

# Interim Results Presentation for Fiscal 2007 LAWSON, INC.

October 11, 2007

#### Cautionary Statement

This presentation may contain forward-looking statements and forecasts regarding the future plans, strategies and performances of LAWSON and its subsidiaries and affiliates. 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.

## Interim Results for Fiscal 2007

**Yoshiyuki Yahagi**

Member of the Board, Executive Vice President,  
Chief Financial Officer (CFO)

## ■ FY2007 Interim Results

(Consolidated Billions of yen)	Interim FY2006		Interim FY2007	
	Actual	Actual	YoY	vs. Plan
Net sales of all stores	706.2	<b>721.9</b>	102.2%	98.4%
<b>Operating profit</b>	24.1	<b>25.5</b>	105.5%	100.9%
Operating profit ratio	3.4%	<b>3.5%</b>	0.1%P	0.0%P
<b>Recurring profit</b>	24.3	<b>25.5</b>	104.8%	100.8%
<b>Interim net profit</b>	11.9	<b>12.3</b>	103.3%	102.6%
<b>EPS (yen)</b>	114.72	<b>117.94</b>	102.8%	-
Projected dividend per share (yen)	50	<b>55</b>	5	-
<b>(Store data)</b>				
Gross profit at existing stores (YoY)	97.9%	<b>98.4%</b>	0.5%P	1.8%P
Net sales at existing stores (YoY)	96.8%	<b>99.0%</b>	2.2%P	1.5%P
Daily sales at new stores (thousand yen)	453	<b>447</b>	▲ 6	-
<b>Total number of stores (*)</b>	<b>8,455</b>	<b>8,603</b>	148	-

(\*excluding stores in Shanghai)

## ■ Analysis of Interim FY2007 Results Against Plan/Reasons for Changes (Consolidated)

	YoY	vs. Plan
<b>Operating profit</b>	105.5%	100.9%
<b>Recurring profit</b>	104.8%	100.8%
<b>Interim net profit</b>	103.3%	102.6%

**Achieved plan in terms of operating profit, recurring profit and interim net profit**

<Reasons>

·Net sales short of plan at existing stores and lackluster rice dish sales led to:  
**Gross profit at existing stores (YoY): 98.4%**

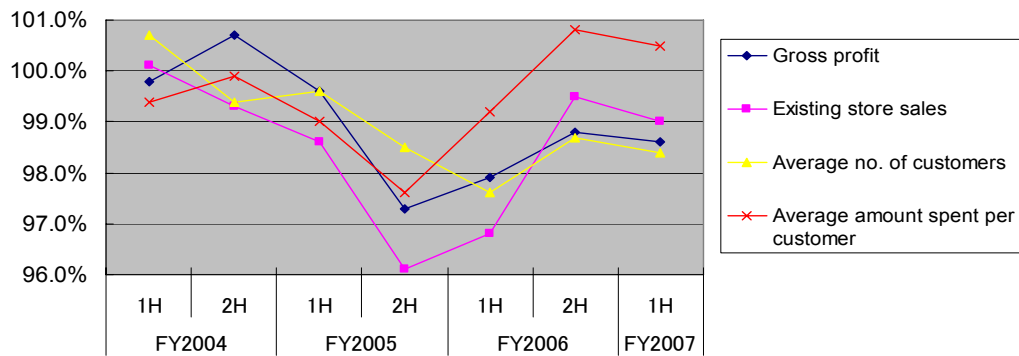
**Gross profit margin: 31.3% (-0.2 point YoY/-0.1 point against plan)**

·Curtailed SG&A expenses more than planned

·Strong or improved earnings at certain subsidiaries: **LAWSON ATM Networks, Inc., VALUE LAWSON Inc.**

