

# Results Presentation for FY2009 LAWSON, INC.

April 15, 2010

**Cautionary Statement**

This presentation contains 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.

In September 2008, Ninety-nine Plus Inc. and its subsidiaries became consolidated subsidiaries of LAWSON. Because Ninety-nine Plus had a March 31 fiscal year-end, the fourth-quarter of fiscal 2008 and fiscal 2009 results (11-month fiscal year due to a fiscal year-end change) of the Ninety-nine Plus Group have been consolidated in LAWSON's fiscal 2009 results.

Figures in this presentation have been rounded down.

LAWSON's fiscal year-end is the end of February.

## Results for Fiscal 2009

Yoshiyuki Yahagi  
Chief Financial Officer

(Consolidated: Billions of yen)	FY2008	FY2009		
	Actual	Actual	YoY	Vs. Plan**
Net sales of all stores	1,558.7	1,666.1	106.9%	98.1%
Operating profit	49.1	50.2	102.2%	99.6%
Operating profit ratio	3.2	3.0	-0.1%P	0.0%P
Recurring profit	48.7	49.4	101.3%	99.5%
Net profit	<u>23.8</u>	12.5	52.8%	95.2%
ROE	<u>12.5%</u>	6.5%	-6.0%P	-6.2%P
EPS (Yen)	<u>240.10</u>	126.67	52.8%	95.2%
Dividend payout ratio	<u>66.6%</u>	126.3%	59.7%P	64.1%P
Projected dividend per share (Yen)	160	160	0	-
<b>Total number of stores</b>	<b>9,527</b>	<b>9,761</b>	<b>234</b>	<b>-</b>

\* LAWSON has corrected prior-year consolidated financial statements due to the alleged misappropriation discovered at LEM. The table shows corrected figures underlined.

\*\*Percentage against plan for net profit and EPS are based on figures released on March 23, 2010. Other figures are based on figures released with results for the first six months of FY2009.

● **Extraordinary losses relating to alleged misappropriation of funds by two former directors of LAWSON ENTERMEDIA INC.**

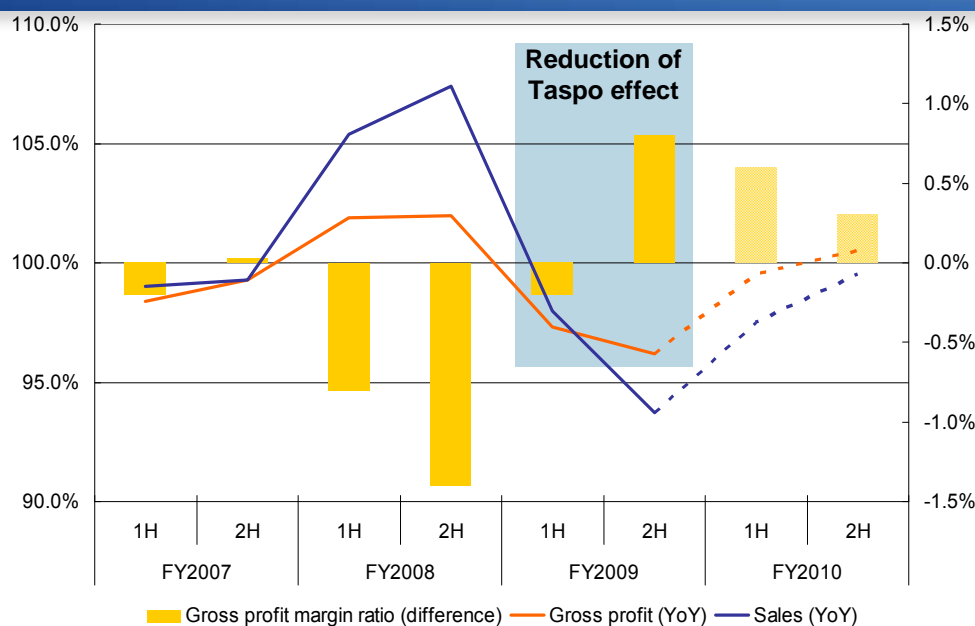
FY2008 1.9 billion yen

FY2009 12.5 billion yen

Booked extraordinary losses of 14.4 billion yen in total for 2 years

● **Impact of first full-year (14 months) consolidation of Ninety-nine Plus**  
Contributed 1.9 billion yen to operating profit

## Existing Stores (Non-Consolidated)

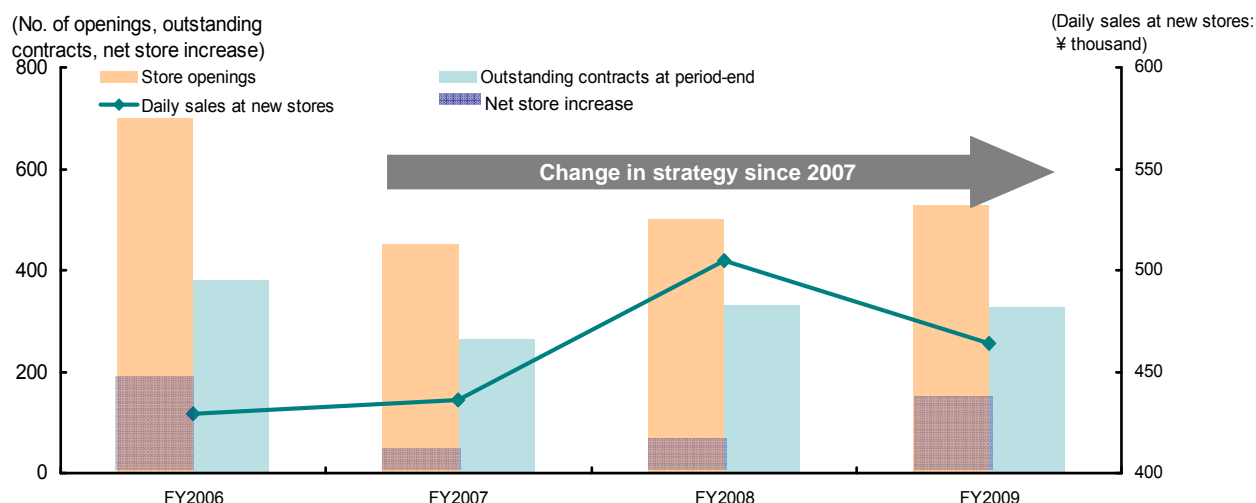


Reference: FY2009 Existing Stores (YoY)

Gross profit: 96.8%  
Sales: 95.9%  
Average no. of customers: 99.0%  
Average amount spent per customer: 96.9%

- Existing store sales were 1.1 percentage points lower than planned for FY2009 due to the impact of deflation and competition from other operators opening conventional-format convenience stores.
- Gross profit margin ratio was 30.4%, 0.1 percentage point higher than the FY2009 plan, due to structural improvements and a pull-back in soaring raw materials costs.
- FY2010: Forecasting a 0.5 percentage point year-on-year increase in the gross profit margin ratio stemming from ongoing operational improvements.

