



**LAWSON, INC.**  
**Interim Earnings Presentation**  
**Six Months Ended August 31, 2004**  
(Year Ending February 28, 2005)

**Takeshi Niinami**  
**October 14, 2004**

**Regarding Forward-Looking Statements**

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 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.

**Today's Presentation**



- 1. Interim Earnings Report and Fiscal 2004 Forecasts**
- 2. Looking Back and Taking Stock**
- 3. Thinking on Medium- and Long-Term Growth**

## Fiscal 2004 Interim Results



(Consolidated) ( ¥ billions)	FY2003 1st Half	FY2004 1st Half		
	Results	Results	YoY Change/Difference	Change/Difference vs. Projections
Total Net Sales	651.7	675.5	103.7%	98.9%
Operating Income	21.1	23.2	110.1%	104.5%
Operating Income Margin	3.2%	3.4%	0.2%	0.2%
Recurring Profit	20.0	22.5	112.5%	105.6%
Net Income	10.2	11.3	110.8%	110.8%
EPS ( ¥ )	95.86	108.99	13.13	-
<b>(Store Data)</b>				
Daily Sales at Existing Stores (YoY)	98.0%	100.1%	2.1%	-
Daily Sales at New Stores ( ¥ thousands)	459	468	9	-
Total No. of Stores	7,711	7,909	198	-
<small>(Excluding Stores in Shanghai, China)</small>				
Gross Profit Margin	30.9%	30.8%	-0.1%	-

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## Analysis of First-Half Results (Consolidated)



### Earnings Beat Previous Year and Projections

- ✓ **Total Net Sales: ¥675.5 billion** (Against projections: -¥7.5 billion; Against previous year: +¥23.8 billion)
  - Existing store sales were almost flat, but sales were boosted year on year by a net increase in the number of new stores
- ✓ **Gross Profit Margin Short of Target**
  - 30.8% (-0.1 point year on year)
    - High markups on fast foods (lunch boxes, delicatessen and counter-top foods, etc.) insufficient to lift overall gross profit margin
- ✓ **Recovery in New Store Earnings**
  - ROI improved approx. 1.5 points year on year
- ✓ **Operating Income: ¥23.2 billion** (Against projections: +¥1.0 billion; Against previous year: +¥2.2 billion)
  - Results recovered at consolidated subsidiaries (Improvements against both projections and previous year)

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## Gross Profit Margin



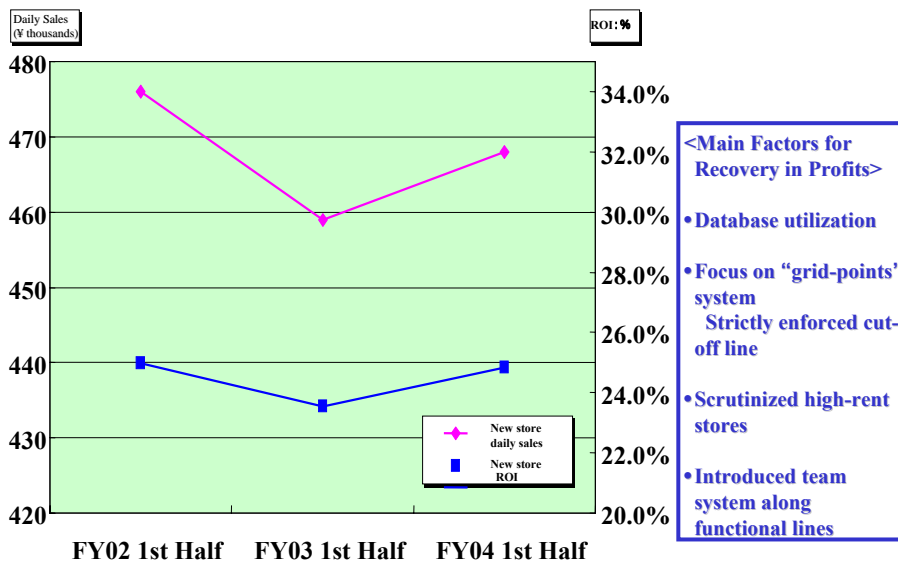
(Category)	FY2003 1st Half Results		FY2004 1st Half Results		Main factors
	Margin (%)	Share of total	Margin (%)	Share of total	
Fast Foods	35.6	23.7	36.1	22.3	Improvement in margins
Daily Delivered Foods	32.6	11.3	33.6	11.7	Large increase in ice cream due to hot summer
Processed Foods	27.1	48.1	26.9	50.0	Growth in alcohol and tobacco
Non-Food Products	33.9	16.9	33.7	16.0	Daily necessities lackluster
Total	30.9	100.0	30.8	100.0	

