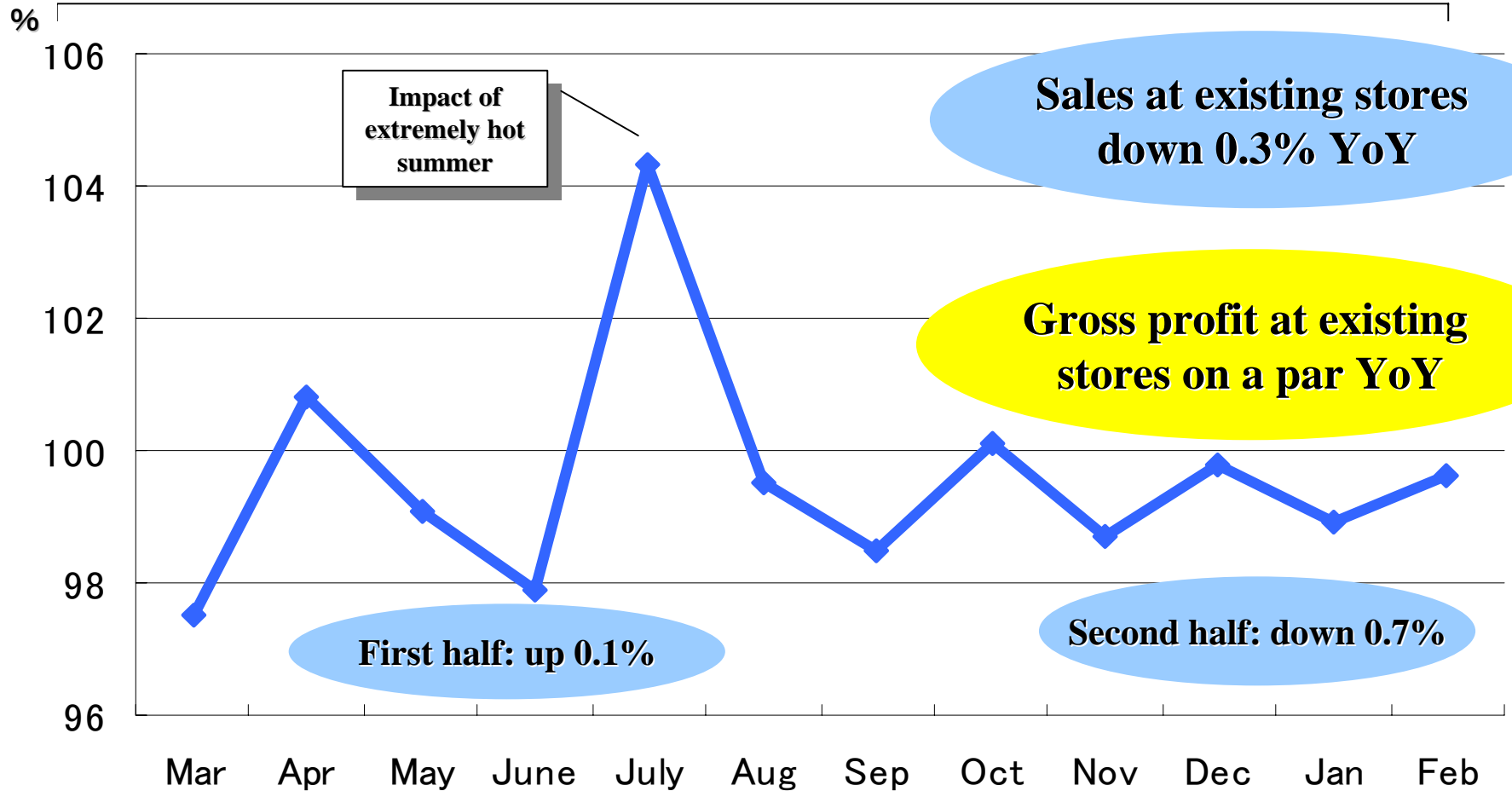
Gross profit margin	30.7%	30.8%	0.1 point	0.1 point
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★ Highlights of fiscal 2004 (consolidated)

★ Earnings reached targeted levels

- ✓ **Gross profit at existing stores topped previous fiscal year's result**
 - Gross profit margin: 30.8% (up 0.1 percentage point YOY)
 - Favorable markups on fast foods, such as rice dishes, delicatessen items and countertop foods.
 - Operating expenses down and franchise owners' profits up
- ✓ **Qualitative/quantitative improvements of new store opening**
 - New store profitability enhanced with implementation of "grid point" and "NG line" guidelines
- ✓ **Operating profit: ¥42.9 billion** (¥800 million higher than target and ¥4.8 billion increase YOY)
 - Lower SG&A expenses (effective use of advertising budget)
 - Results improved at consolidated subsidiaries against projections and previous year's results
- ✓ **Registered extraordinary loss on training center (allowance for uncollectible deposits and guarantees)**