## Existing Stores (Non-Consolidated)



\*Store numbers in FY2008 include 44 stores related to Shinsengumi Honbu.

### FY2009

- Due to operational improvements, the net increase in stores was higher than planned as fewer stores than planned were closed.
- Daily sales at new stores declined approximately 20,000 yen year on year, excluding the prior-year impact of Shinsengumi.

### FY2010 (Plan)

- Limit the number of store openings on a non-consolidated basis (Net increase of 50 stores)
- Open more LAWSON STORE100 stores to achieve a net increase of 200 stores on a consolidated basis

## Key Components of SG&A Expenses

(Billions of yen)		FY2009		FY2010(Plan)
		Actual	YoY	Forecast
	Selling, general and administrative (SG&A) expenses	179.4	-1.5	Slight increase
	<Major Strategic Expenses>			
Non-Consolidated	Personnel costs	36.9	-0.9	Down approx. 10%
	IT-related costs (Hardware leasing, software amortization, maintenance, etc.)	13.6	-1.3	Up approx. 15%
	Advertising and promotional expenses	11.2	-2.1	Down approx. 10%
Consolidated	SG&A expenses	243.1	31.2	Slight increase

### FY2009

#### Parent

- Cut costs centered on rationalization of existing IT systems and strategic expenses
- Maintained support for franchise owners at FY2008 level

#### Consolidated

- Impact of first full-year consolidation of Ninety-nine Plus: +30.5 billion YoY

### FY2010 (Plan)

#### Parent

- IT-related costs: Increase again following decrease due to rationalization in FY2009
- Advertising and promotional expenses: Shift from using discounts and mass media to utilizing multi-partner shopping points program

# Earnings of Major Subsidiaries and Affiliates

(Billions of yen)

<Operating Profit of Major Subsidiaries>			FY2009		FY2010
	Fiscal year-end	Shareholding	Actual	YoY	Forecast
LAWSON ENTERMEDIA INC.	February	75.5%	1.09	0.30	0.8
LAWSON ATM Networks, Inc.	February	49.0%	2.44	1.01	2.6
Ninety-nine Plus Inc.	February	77.7%	1.79 <sup>(1)</sup>	1.53	2.2

<Operating Profit of Equity-method Affiliates>			FY2009	
	Fiscal year-end	Shareholding	Actual	YoY
LAWSON Okinawa, Inc. <sup>(2)</sup>	February	49.0%	0.1	-
SHANGHAI HUALIAN LAWSON CO., LTD.	December	49.0%	0.0	▲ 0.01

1) Ninety-nine Plus Inc. had an 11-month transitional accounting period in FY2009 due to a change of fiscal year-end. Accordingly, 14 months' results amounting to 2.16 billion yen were recorded for this company for the fourth quarter of FY2008 and the 11-month FY2009 transitional accounting period.

2) In December 2009, LAWSON transferred 51% of the total outstanding shares of LAWSON Okinawa, Inc. to SAN-A CO., LTD. LAWSON and SAN-A CO., LTD. jointly manage LAWSON Okinawa, Inc.

FY2009

## LAWSON ATM Networks, Inc.

- YoY increase of approx. 1,000 in no. of installed ATMs
- Steady transaction volumes also supported higher-than-expected operating profit

FY2010  
(Plan)

## LAWSON ENTERMEDIA INC.

- Forecasting lower earnings on lower ticket transaction volumes due to economic conditions, etc.

## LAWSON ATM Networks, Inc.

- Forecasting a slower growth rate due to lower transaction volumes accompanying an increase in ATMs in new areas.

## Ninety-nine Plus Inc.

- Earnings expected to rise again due to accelerated store openings and the full-scale start of franchising.

# Strengthening of Subsidiaries' Management System

## Alleged Impropriety by Two Former Directors of LAWSON ENTERMEDIA INC. (LEM)

### Background

Feb. 9 Announced that two former LEM directors allegedly misappropriated money without authority and without following internal corporate procedures.

For details, please refer to the following press releases.

- Feb. 9 "Discovery of Misconduct by Two Directors of LAWSON ENTERMEDIA"
- Apr. 12 "Third Party Investigating Committee Issues Final Report Concerning Alleged Misconduct by Two Former Directors of LAWSON ENTERMEDIA"

## Preventative Measures and Improvement Measures

- Eliminating concentration of authority and strengthening risk management system at LEM.
- Working to raise compliance awareness at subsidiaries.
- Rigorously checking payments to prevent misappropriations.
- Made LEM and Ninety-nine Plus Inc. wholly owned subsidiaries; this should improve subsidiary management in the LAWSON Group and eliminate problems caused when both the parent and subsidiaries are listed companies.

# FY2009 Balance Sheet and Cash Flows (Consolidated)

LAWSON

	(Billions of yen)	
	FY2009	YoY
Total current assets	132.1	▲ 22.5
(Cash and bank deposits)	64.0	▲ 18.4
(Marketable securities)	2.5	▲ 2.7
(Accounts receivable-other)	26.4	▲ 0.2
Total property and store equipment	315.9	34.5
Fixed assets	145.3	30.3
Intangible assets	34.4	2.5
Investments and other	136.2	1.7
(Long-term loans receivable)	29.7	2.3
(Lease deposits)	83.2	▲ 2.1
Total assets	448.1	12.0

	(Billions of yen)	
	FY2009	YoY
Total current liabilities	184.4	0.7
(Accounts payable-trade for franchised stores)	73.1	▲ 4.0
(Deposits received)	65.8	5.0
Total long-term liabilities	65.4	14.3
(Deposits received from franchisees and lessees)	38.7	▲ 3.7
Net assets	198.1	▲ 3.0
(Common stock)	58.5	—
(Retained earnings)	94.1	▲ 3.6
Total liabilities and net assets	448.1	12.0

(Reference)  
Impact of new lease accounting standard application  
"Fixed assets" +28.8 billion yen  
"Current/long-term liabilities" +24.0 billion yen

\*LAWSON has corrected prior-year consolidated financial statements due to the alleged misappropriation discovered at LEM. Accordingly, YoY changes are based on corrected figures.