**Targeting a 0.2 point increase year on year in second half**

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## Improving New Store Profitability



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## Main P/L Items: FY2004 1<sup>st</sup> Half Results



(¥ billions)		FY2004	
		1st Half Results	YoY Change/Difference
Non-consolidated	Gross Profit	97.5	3.7
	SG&A Expenses	74.8	1.9
	<Main Expenses>		
	Rent	22.9	2.2
	Store Leases and Depreciation	8.9	1.0
	IT-Related Costs (Hardware Leases/Software Depreciation/Maintenance Costs, etc.)	8.4	0
	Personnel Expenses	16.4	-0.2
	Advertising Expenses	4.7	-2.0
Operating Income		22.6	1.8
Consolidated Operating Income		23.2	2.2

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## Rising Profits at Consolidated Subsidiaries and Affiliates



<Operating Income>	FY2004 1st Half		
	Results	Projection Difference	YoY Change
<u>Subsidiaries' total</u>	0.58	0.38	0.37

\*The total only is shown because Lawson Tickets is in the process of arranging finance.

LAWSON CS Card	-0.79	-0.10	0.53
Shanghai Hualian Lawson	-0.01	0.09	0.4

\*Equity-method affiliates

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### FY2004 Full-Year Forecasts (Revised at Interim Period)



(¥billions)

(Consolidated)	FY2003	FY2004	
	Results	Forecasts	YoY Change/Difference
Total Net Sales	1,288.3	1,348.0	104.6%
Operating Income	38.1	42.1	110.5%
Operating Income Ratio	3.0%	3.1%	0.1%
Recurring Profit	36.6	40.5	110.7%
Net Income	18.6	20.0	107.5%
Existing Store Sales (YoY)	99.2%	100.8%	1.6%
Existing Store Markups (YoY)	-	101.0%	-
Gross Profit Margin	30.7%	30.8%	0.1%
<b>Total No. of Stores</b>	<b>7,821</b>	<b>8,081</b>	<b>260</b>
<small>(Excluding stores in Shanghai, China)</small>			
ROE	12.1%	12.7%	0.6%
EPS ( ¥ )	175.78	195.25	19.47

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### Main P/L Items: FY2003 Results / FY2004 Forecasts (Revised at Interim Period)



( ¥ billions )

		FY2003	FY2004
		Results	Forecasts
Non-consolidated	Gross Profit	183.3	194.0
	SG&A Expenses	145.3	152.0
	<Main Expenses>		
	IT-Related Costs (Hardware Leases/Software Depreciation/ Maintenance Costs, etc.)	16.9	17.0
	Personnel Expenses	32.7	32.0
	Advertising Expenses	11.4	11.0
	Operating Income	38.0	42.0
<b>Consolidated Operating Income</b>		<b>38.1</b>	<b>42.1</b>

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## FY2004 1<sup>st</sup> Half Investments and Full-Year Forecasts



(Consolidated) (¥ billions)	FY2004		
	Interim Results	Full-Year Projections	YoY Change
New Stores	8.1	16.0	1.7
Refurbishment	3.5	8.0	-2.4
Systems	1.3	4.5	2.3
Other	1.2	4.0	3.2
<b>Total</b>	<b>14.1</b>	<b>32.5</b>	<b>4.8</b>
Investments and Loans Advanced	0	2.5	-3.8
Leases	5.4	10.0	0.6