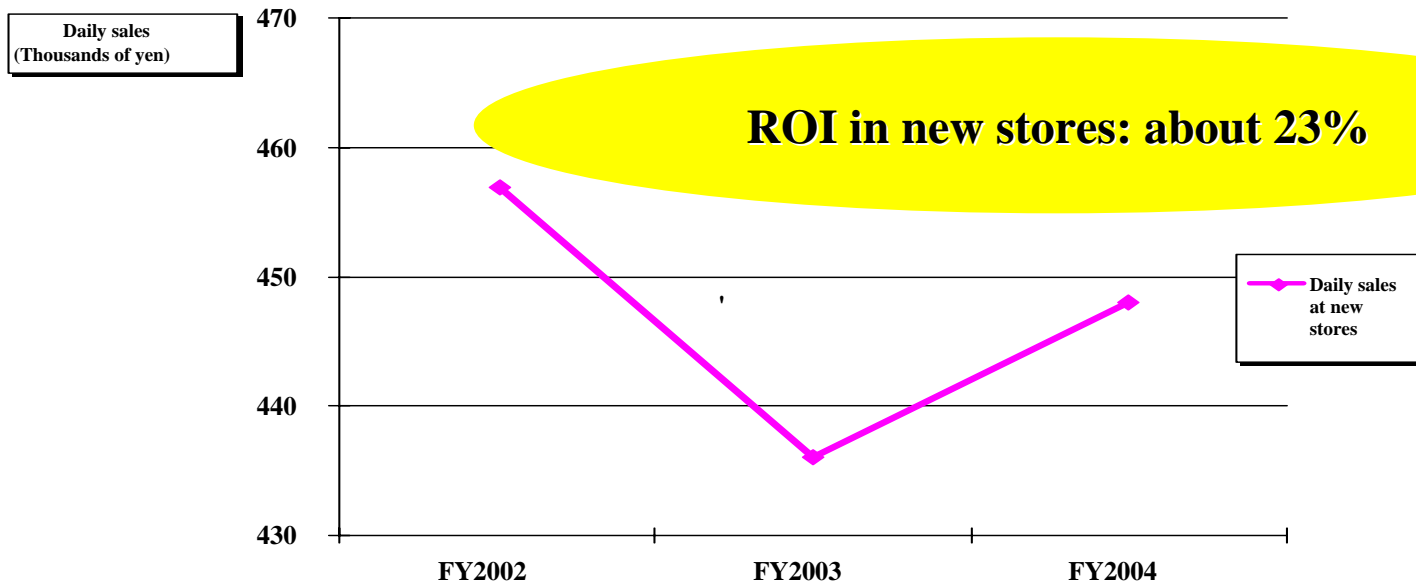
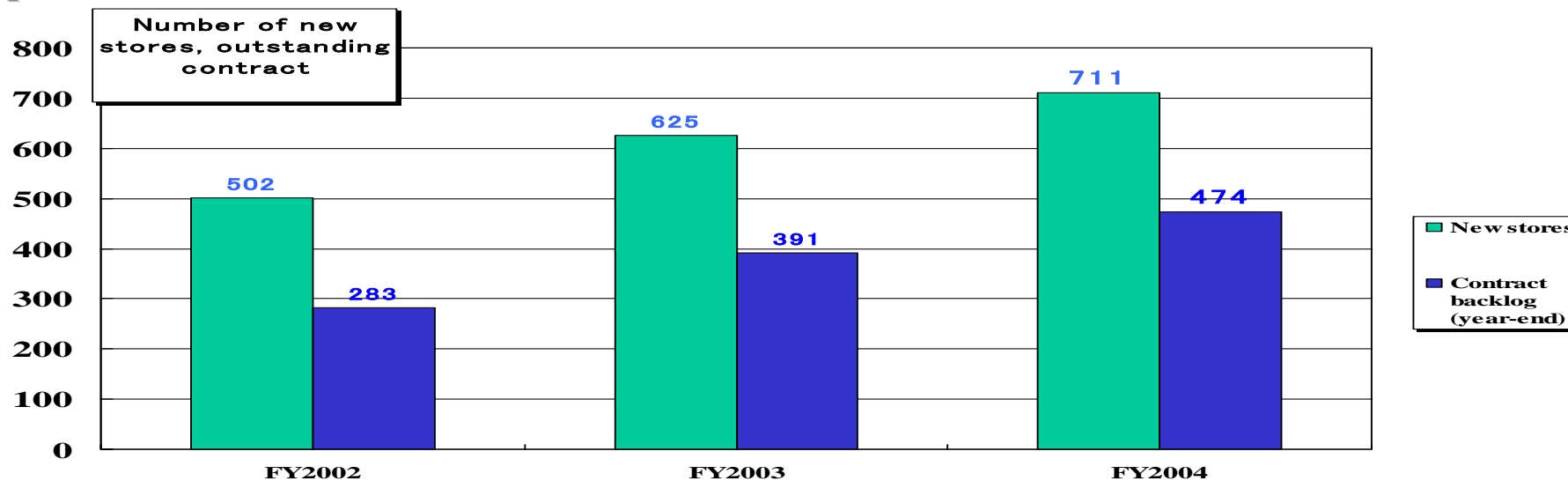
★ YoY comparison of sales at existing stores: sales showed upward trend throughout period



★ **Gross profit margin improved in line with target**

Category	FY 2003 results (%)		FY 2004 results (%)		Major factors
	Margin	Share of total	Margin	Share of total	
Fast foods	35.6	23.5	36.4	22.4	Improved margins on rice dishes, increased sales of countertop foods
Daily delivered foods	32.5	10.8	33.3	11.0	Growth in sales of bakery items and other products
Processed foods	26.9	48.5	26.7	50.1	Worsening sales mix (tobacco)
Non-food products	33.4	17.2	34.0	16.4	Improved conditions for daily necessities
Total	30.7	100.0	30.8	100.0	

★ **New stores and outstanding contract are steadily increasing and profitability of new stores improved**



★ Improved profitability for consolidated subsidiaries and affiliates

(Millions of yen)

<u>Subsidiaries</u>	FY2004	
	Results	YoY change
Operating income		
LAWSON TICKET, Inc.	720.0	80.0
LAWSON ATM Networks, Inc.	140.0	490.0
i-Convenience, Inc.	-110.0	130.0
Two other companies: Natural Lawson, Inc. and BestPractice Inc.	20.0	-

Equity-method affiliates

LAWSON CS Card, INC.	-1,230.0	1,030.0
Shanghai Hualian Lawson Co., Ltd.	-10.0	70.0