	(Billions of yen)		
	FY2007	FY2008	FY2009
Cash flows from operating activities	55.7	51.7	40.6
Cash flows from investing activities	▲ 36.5	▲ 15.6	▲ 42.5
Free cash flows	19.2	36.0	▲ 1.9
activities	▲ 31.9	▲ 14.9	▲ 27.2
(Reference) Cash and bank deposits	62.1	82.4	64.0

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9

# FY2010 Full-Year Forecasts (Consolidated)

LAWSON

(Billions of yen)	FY2009	FY2010	
	Actual	Forecasts	YoY Change
Net sales of all stores	1,666.1	<b>1,663.0</b>	99.8%
Operating profit	50.2	<b>50.5</b>	100.4%
Operating profit ratio	3.0%	<b>3.0%</b>	0.0%P
Recurring profit	49.4	<b>49.1</b>	99.3%
Net profit	12.5	<b>23.8</b>	189.5%
ROE	6.5%	<b>12.2%</b>	5.7%P
EPS (yen)	126.67	<b>239.99</b>	189.5%
Dividend payout ratio	126.3%	<b>70.8%</b>	-55.5%P
Projected dividend per share (yen)	160	<b>170</b>	+10
Total number of stores	9,761	<b>9,961</b>	200
(Non-consolidated)			
Gross profit at existing stores (YoY)	96.8%	<b>100.0%</b>	3.2%P
Net sales at existing stores (YoY)	95.9%	<b>98.5%</b>	2.6%P
Gross profit margin ratio (YoY)	30.4%	<b>30.9%</b>	0.5%P

## FY2010 (Forecast)

- Expect to raise gross profit margin ratio through ongoing structural improvements
- Plan to control personnel costs and advertising and promotional expenses more firmly
- Plan to step up investments in growth fields such as the fresh food convenience store format

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10

## Capital Expenditure

Curtail opening of regular LAWSON stores

Focus on opening LAWSON STORE100 stores

=Decrease in total investments in store openings



## Investment in Growth Fields

- ◆ Conversion of existing stores to improve fresh food lineups, etc.
- ◆ Healthcare
- ◆ Overseas
- ◆ M&As, etc.

## Shareholder Returns

- ◆ Increase dividend (+10 yen per share for FY2010)
- ◆ Buy back and cancel own shares



# LAWSON MANAGEMENT STRATEGY

Takeshi Niinami  
President & CEO

- Pricing strategy: Maintain prices by raising quality.
- Basic strategy: Raise franchise store QSC.
- Gross profit improvement measures
  - Structural improvements in raw materials and distribution
  - “PRiSM” (Next generation IT system)
  - Multi-partner shopping points program
- Utilize the multi-partner shopping points program to promote sales.
- Develop stores with stronger fresh food and healthcare aspects.
- Begin developing stores with in-store Kitchens.

## FY2010 Measures: Three Challenge Practices

### →Further Raise the Operational Capabilities of Franchise Stores

#### Utilization of Mystery Shopper (MS) Program

- ◆ **Three Challenge Practices\***, focus particularly on customer service
- ◆ **Revise MS evaluation standards every year** to constantly improve stores.
- ◆ Stores with high MS rankings are seeing **existing store gross profit increase year on year.**

### Raise franchise store QSC with MS program

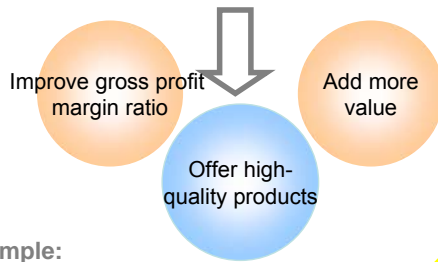
Ability to develop new business models, including fresh foods

*\*The Three Challenge Practices are points that franchised store owners, employees and store crews (part-time and casual workers) must pay particular attention to in running LAWSON stores. They are (1) ensuring merchandise assortments are matched to individual locations, (2) serving customers courteously, and (3) keeping stores and surrounding areas clean.*

# Raise Gross Profit by Improving Competitiveness in Product Development

## Ready-made Meals

### Expand raw materials purchasing



**Example:**

Use real whipped cream, although it is expensive and difficult to maintain the shape of, instead of whipped cream products that contain vegetable oil

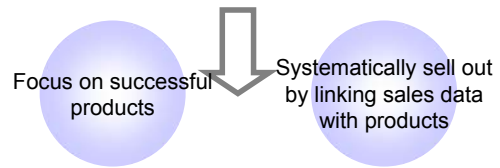
- **Ingredient Procurement Section**
- **Support from Mitsubishi Corporation**
- **Shopping point card data analysis-based sales projections**



**Hit product: Premium Roll Cake**

## New National Brand Products

### Utilize marketing data



### Improve margins through producer inventory optimization

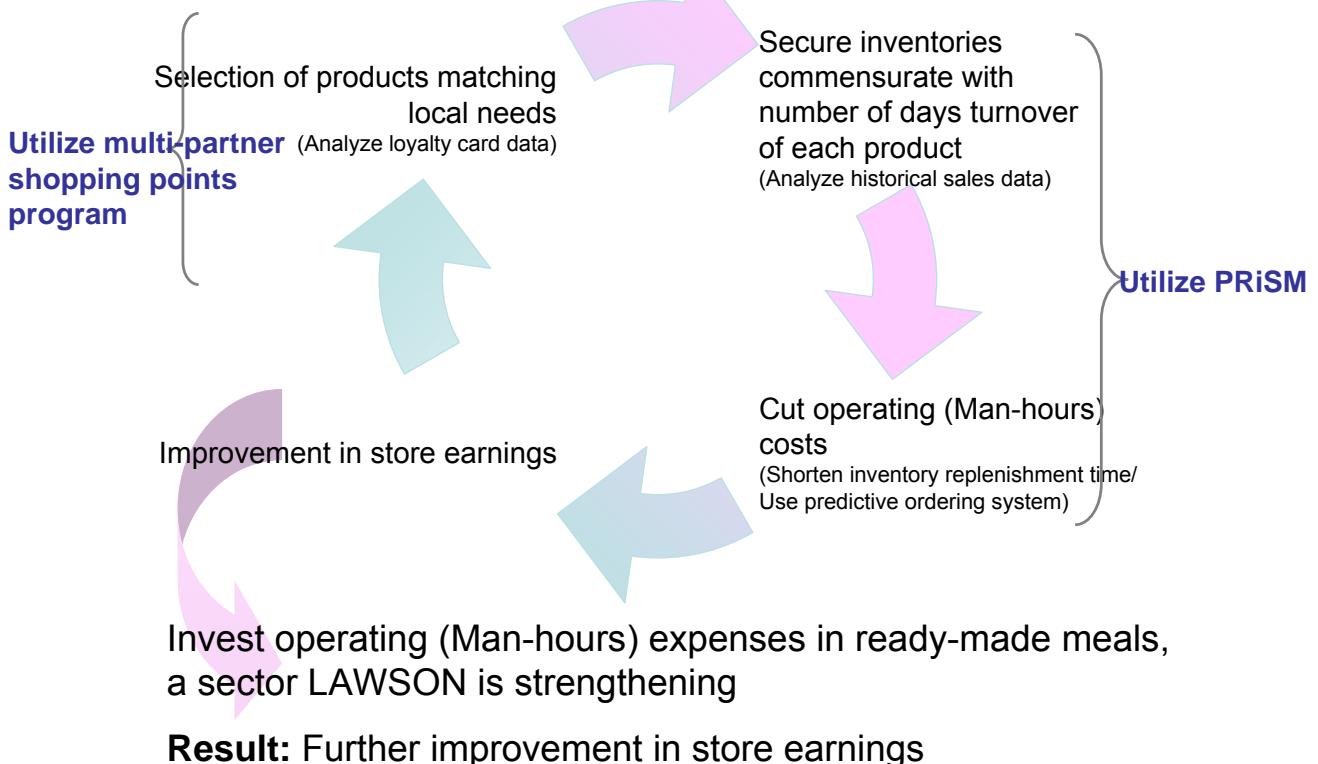
- Forecast inventories based on card data analysis