**FC owner earnings: dropped slightly due to lower sales and gross profit**

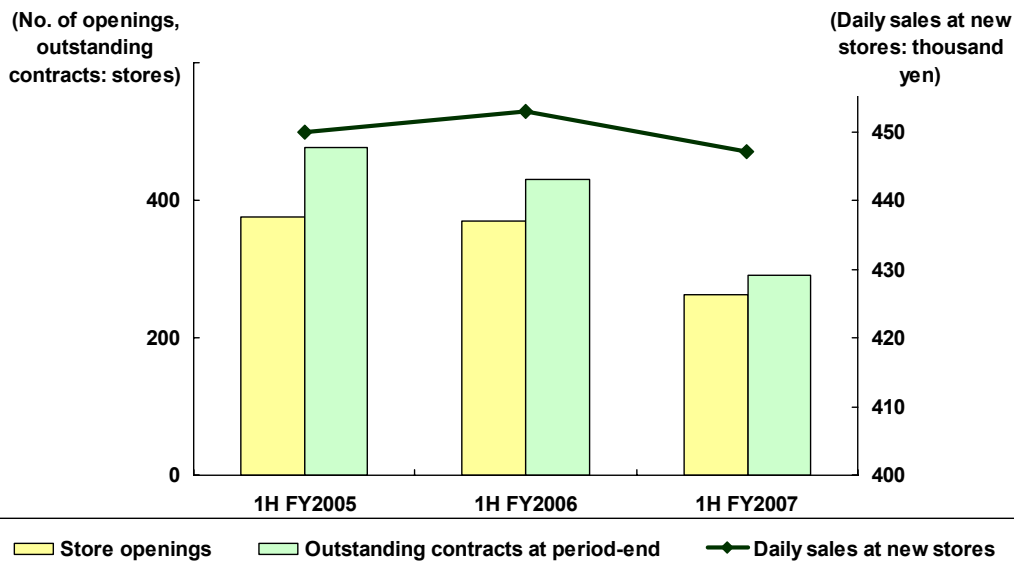
## Existing Stores YoY Performance



■ Sluggish growth in regional economies created greater disparity between areas in terms of performance.

- Customers and sales are both increasing in major metropolitan areas
- Noticeable decline particularly in number of core customers in regions

## Store Openings



■ Daily sales at new stores down year on year, reflecting sluggishness in regional cities, mainly in Chugoku and Shikoku areas; sales strong in Tokyo, Osaka and Nagoya, however.

■ Pursued main strategy of strengthening existing stores while placing greater emphasis on quality in opening new stores. Close scrutiny of quality resulted in reduction in outstanding contracts.

## ■ Key Components of SG&A Expenses

(Billions of yen)		Interim FY2007		FY2007
		Actual	YoY	Forecast
Non-consolidated	Selling, general and administrative (SG&A) expenses	86.9	3.9	<i>Approx. 176.0</i>
	<Major Fixed Costs>			<YoY>
	IT-related costs (Hardware leasing, software amortization, maintenance, etc.)	8.1	▲ 0.4	<i>Mostly flat</i>
	Personnel costs	17.7	0.9	<i>+5~10%</i>
	Advertising expenses	4.6	▲ 1.2	<i>Slightly up</i>
Consolidated SG&A expenses		96.4	4.5	<i>Approx. 196.0</i>

Note: Italicized items denote revisions to full-year forecasts

- IT-related costs lower than planned due to reduction in operating expenses and revision to timing for introducing next-generation IT system
- Personnel costs increased, in part due to increase in personnel as LAWSON strengthened store management
- Advertising expenses were lower than planned even as LAWSON ran large point collect campaigns and MY LAWSON POINT-related sales promotions as planned. The decline resulted from co-promotions with vendors and reductions in inefficient sales promotions. Despite being lower than planned, LAWSON feels advertising expenses produced satisfactory results in terms of promoting sales.

## ■ Earnings of Major Subsidiaries and Affiliates

(Millions of yen)		Interim FY2007		FY2007
<Operating Profit of Major Subsidiaries>		Actual	YoY	Forecast (Note 1)
LAWSON TICKET INC.		340	▲ 150	720
LAWSON ATM Networks, Inc.		740	220	890
NATURAL LAWSON, Inc.		▲ 10	220	-
VALUE LAWSON Inc.		▲ 300	170	▲ 500
<Operating Profit of Equity-method Affiliates>				
SHANGHAI HUALIAN LAWSON CO., LTD. (Note 2)		▲ 50	0	
LAWSON CS Card, INC.		30	140	