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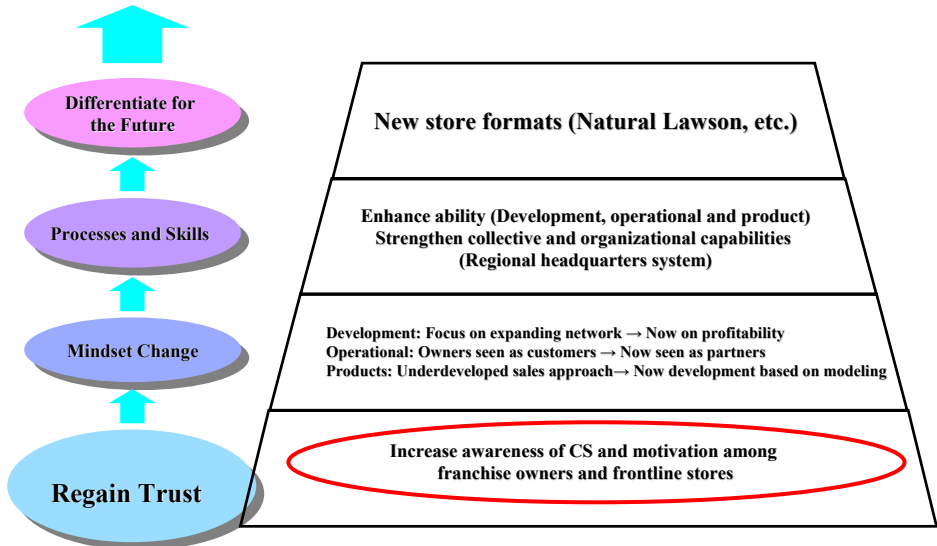


**Aiming to Continuously Create Corporate Value**

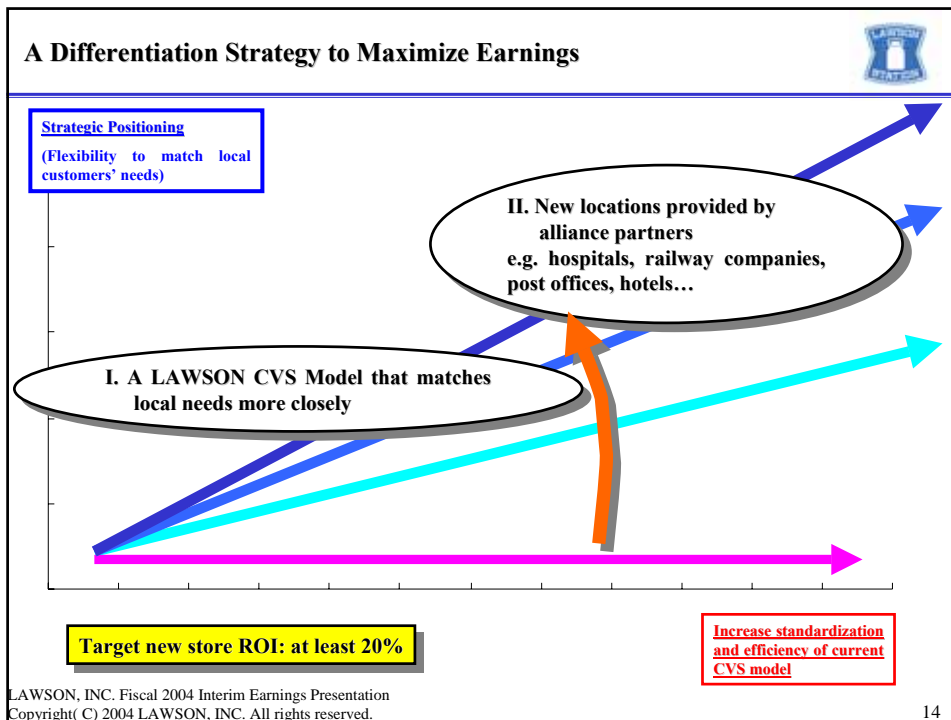
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## A Look Back at the Main Initiatives of the Past Two and a Half Years