**No. 1** product chosen by women in CVS dessert rankings (TRENDS INC. survey)

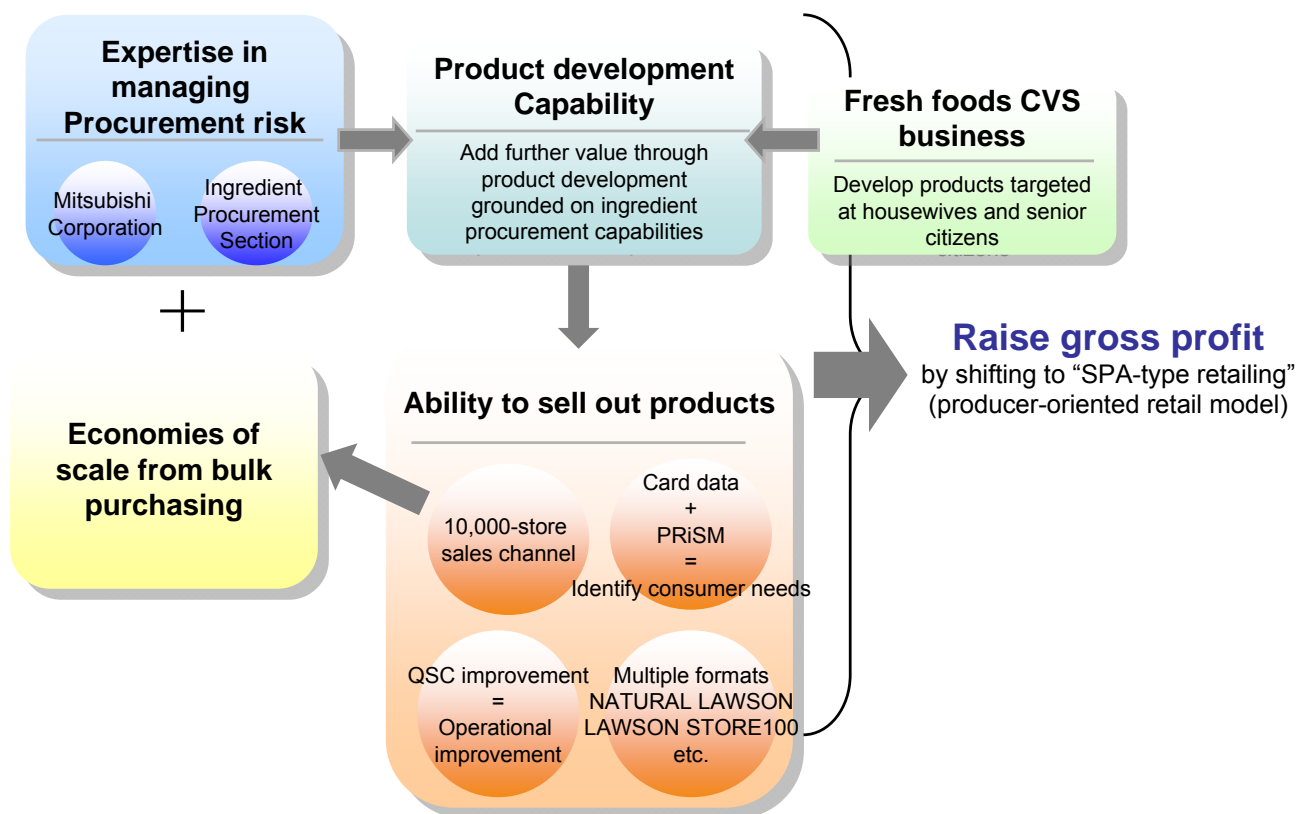


## Improve franchise owner earnings by raising gross profit

# Store Earnings Improvement