Note 1) Italicized items denote revisions to full-year forecasts

Note 2) SHANGHAI HUALIAN LAWSON CO., LTD. has a December fiscal year-end

## ■ Progress of Subsidiaries Developing New Format CVS



### [NATURAL LAWSON]

#### <Store Operating Figures>

Average daily sales: approx. ¥600,000

Markup: approx. 35%

#### <No. of Stores>

103 stores at August 31, 2007

#### <Franchising>

Franchised 10 stores based on franchising package

#### <Efforts to Strengthen Existing Stores>

Improved project earnings compared with 2H FY2006

#### [2H FY2007 Measures]

- Change business model by integrating NATURAL LAWSON operations in parent; run by autonomous subsidiary up to now
- Integration with parent will yield greater efficiency in terms of personnel costs and in other areas, helping improve project earnings
- Focus store development on highly profitable areas, mainly metropolitan Tokyo, and take further steps to strengthen existing stores



### [VALUE LAWSON]

#### <Store Operating Figures>

Average daily sales: approx. ¥500,000

Markup: approx. 25%

#### <No. of Stores>

69 stores at August 31, 2007

#### <Progress Improving Earnings>

Alliance with Ninety-nine Plus yielded improved markups, particularly in processed foods and daily necessities

Closure of unprofitable stores improved profitability  
Only half CAPEX per store required compared with Regular LAWSON

#### [2H FY2007 Measures]

- Introduce three types of perishable foods (meat, seafood and vegetables) to LAWSON PLUS format using established procurement route
- Pursue further improvements in markups and economies of scale through cooperation with SHOP99

## ■ Interim FY2007 (Balance Sheet and Cash Flows)

(Billions of yen.)

	As of Aug. 31, 2007	Change from Feb. 28, 2007		As of Aug. 31, 2007	Change from Feb. 28, 2007
Total current assets	165.1	16.1	Total current liabilities	162.9	19.4
(Cash and bank deposits)	98.0	26.1	(Deposits received from franchisees and lessees)	76.7	15.8
(Marketable securities)	9.9	▲ 9.6	(Deposits received)	47.3	▲ 1.4
(Accounts receivable—other)	26.3	0.3	Total long-term liabilities	54.1	▲ 1.0
Total property and store	257.3	8.0	(Deposits received from franchisees and lessees)	47.7	▲ 1.5
Fixed assets	107.4	3.1	Net assets	205.3	5.8
Total intangible fixed assets	18.3	2.4	(Common stock)	58.5	-
Investments and other	131.5	2.4	(Retained earnings)	102.4	7.0
(Long-term loans receivable)	25.0	0.7	Total liabilities and net assets	422.4	24.2
(Lease deposits)	83.7	▲ 4.1			
Total assets	422.4	24.2			

(Billions of yen.)

	1H FY2006	1H FY2007
Cash flows from operating activities	56.3	44.4
Cash flows from investing activities	▲ 17.0	▲ 13.7
Cash flows from financing activities	4.4	▲ 5.2
Free cash flows	39.3	30.7

## ■ Major Items of Capital Expenditure (Consolidated)

(Billions of yen)	1H FY2007	FY2007	
	Actual	Initial Plan	Revised Plan
New store investments	7.8	14.2	<i>14.0</i>
Existing store investments	3.9	9.7	<i>7.7</i>
IT-related investments	4.8	16.3	<i>16.3</i>
Other	0.6	2.3	<i>2.3</i>
<b>Subtotal</b>	<b>17.2</b>	<b>42.5</b>	<b><i>40.3</i></b>
Investments and advances	6.0	5.8	<i>6.1</i>
Leases	7.7	17.7	<i>19.6</i>
<b>Total</b>	<b>30.9</b>	<b>66.0</b>	<b><i>66.0</i></b>

Note: Italicized items denote revisions to full-year forecasts

## ■ FY2007 Forecasts

(Billions of yen)	FY2006	FY2007		
	Actual	Initial Plan	Revised Plan	YoY/Difference
Net sales of all stores	1,386.6	1,454.0	<i>1,434.0</i>	<i>103.4%</i>
Operating profit	44.5	45.9	<i>45.9</i>	<i>103.1%</i>
Operating profit ratio	3.2%	3.2%	<i>3.2%</i>	<i>+0.0%P</i>
Recurring profit	44.6	46.3	<i>45.5</i>	<i>101.9%</i>
Net profit	20.9	22.2	<i>21.7</i>	<i>103.4%</i>
Gross profit at existing stores (YoY)	98.4%	100.3%	<i>99.2%</i>	<i>+0.8%P</i>
Net sales at existing stores (YoY)	98.2%	100.5%	<i>99.5%</i>	<i>+1.3%P</i>
Gross profit margin	31.3%	31.2%	<i>31.2%</i>	<i>▲0.1%P</i>
Total number of stores (*)	8,564	8,734	<i>8,664</i>	<i>100</i>
(*excluding stores in Shanghai)				
ROE	11.3%	11.1%	<i>11.4%</i>	<i>+0.1%P</i>
EPS (yen)	201.50	212.61	<i>210.48</i>	<i>104.5%</i>
Dividend payout ratio	49.6%	51.7%	<i>52.3%</i>	<i>+2.7%</i>
(Projected) dividend per share (yen)	100	110	<i>110</i>	<i>+10</i>