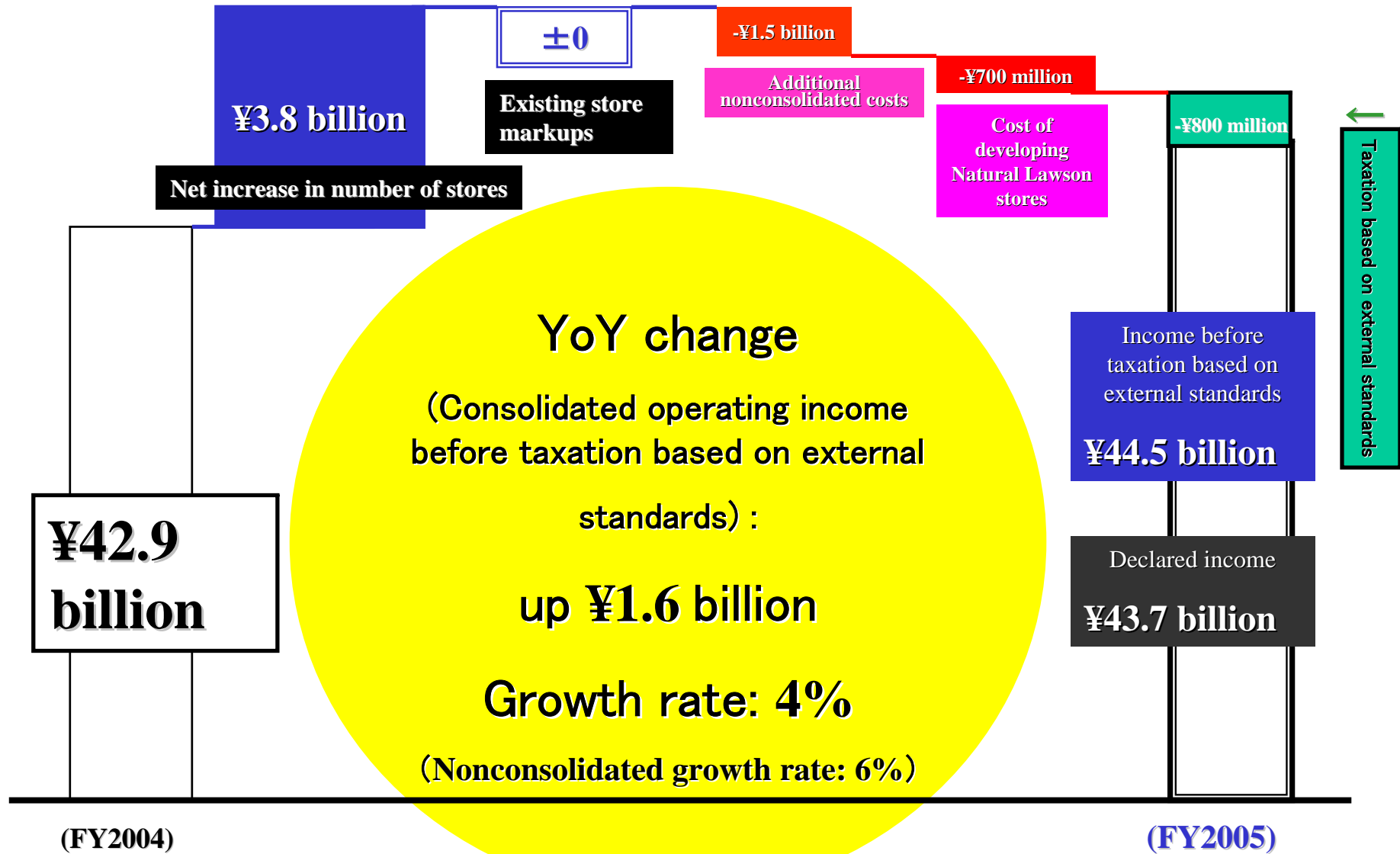
* Companies to which equity method is applied.

★FY 2005 estimates

(Billions of yen)

Consolidated	FY2004	FY2005	
	Results	Forecasts	YoY change/difference
Net sales of all stores	1,329.1	1,412.0	6.2%
Operating income	42.9	43.7	1.9%
Operating income margin	3.2%	3.1%	-0.1 %
Recurring profit	42.3	43.5	2.8%
Net income	20.4	21.5	5.4%
Gross profit at existing stores (YoY)	100.0%	100.0%	-
Sales at existing stores (YoY)	-0.3%	100.0%	0.3%
Gross profit margin	30.8%	30.8%	-
Total number of stores*	8,077	8,377	300
*Excluding stores in Shanghai, China			
ROE	13.0%	13.0%	-
EPS (yen)	198.47	210.41	6.0%

★ **Analysis of factors behind FY 2005 estimates**
(Consolidated operating income basis)



★ **Apply as necessary to enhance store competitiveness and increase store owners' profits**
(explanation of nonconsolidated expenses of ¥1.5 billion)

- ✓ **Assortment on shelves by boosting ordering precision.**
 - **Reduce lost chances**
 - **Reengineer supervisor activities**
 - **Increased “subsidy” to store owners for cost of waste**
 - **Bring in “mystery shoppers” (twice annually at each store)**