Cycle

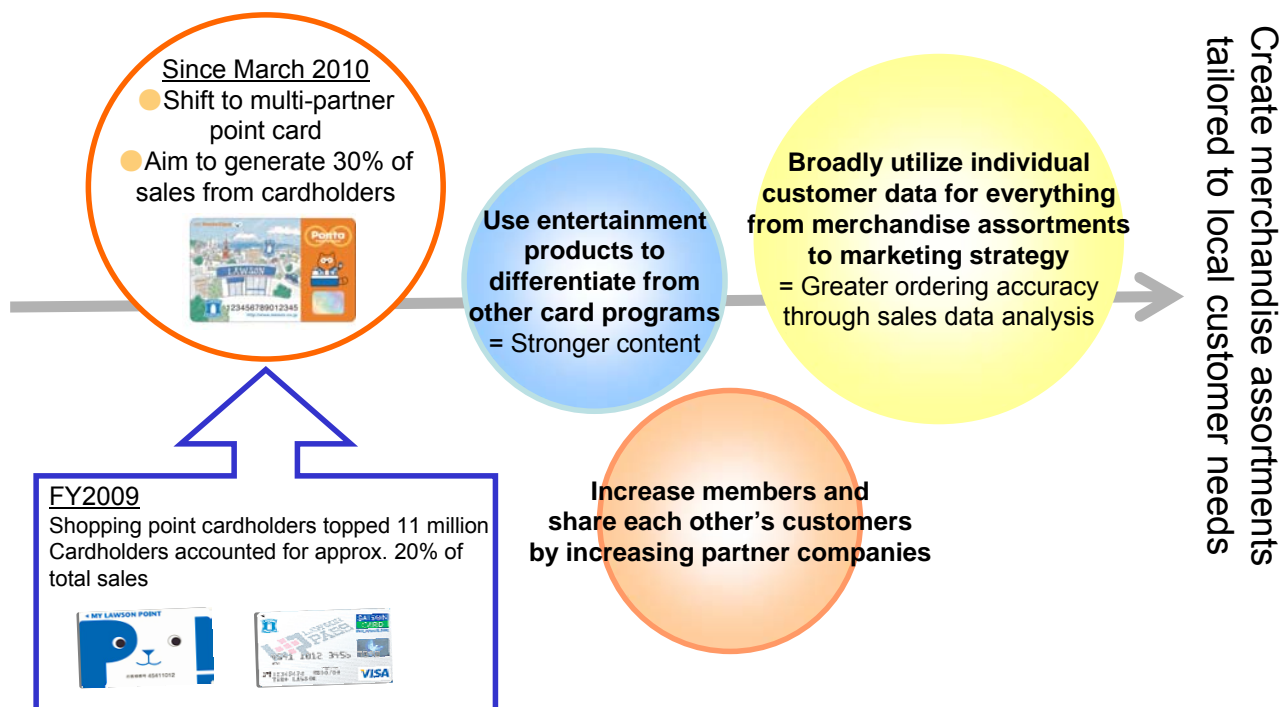


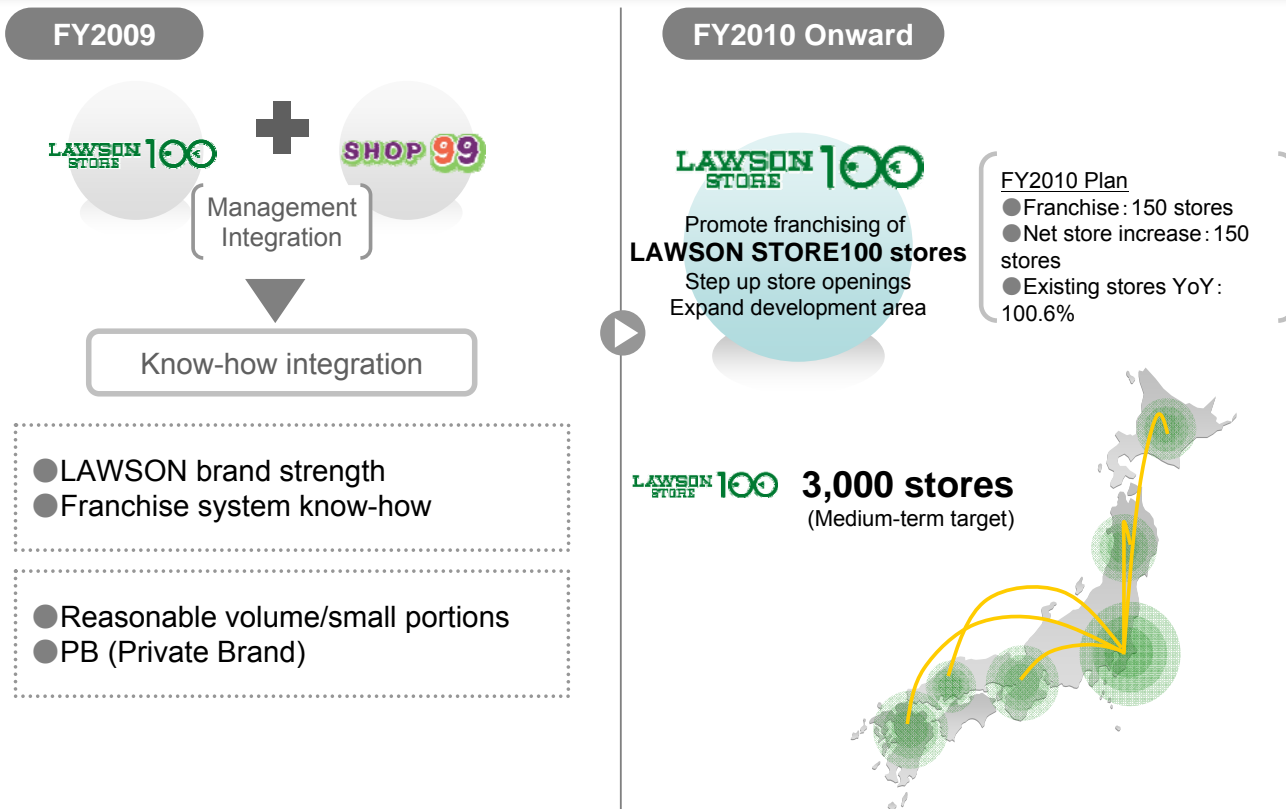
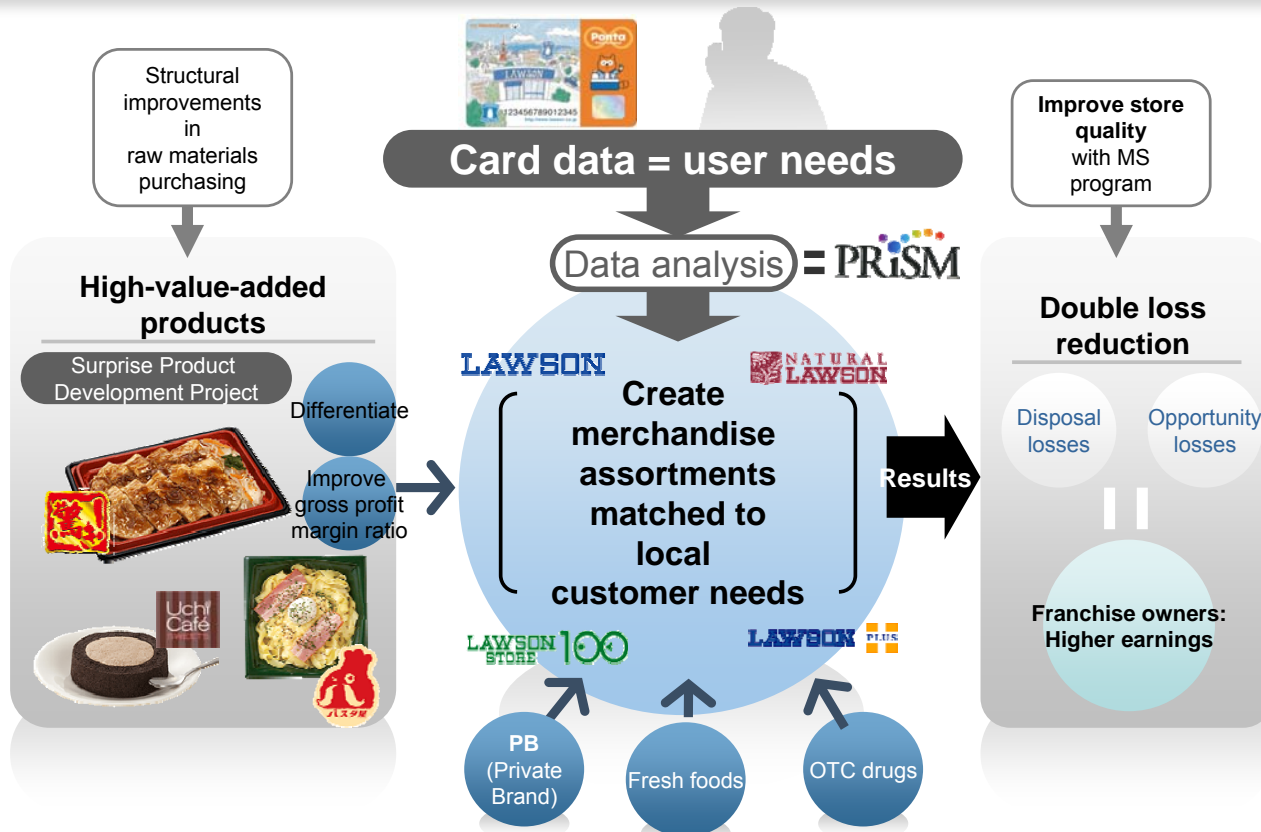
# Raise Gross Profit by Shifting to "SPA" (=Producer-oriented retailer Model)