Note: Italicized items denote revisions to full-year forecasts. Revised ROE and EPS figures for FY2007 factor in a maximum ¥21.0 billion share buyback.

## ■ Net Special Losses (Consolidated)

		FY2006	FY2007		
(Billions of yen)		Actual	Initial Plan	Revised Plan	YoY
Special gains		1.3	0.0	0.0	▲ 1.3
Special losses	Losses on disposal	4.6	3.8	4.7	0.1
	Impairment losses	1.8	2.3	2.5	0.7
	Loss on replacement of computer system	2.2	0.0	0.0	▲ 2.2
	Other special losses	0.5	1.3	1.3	0.8
	Total	9.1	7.4	8.5	▲ 0.6
Net special losses		▲ 7.8	▲ 7.4	▲ 8.5	▲ 0.7

# Management Strategies

Takeshi Niinami

President & CEO

## ■ The Japanese CVS Industry and LAWSON Today



### Japanese CVS Industry ... Store owners don't see bright prospects

A glut of stores and competition from the opening of homogenized CVS stores and other players such as food-service companies and supermarkets means there is an ongoing battle to win core customers

- ⇒ 1) Increasing number of unprofitable stores
- 2) Declining renewal rate
- 3) Increasing number of company-owned stores

**The Japanese CVS industry**

⇒ Roadside stores in regional areas, in particular, face a limit as to how much they can increase customer numbers alone



### LAWSON ... Customer base has expanded

#### – The number of women and elderly customers is steadily rising

- In contrast to strongly performing metropolitan Tokyo, there is a noticeable gap between regions and big cities in terms of economic strength and population decline.
- LAWSON has reduced the number of Company-owned Regular stores.

## ■ Measures to Increase Customer Numbers

### Stepped-up efforts to attract point card members

- No. of point card members at August 31, 2007: approx. 5 million (approx. 1.6 million increase on February 28, 2007)
- Cardholder sales account for approx 10% of total sales
- Strengthening sales promotions using point cards



Aiming for steady increase to more than 6 million point card members by the end of FY2007

#### LAWSON will use point cards to improve merchandise assortment and draw in customers !

1. Develop merchandise assortments matched to regional needs through improved ordering precision by stores via CRM based on card data
2. Increase customer numbers by strengthening sales promotions targeting cardholders

**Steps Taken as President (CEO and COO) to Overcome Current Conditions**

Endeavored to increase order precision using store charts (individual store data analysis) to create merchandise assortments matched to regional needs

Plan to continue measures to increase customer numbers by strengthening execution.

COO business sphere

Promoted CVS innovation in terms of developing the NATURAL LAWSON and LAWSON STORE100 formats (Required to raise FC owner motivation)

Emphasize CVS formats that create new customer value matched to respective customer needs in regional areas, metropolitan Tokyo, etc.

CEO business sphere

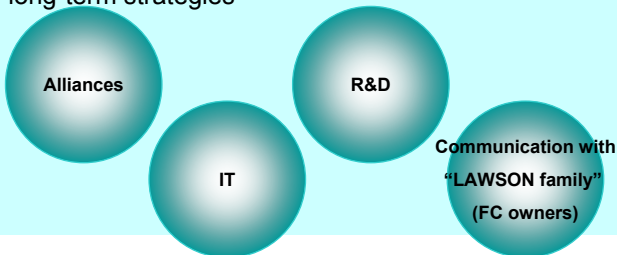
Due to limits faced by roadside stores in regional areas in terms of increasing customer numbers alone, formed alliances beyond conventional CVS bounds