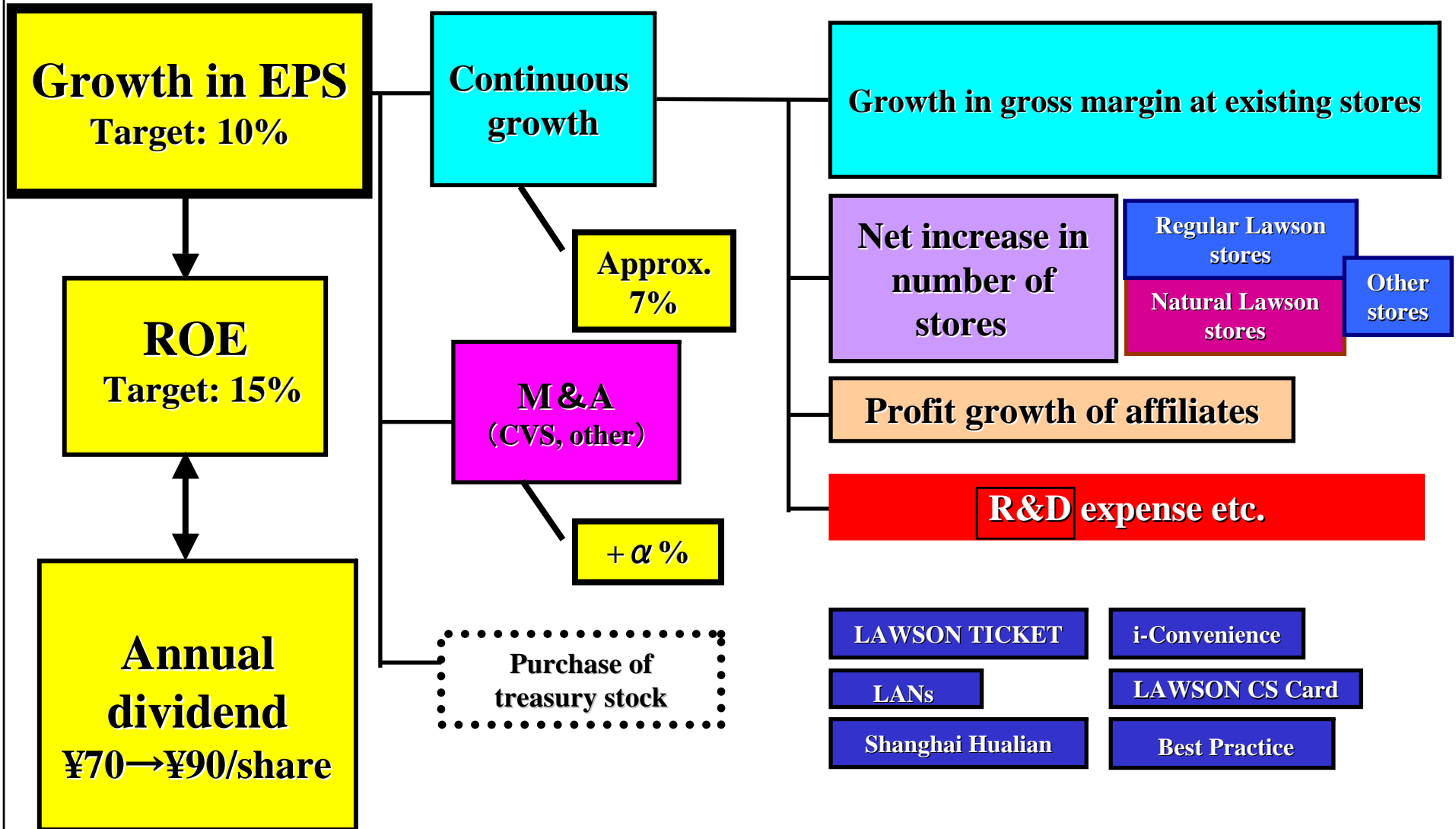
- ✓ **Provide education and training for store owners and crew***
 - **Full utilization of training centers**

- ✓ **Reinforce product lineups and quality**

- ✓ **Strengthen marketing**
 - **Implement measures to raise brand recognition, including higher exposure through television commercials**

***Lawson names
stores part-time
workers “crew”**

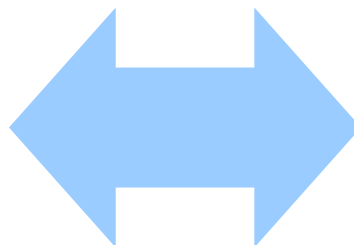
★ Growth through Lawson Challenge 2007



★ Capital strategy

- Continue to emphasize improvement of capital efficiency
- Implement capital strategy focused on long-term shareholders
- Revised ways of “Return to shareholders” i.e. a balance between purchase of treasury stock and dividends
- Raise annual dividend: ¥70/share → ¥90/share
 - Increase payout ratio to approximately 40%