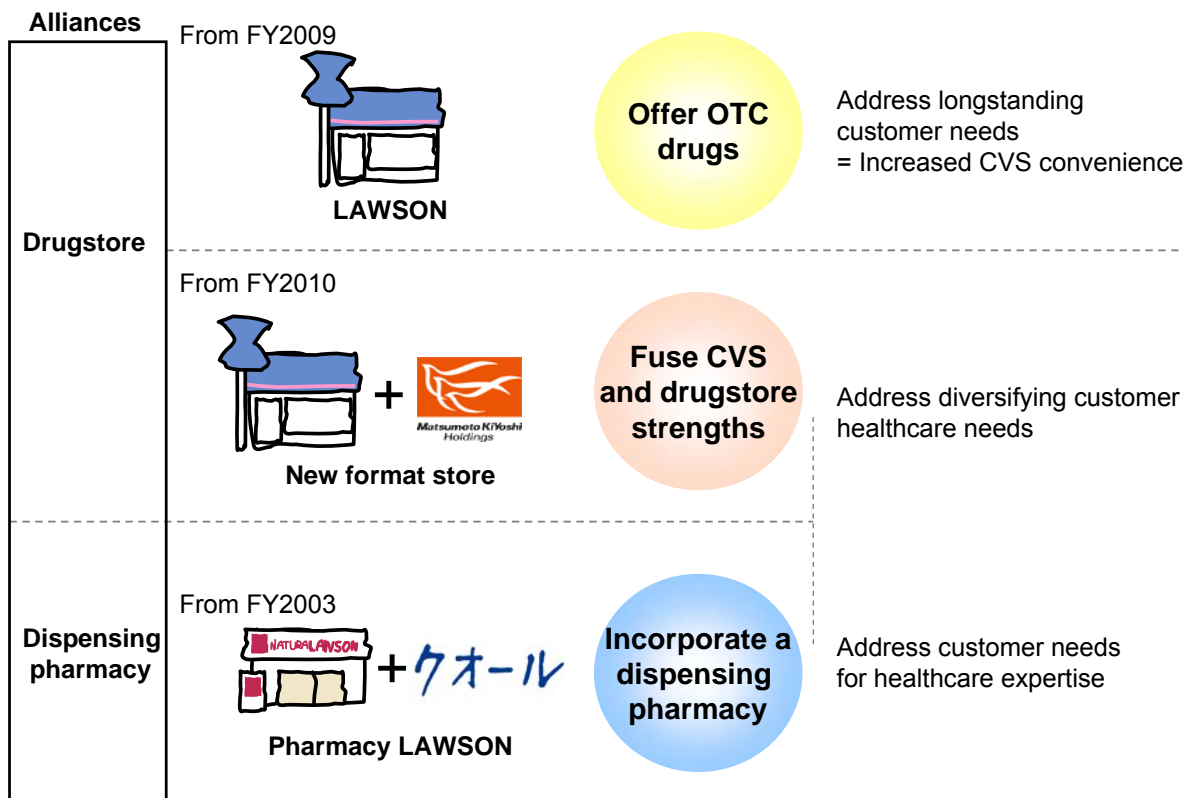
# Raise Gross Profit by Analyzing Point Card Data

Enhance ability to attract customers and marketing to individual customers through "Ponta" multi-partner shopping points program.