**Redouble Efforts as CEO to Make Sure LAWSON Stays Firmly on Present Course and Converts This Progress Into Medium- to Long-term Growth**

Separated role of president into two, establishing new post of COO

**CEO** (President and Representative Director)

Responsible for devising and promoting medium- to long-term strategies



**COO**

Responsible for creating and executing operational initiatives as well as coordinating efforts of the seven regional headquarters and merchandise, development and management lines



**September 1 Management Changes**

Established post of COO and involved future leaders in senior management

- Groomed management personnel over 5 years since becoming president; promoted some of these future leaders to executive officer positions

■ New Formats Bring New Value Created for New Types of Customers to Existing Stores



■ NATURAL LAWSON Enters Phase 2 Development

Established business as a **LAWSON** subsidiary drawing on a corporate culture of innovation

- Succeeded in developing product brands emphasizing health consciousness and women's preferences
- Led also to improved ability to develop health-conscious products for Regular **LAWSON** stores

Phase 2: from 2H FY2007

Strengthen existing stores

Develop hybrid stores in Kansai blending Regular **LAWSON** and **NATURAL LAWSON**

Promote franchising



Parent company will absorb **NATURAL LAWSON's** operations and utilize Regular **LAWSON's** infrastructure for merchandise, management and development

- Reduce costs through more efficient use of personnel
- Continue incorporating good aspects of **NATURAL LAWSON** in Regular **LAWSON** stores
- e.g. Stronger product development Natural Selection



## ■ VALUE LAWSON to Forge Stronger Ties With Ninety-nine Plus

Established business as a LAWSON subsidiary drawing on a corporate culture of innovation

- Established a perishable foods-based CVS business model in terms of store location and management
- Improved average daily sales and markups in conjunction with Ninety-nine Plus

Strengthen cooperation with Ninety-nine Plus from 2H FY2007 onward

Improve distribution efficiency

Joint product development

Franchising trials



Improve daily sales of merchandise for housewives capitalizing on economies of scale

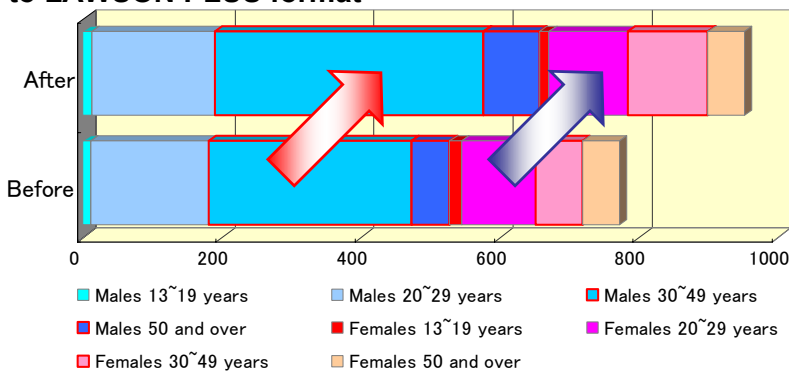


## ■ Progress Made Developing LAWSON PLUS Format



- No. of stores in 1H FY2007: 193 (CAPEX: approx. ¥10 million to ¥15 million)
- Post-conversion sales (YoY): up more than 10% per store

### Customer trends before and after conversion to LAWSON PLUS format



- > Females 30-49 years ⇒ Up more than 10%
- > Males 50 and over ⇒ Up more than 10%

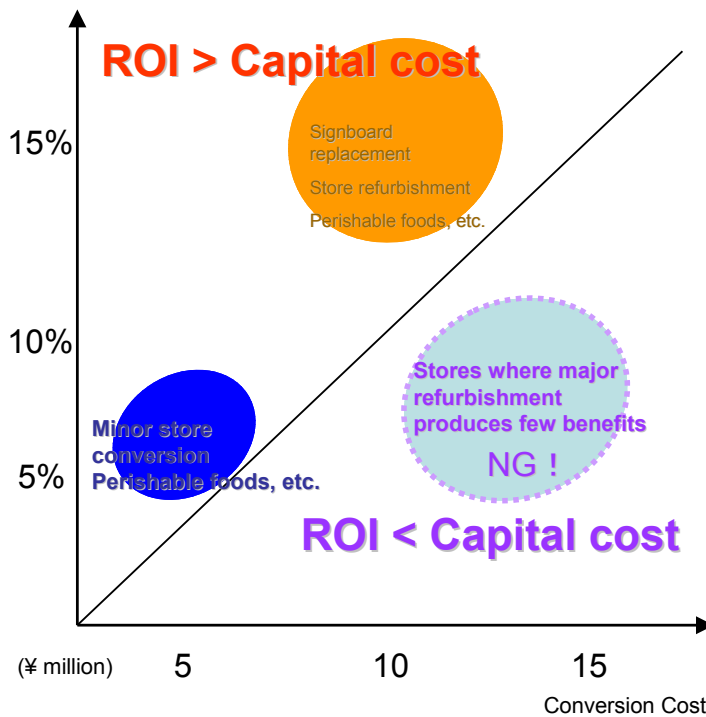
The new customer base increased as anticipated