Growth in EPS
Higher ROE

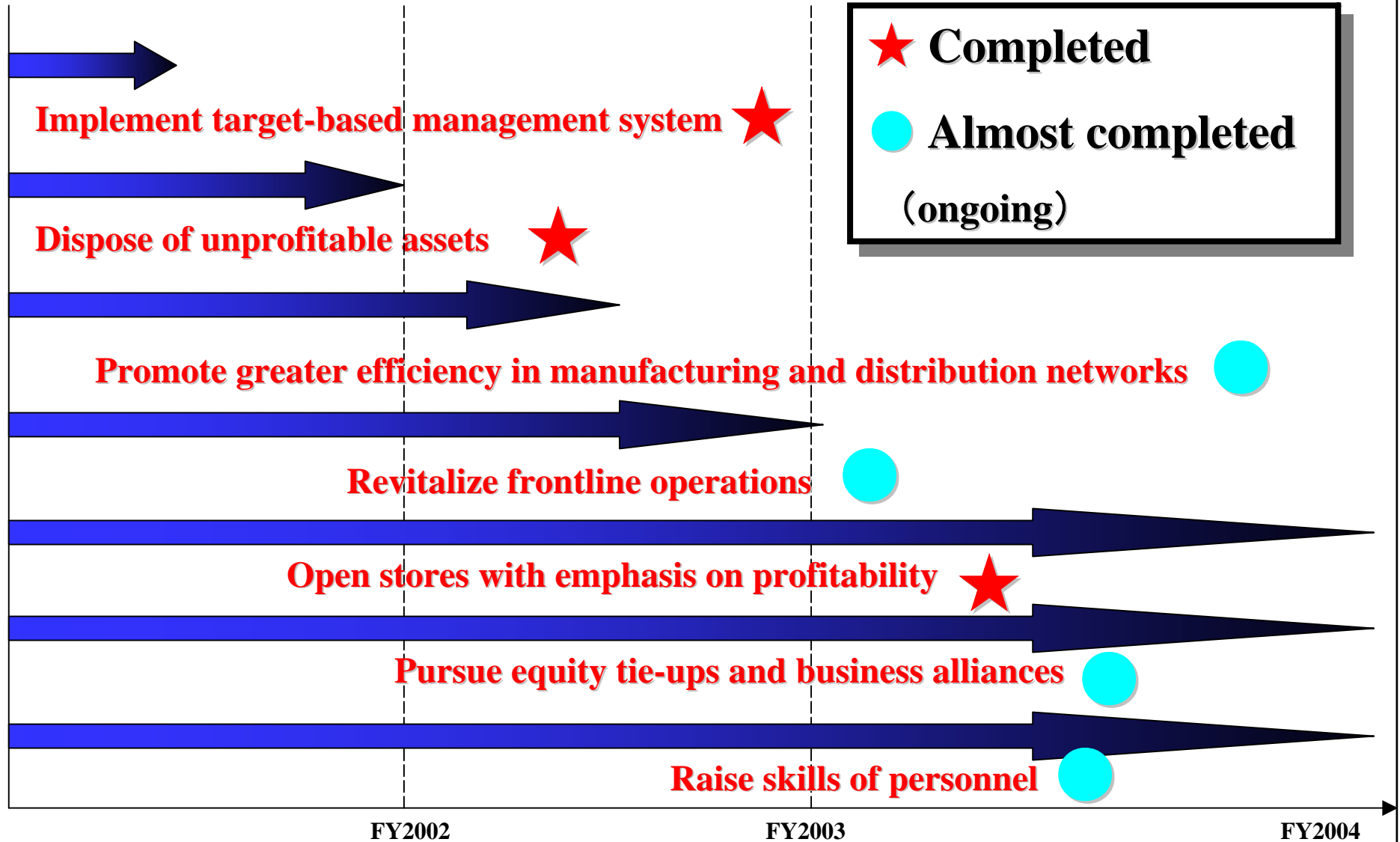


Increased dividends
Purchase of treasury stock

2. Review Lawson Challenge 2004

3. Lawson Challenge 2007

★ Achievements through Lawson Challenge 2004



★ Medium-term management priorities

1. Expand store owners' profits (Hone competitiveness of each store)

→ Dramatically reduce opportunity cost

- **Raise store owner motivation**
- Provide more training for supervisors
- Offer training for store owners
(e.g. in delegation of greater responsibility to crew)
- Boost crew motivation (crew training)