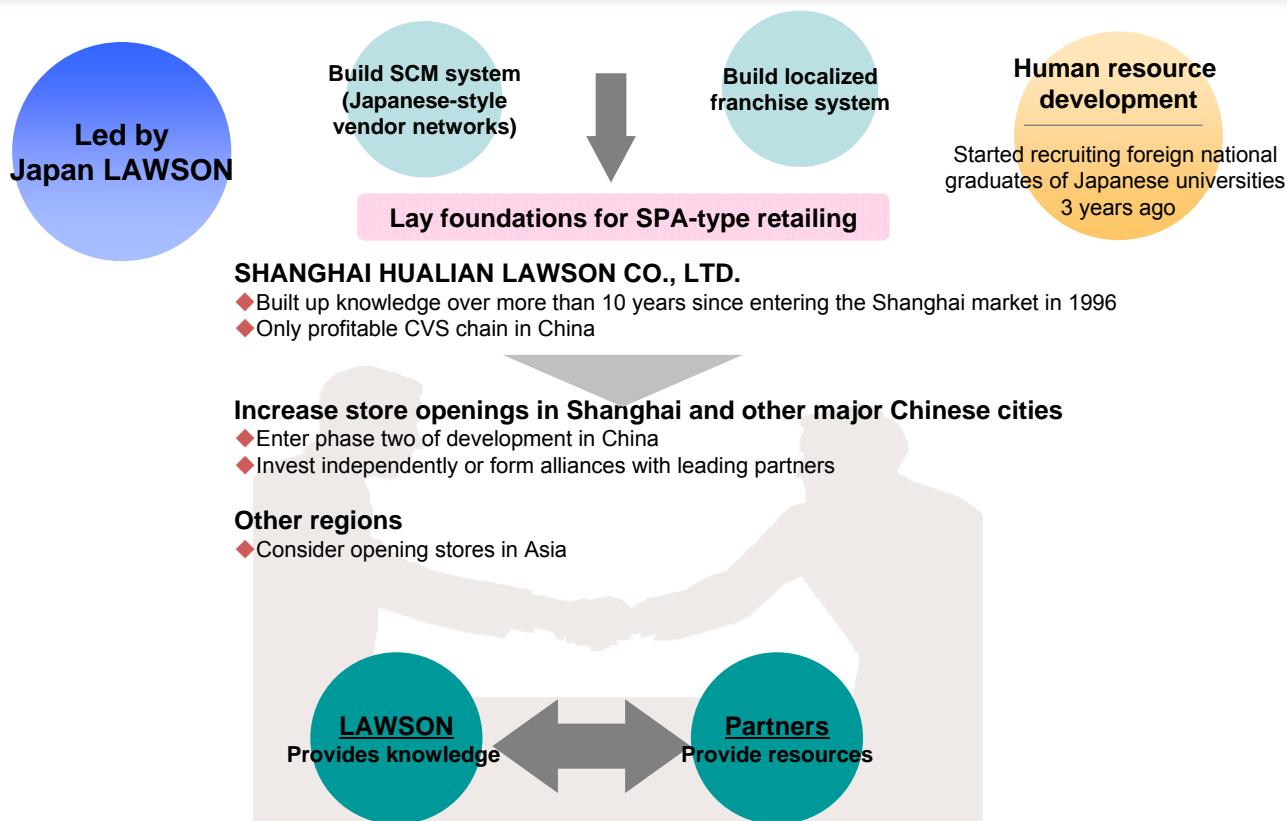




# FY2010 Onward: Healthcare Framework

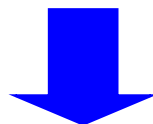


# FY2010 Onward: Overseas Expansion



# Medium- to Long-term Vision: Investment Efficiency Is the Benchmark for Store Openings

- ◆ Use formats matching local (commercial area) needs
- ◆ Focus on relocating and converting existing stores

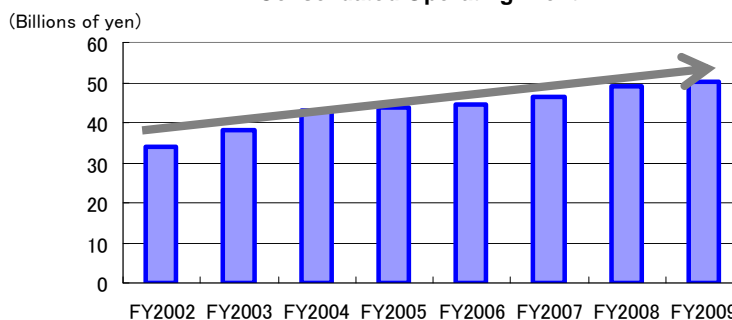


Continue emphasizing investment efficiency in opening new stores.

# Medium- to Long-term Vision: Achieve Continuous, Stable Growth

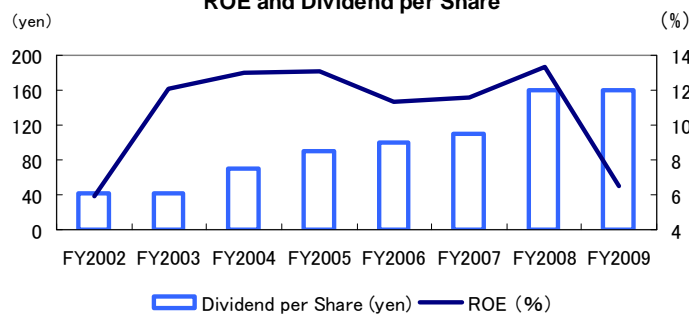
Higher consolidated operating profit for 7 straight years  
 Annual growth rate **5.7%**  
 (Compound base)

Consolidated Operating Profit

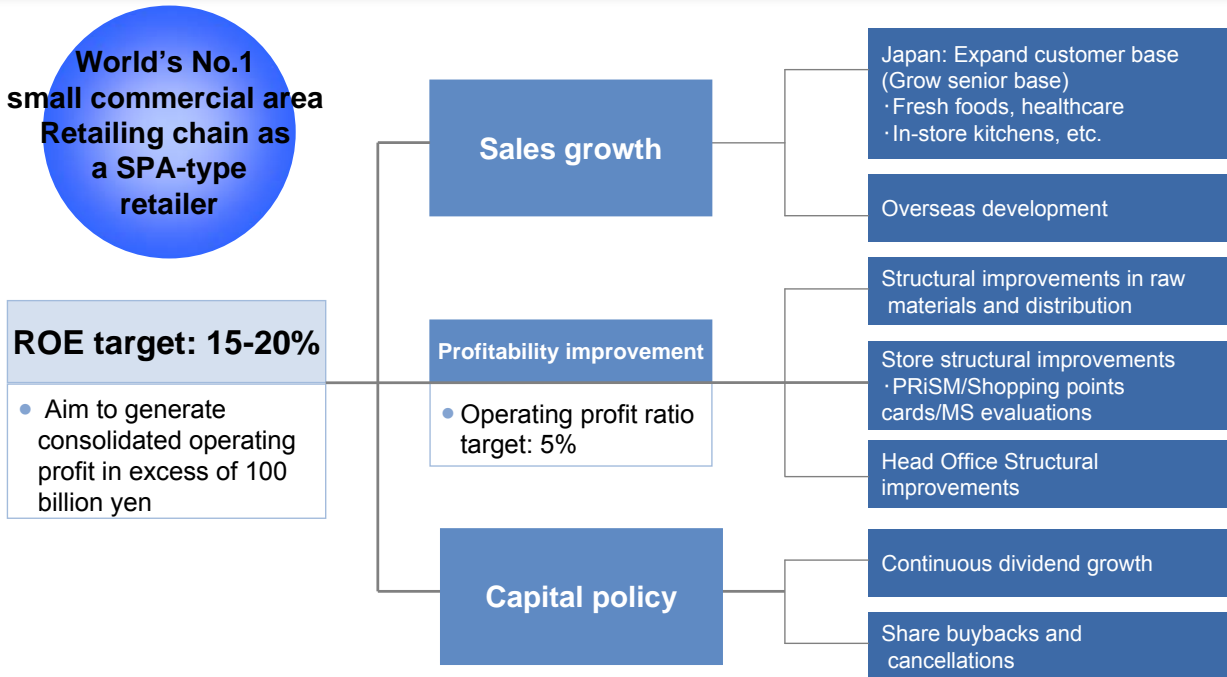


Improve store investment efficiency to create source of earnings for raising the dividend for FY2010 by 10 yen per share to **170 yen**.