- > Males 30-49 years ⇒ Up more than 10%
- Steady increase also in existing customer base

### Challenge:

Still in the process of developing merchandise assortments suited to each type of customer

## LAWSON PLUS Conversion Will Proceed Using Capital Efficiency Standards



### Focus of development so far:

- 1) Expansion of LAWSON PLUS customer base by LAWSON PLUS
- 2) Polarization of conversion benefits
  - Location (metropolitan, regional)
  - Competition (local supermarkets, etc.)



**Accelerate progress through partial refurbishment without preoccupation as well as full refurbishment**

**Optimize investment for each store  
Use ROI as the evaluation standard**

## LAWSON's Stance on Restructuring, M&As and Alliances

LAWSON will continue to forge alliances outside the CVS industry to satisfy local customer needs (e.g. regional roadside stores)

– Japan Post Holdings, Ninety-nine Plus  日本郵政グループ



**Customer pulling power of CVS format + Customer pulling power of other retail and service businesses = Convenient stores for customers**



### [Successful Example of Collaboration]

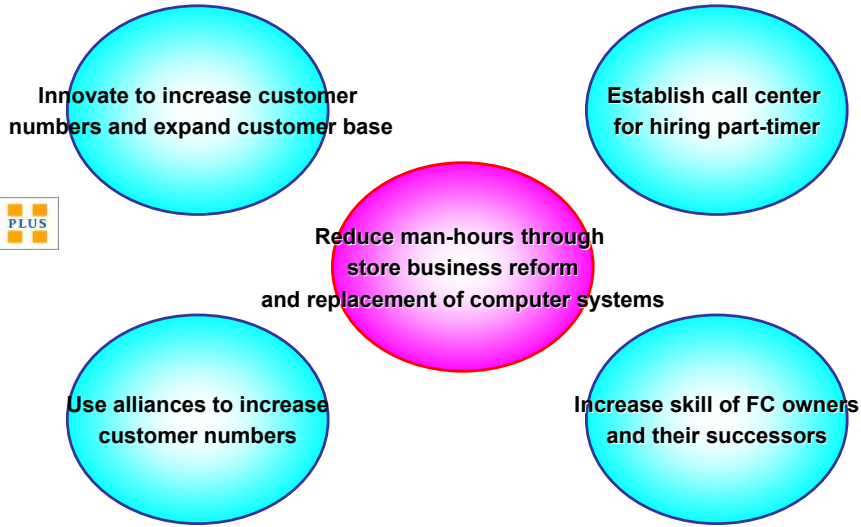
Kokura Kiyomizu 2-chome Store (Post-conversion opening: September 3, 2007)

- First example in Japan of a special post office inside a LAWSON store
- No partition between CVS and post office allows customers to buy goods at LAWSON and use postal services inside the same building

■ Must Create an Environment That Fills FC Owners With Hope

**Refurbish existing stores based on ROI standards to raise FC owner motivation**

Select the suitable format for the location



■ Pursuit of Capital Efficiency: Capital Policy

Upfront investments will impact results in short term but are sure to translate into medium- to long-term growth

Plan to buy back own shares to improve capital efficiency

**Announced repurchase of up to ¥21 billion of own shares**

**⇒ Basic stance is to cancel treasury stock**

Past Buybacks and Cancellations

(No. of shares)

	FY2003	FY2004	FY2005	FY2006	Total
Share buybacks	3,287,500	2,154,100	0	0	5,441,600
Cancellations	0	3,000,000	0	0	3,000,000