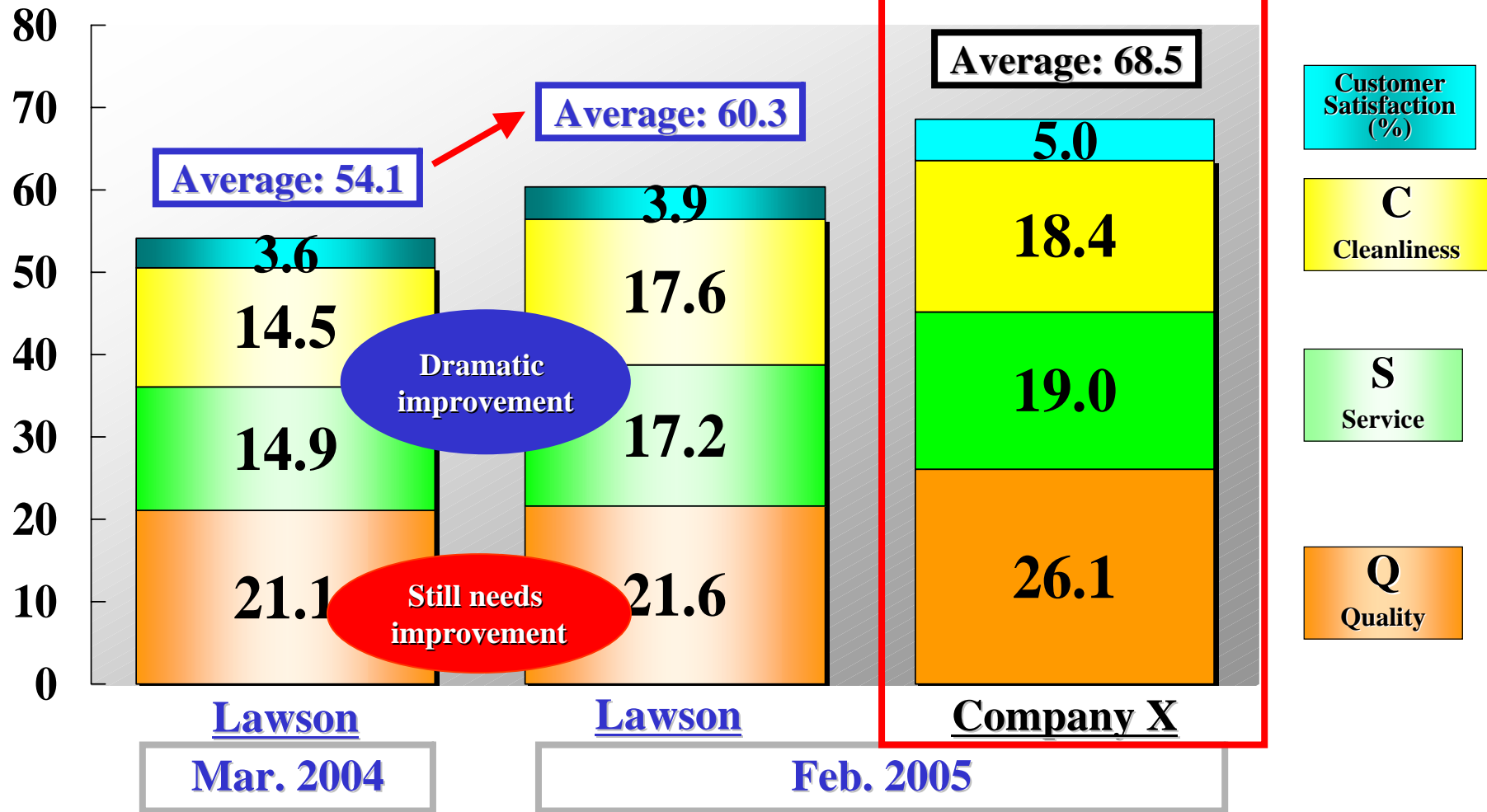
Improve ordering
precision

2. Cultivate latent customer segment through multiple formats

Focus on women and seniors

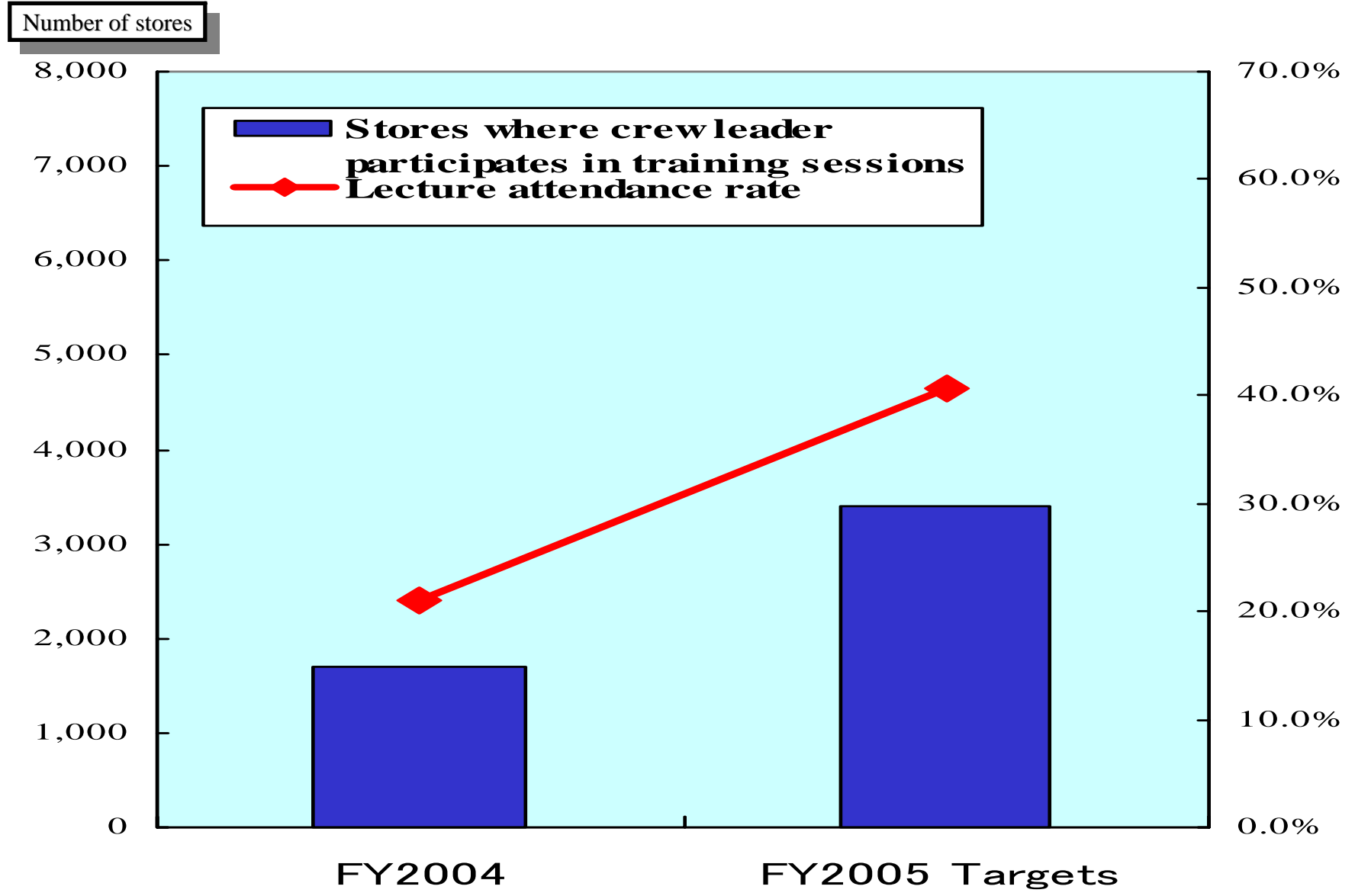
- Merchandising (e.g. develop new merchandise categories)
- New formats (e.g. Natural Lawson)
- Price strategy