ROE and Dividend per Share



# Medium- to Long-Term Vision: Aim to Create Value Through 2020

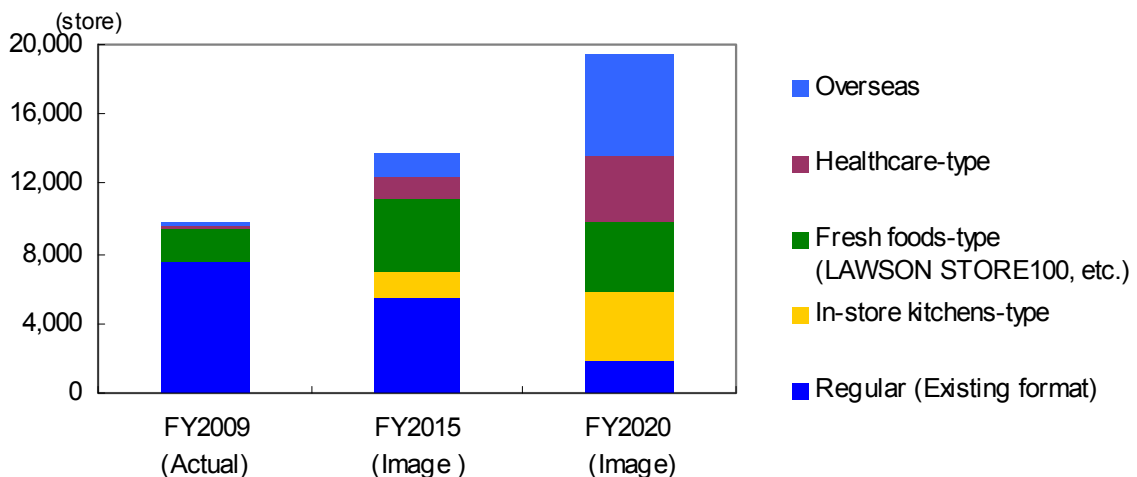


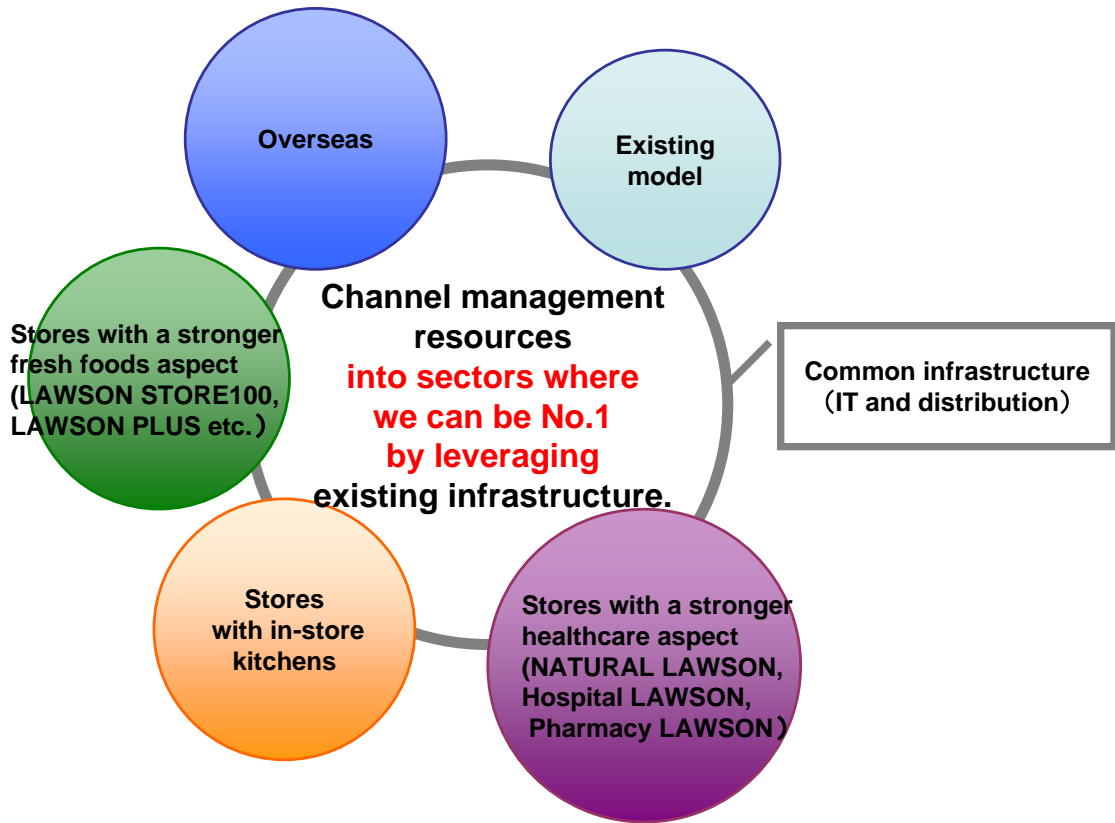
R&D investment, human resource development, M&As and alliances

# Medium- to Long-term Vision: Store Portfolio

## Store growth drivers: Fresh foods, healthcare and overseas expansion

We won't become embroiled in competition to open conventional convenience stores!





## Reference Materials

## 1H and 2H Breakdown of FY2010 Forecasts

(Consolidated; Billions of yen)	FY2010		
	1H	2H	Full Year
Net sales of all stores	844.0	819.0	<b>1,663.0</b>
Operating profit	27.9	22.6	<b>50.5</b>
Operating profit ratio	3.3%	2.7%	<b>3.0%</b>
Recurring profit	27.1	22.0	<b>49.1</b>
Net profit	13.0	10.8	<b>23.8</b>
(Non-Consolidated)			
Gross profit at	99.5%	100.5%	<b>100.0%</b>
Net sales at existing stores (YoY)	97.5%	99.5%	<b>98.5%</b>
Gross profit	30.9%	30.8%	<b>30.9%</b>

## Major Items of Capital Expenditure

(Consolidated; Billions of yen)	FY2008	FY2009	FY2010 (Plan)
	Actual	Actual	Forecast
New stores	15.6	19.8	<b>15.0</b>
Existing stores	6.7	8.1	<b>11.0</b>
IT-related	12.0	9.4	<b>9.5</b>
Other	3.8	0.6	<b>0.5</b>
Sub-total for capital expenditure	38.3	38.0	<b>36.0</b>
Depreciation	20.8	27.4	<b>35.0</b>

1) Depreciation expenses for FY2009 and FY2010 include depreciation for leased property treated as a sale-and-purchase transaction due to the application of new lease accounting standards.

2) Depreciation expenses for FY2009 and FY2010 include amortization.

3) Payments due to the repayment of lease obligations for FY2009 were 9.1 billion yen.

- Allocate funds for new store investments based on Group store opening strategy
- Concentrate investment in existing stores on conversion to stores with a stronger fresh food aspect
- IT-related investments have peaked

(Reference)  
Impact of consolidating  
Ninety-nine Plus Inc.  
(FY2010)  
Capital expenditure:  
Approx. 2.8 billion yen  
Leases: Approx. 1.3 billion yen