## A Differentiation Strategy to Maximize Earnings



## My Perception of Progress Made (the Past Two and a Half Years)



### 1. Foundation Now in Place !

- Regained the trust of franchise stores and frontline
- Employees' attitudes (to operations, development and products) and skills have improved

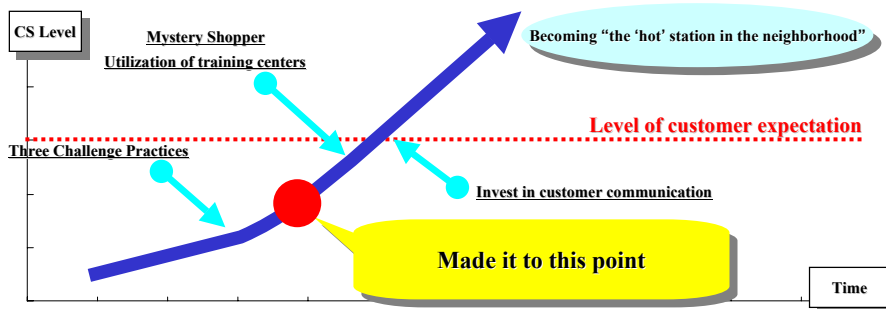
And:

- Success of store development team system → Opening stores with emphasis on profits
- Realignment of vendor network → Improved lunch boxes products
- Excess IT investment was a burden...

### 2. Themes for Raising Corporate Value Going Forward

- Increase the power of the LAWSON brand (Link directly to sales)
  - Staff training
  - Increase QSC
  - Communication with customers

## Current Positioning



### ➤ Strengthening a Culture of Customer Satisfaction to Enhance the LAWSON Brand

**Continue to rigorously implement the basics**

- Strict application of the Three Challenge Practices/ innovative product development
- Raise SV skills and Head Office leadership abilities
- Raise owner management ability (e.g. eliminate opportunity losses)

## Introduction of the Mystery Shopper



Evaluate own stores and rival stores from customer perspective !  
Clarify areas for improvement by pinpointing issues and problems !

### <Areas to evaluate>

- 1) Products
- 2) Courteous customer contact
- 3) Cleanliness



Rank	Points	Customer Opinion
A	80 and above	Want to visit again
B+	70-79	A good store to visit
B-	60-69	Average
C	36-59	No other stores to choose from
F	35 and under	Won't shop there again

Highlights the importance of steadily improving each store on an individual basis !

Owners, store managers and crew must be aware of how their store is viewed

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## Support for Realizing the Three Challenge Practices



### Training Centers

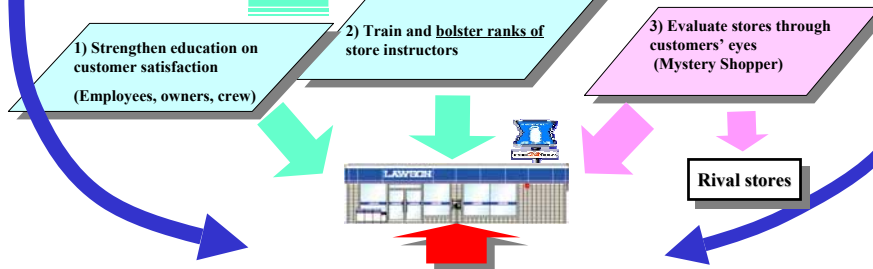
#### Target:

Owners, crew, DOMs, SVs

- Practical and skills training
- Support for management personnel

### Mystery Shopper

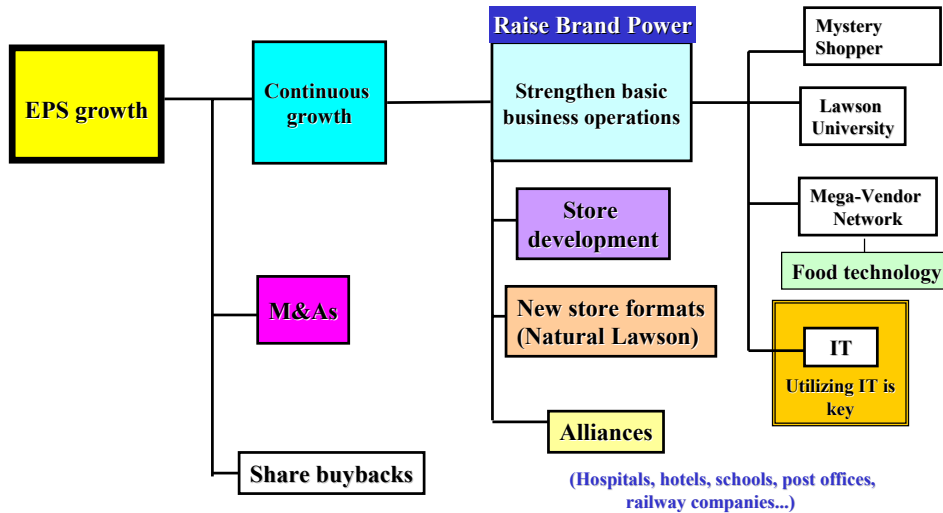
- Make people aware of areas requiring improvement
- Store evaluation (ranking)  
Create system for employing mystery shopper at all stores before end of FY04



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## Achieving Medium- to Long-Term EPS Growth



**Supplementary  
Information**  
**(3 pages)**



## FY2004 1<sup>st</sup> Half Results (Non-consolidated)



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Total Net Sales	650.0	675.5	103.9%	98.9%
Operating Income	20.9	22.6	108.1%	102.7%
Operating Income Ratio	3.2%	3.3%	0.1%	-0.1%
Recurring Profit	20.5	22.3	108.8%	103.7%
Net Income	10.6	11.4	107.5%	107.5%
EPS( ¥ )	99.54	110.37	10.83	-

### (Store Data)

Daily Sales at Existing Stores (YoY)	98.0%	100.1%	2.1%	-
Daily Sales at New Stores (thousands yen)	459	468	9	-
Total No. of Stores	7,711	7,909	198	-

(Excluding Stores in Shanghai, China)

Gross Profit Margin	30.9%	30.8%	-0.1%	-
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## FY2004 Full-Year Forecasts (Revised at Interim Period)



(Non-consolidated) ( ¥ billions)	FY2003	FY2004	
	Results	Projections	YoY Change/Difference
Total Net Sales	1,285.0	1,348.0	104.9%
Operating Income	38.0	42.0	110.5%
Operating Income Ratio	3.0%	3.1%	0.2%
Recurring Profit	37.6	41.0	109.0%
Net Income	19.0	20.7	108.9%

Existing Store Sales (YoY)	99.2%	100.8%	1.6%
Existing Store Markups (YoY)	-	101.0%	-
Gross Profit Margin	30.7%	30.8%	0.1%

Total No. of Stores	7,821	8,081	260
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(Excluding stores in Shanghai, China)

ROE	12.2%	12.8%	0.6%
EPS( ¥ )	180.01	202.09	22.08

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## FY2004 First-Half Results/Full-Year Projections



	FY2004	
	1st Half Results	Full-Year Projections
New Store Openings	358	690
Store Closures	270	430
RC Change	-11	-
FC Change	99	-
Relocations	154	-
Net Increase in No. of Stores	88	260
No. of Stores at Term-end	7,909	8,081
Outstanding Contracts	435	-

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