★ Results of “mystery shopper” program



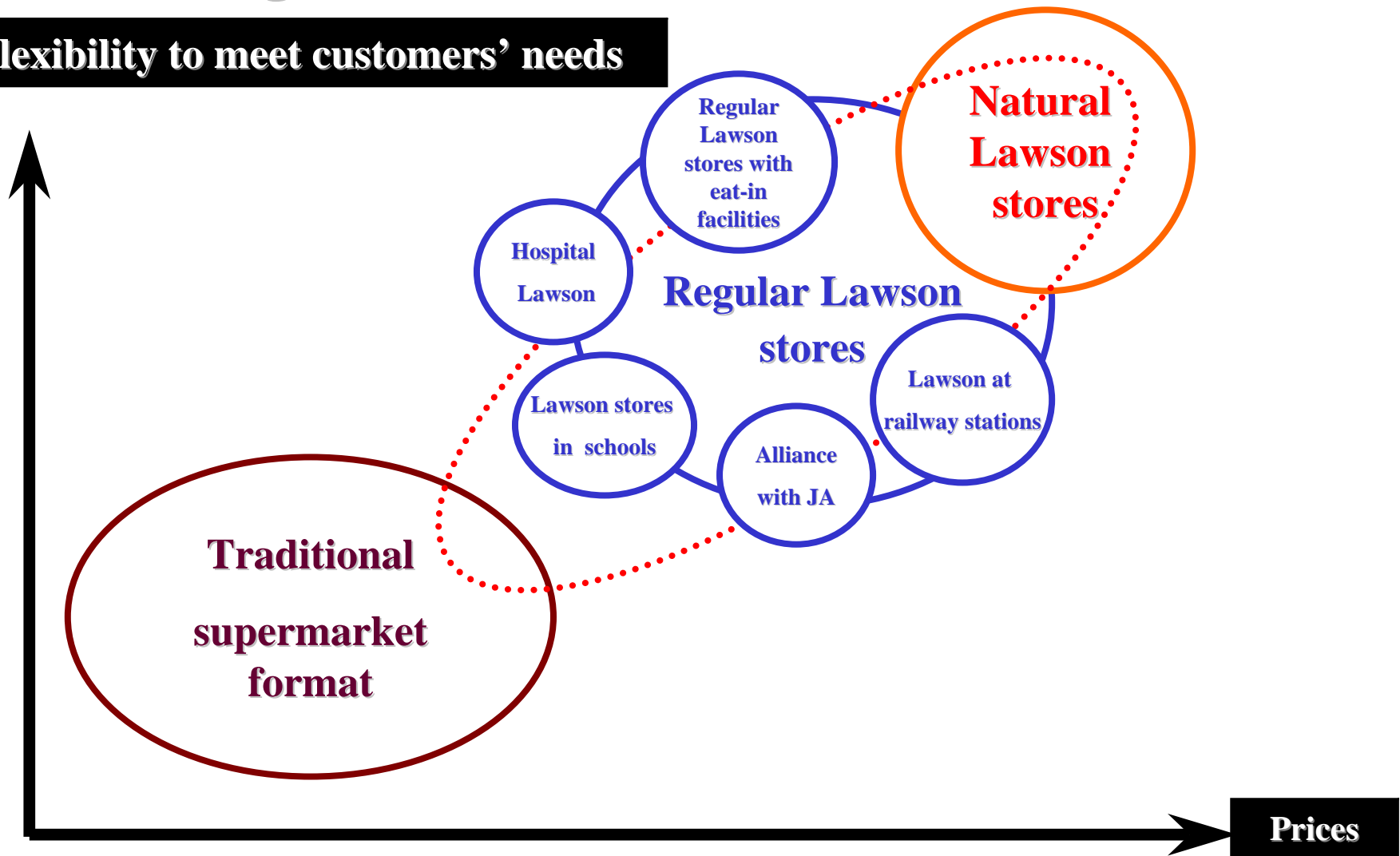
**We have built bonds of trust with store owners
 next task is “Q”: improving the ordering process and product assortment.**

★ Continue to promote education and training



★ Positioning: Lawson in FY 2007

Flexibility to meet customers' needs



Prices

With the Head Office providing the format and product lineup best suited to the customers of each store, customer numbers will grow and the market will expand.

★ Creating corporate value through Lawson Challenge 2007

Aiming for an ROE of 15%

Growth in ROE and higher profit margin

Increased dividends
Purchase of treasury stock

Expand store owners' profits
Strengthen competitiveness of individual stores
→ Increase customer numbers
(Product lineup strategy)