(Yen)

	FY2003	FY2004	FY2005	FY2006	Total
Share buybacks	11,547,940,500	8,796,797,000	0	0	20,344,737,500
Cancellations	0	10,703,970,000	0	0	10,703,970,000

## ■ Pursuit of Capital Efficiency

FY2007 ROE: Approx. 12%\* ⇒ **Aiming for 15% ROE over medium term**

Increase revenue by strengthening existing stores

Increase operating cash flows by restructuring unprofitable stores

Curb store closures by increasing franchise renewal rate  
Limit store openings to solve problem of excess store numbers

**Increase free cash flows**

Reinvest in CVS business

Buy back and cancel own shares and/or increase dividends

M&As  
Alliances

\*Calculation excludes effect of goodwill amortization and change in depreciation tax regime

Copyright (c) 1975-2007 LAWSON,INC. All rights reserved

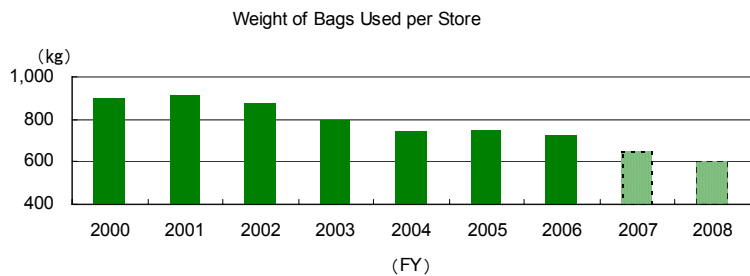
27

## ■ LAWSON Aims to Coexist With Society: Eco-bags

### <Targets>

● Reduce weight of checkout bags 20% (compared with FY2005) by FY2008

● 1 Reduce weight of checkout bags used per store annually from approx. 750kg to 600kg



LAWSON stores  
Cooperating businesses and groups

Distribute reusable shopping bags\*

Increase customer awareness

Reduce use of checkout bags at stores

Save resources (oil)

\* Approx. 230,000 reusable bags were handed out during the first half of FY2007

### Cooperating Companies and Groups

Ministry of the Environment/Ministry of Agriculture, Forestry and Fisheries/National Land Afforestation Promotion Organization/The Environmental Communication Network (NPO)/Miyagi Prefecture Souvenirs/Oita Prefecture

Mitsubishi Estate Co., Ltd./Sony Music Communications Inc./KCS Corp./Nissan Motor Co., Ltd./Philip Morris



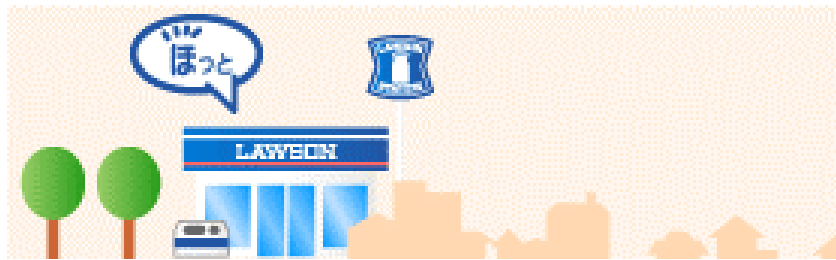
Copyright (c) 1975-2007 LAWSON,INC. All rights reserved

28

**Corporate Philosophy**  
**“Happiness and Harmony in our Community”**



**“the ‘hot’ station in the neighborhood”**



**Reference Materials**

## ■ Breakdown of FY2007 Forecasts

(Billions of yen)	FY2007			
	1H Plan	1H Actual	2H Plan	Full-year Plan
Net sales of all stores	734.0	721.9	712.0	1,434.0
Operating profit	25.3	25.5	20.3	45.9
Operating profit ratio	3.4%	3.5%	2.9%	3.2%
Recurring profit	25.3	25.5	19.9	45.5
Net profit	12.0	12.3	9.3	21.7
Gross profit at existing stores (YoY)	100.2%	98.4%	100.0%	99.2%
Net sales at existing stores (YoY)	100.5%	99.0%	100.0%	99.5%
Gross profit margin	31.4%	31.3%	31.1%	31.2%

Note: Italicized items denote revisions to full-year forecasts