New stores
→ Expand clientele

Natural Lawson stores

M&A

Higher profitability for Group companies

"Mystery shopper" program and Training Centers

Lawson Pass

Operations in China

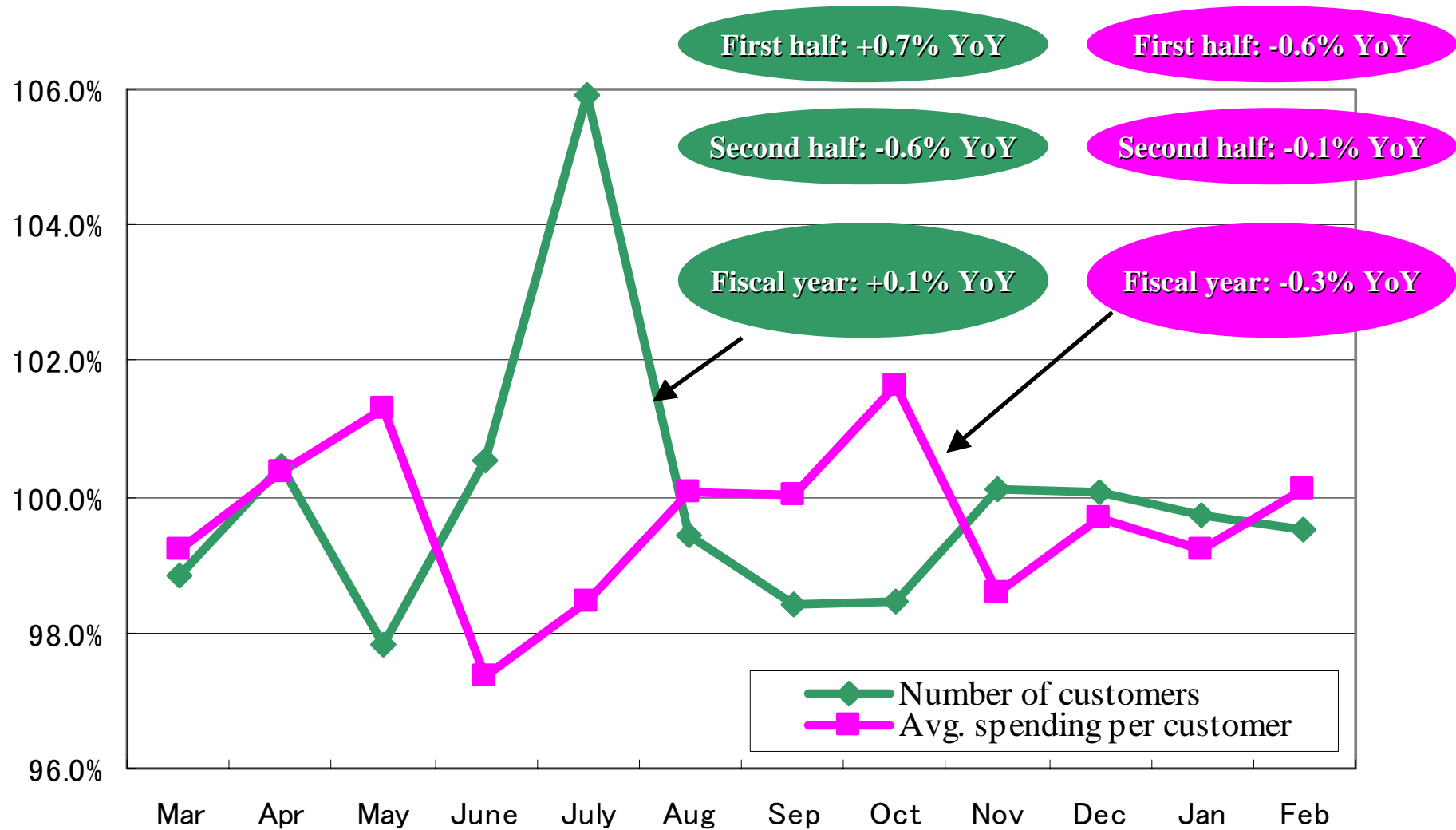
Aiming for double-digit growth in EPS

Growth

Lawson University personnel training and development = firmly entrenched culture of customer satisfaction = Lawson brand recognition

Reference Materials

★ **Number of customers and average spending per customer at existing stores**



★ **Key income statement items: FY 2004 results and FY 2005 forecasts**

(Billions of yen)

Nonconsolidated	FY2004			FY2005
	Results	YoY change	Compared w/targets	Forecasts
Gross profit on sales	193.4	10.1	-10.3	Approx. 205
SG&A expenses	151.1	5.9	-1.3	Approx. 161
Principal components				
IT-related costs (hardware leases, software depreciation, maintenance costs, etc.)	17.1	0.2	-0.3	Slight decrease
Labor costs	32.4	-0.3	0.4	Flat
Advertising expenses	9.8	-1.6	-1.1	Approx. 10% up
Operating income	42.2	4.2	0.2	43.7
Consolidated operating income	42.9	4.9	0.8	43.7

★ Investment and financing forecasts for FY 2005

(Billions of yen)

Consolidated	FY2005	
	Estimates	YoY change
New stores	17	1.2
Refurbishment	9	0.8
Systems	4	1.2
Others	4	-0.8
Total	34	2.4
Investments and loans advanced	2	3.0
Leases	11	-0.1

★ **Lawson Pass success story**

Effect on profits

	Dec. 2003	Dec. 2004
Avg. daily sales	¥434,000	¥508,000 (up 17.1% YOY)
Avg. daily sales to cardholders	¥48,000	¥96,000
Registered cardholders	222	679
Share of cardholder sales to overall sales	11.3%	14.5%
Cardholder visits (PSA/D)	49 times	105 times



Store "X," in Fukuyama DR,
Chugoku Operating Region



Store owner profits climb approx. ¥140,000 monthly (as of Dec. 2004)

Lawson Pass customers reinforce profitability



Target for new cardholder in FY 2005: 400,000 for aggregate base of 2.2 million
Acknowledging cardholders in-store will encourage them to come again, come often and spend more

★ Taking stock of Lawson Challenge 2004

- Target reached
- ▲ Progress delayed
- × Target not met

Results

Introduce goal-oriented management system

Dispose of unprofitable assets

Optimize value chain

Revitalize front-line operations

Open profitable new stores

- System for executive officers and managers extended to all employees
- Closed unprofitable stores, relocated stores based on changing business environment
- Net number of stores decreased, marking first drop since Lawson's establishment (fiscal 2002)
- Offered early retirement, which about 500 people accepted (fiscal 2002)
- Reduced number of company-operated stores to approx. 300
- ▲ Realigned vendor network and invested in new infrastructure at vendor facilities, introducing state-of-the-art production equipment (fiscal 2003)
- Enhanced product selection, especially in the rice dishes category, launching *Onigiriya* and *Gohantei* series
- Began negotiating prices directly with raw materials suppliers to ensure optimal cost efficiency (fiscal 2002)
- Eliminated exclusive arrangement with FFS, a vendor cooperative association, established Lawson's own supply system (Raw Materials Procurement Department)
- Introduced regional headquarters structure (fiscal 2003) (Chubu and Kinki districts in Oct. 2002)
- Offered supervisor training to improve ordering precision and use of new systems
- Reduced back-office workload and number of stores overseen by supervisors to facilitate greater focus on staff supervision
- Achieved steady pace for store openings, easing front-line burden caused by burst of store-opening activity at fiscal year-end (fiscal 2002)
- Eliminated differences in performance among stores through introduction of "mystery shopper" program and establishment of Training Centers (fiscal 2004)
- × Sales at existing stores picked up YOY, underscoring a change in trend, but failed to clear previous year's level
- Embraced ROI standard for new store development, improved sales forecasting system and reduced percentage of stores with low daily sales
- Introduced team system to promote effective store development through additional branches (fiscal 2004)