

Flash Report on the Consolidated result for the year ended February 28, 2005

April 13, 2005

Listed Company Name: Lawson, Inc.

Code No.: 2651

(URL <http://www.lawson.co.jp/company/ir/index.html>)

Listing: Tokyo Stock Exchange and Osaka Securities Exchange

Location of Head Office: Metropolis of Tokyo

Company Representative: Takeshi Niinami, Representative Director, President & CEO

Contact: Kenji Morimoto, Senior Vice-President, Financial & Accounting Office Tel.: (03) 5435-2773

Date of the Board of Directors Meeting on the Closing of Accounts: April 13, 2005

Based on US GAAP: Unapplicable

1. Consolidated Performance for the 2005 fiscal year (from March 1, 2004, to February 28, 2005)

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

	Total operating revenues		Operating income		Ordinary profit	
	¥ Million	%	¥ Million	%	¥ Million	%
2005 fiscal year	254,395	3.6	42,941	12.7	42,322	15.8
2004 fiscal year	245,601	(1.9)	38,087	11.7	36,563	19.3

	Net income		Net income per share	Fully diluted income per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of ordinary profit to operating revenues
	¥ Million	%	¥	¥	%	%	%
2005 fiscal year	20,435	10.0	198.47	-	13.0	11.9	16.6
2004 fiscal year	18,571	109.6	175.78	-	12.1	10.5	14.9

Notes: Equity in net income (loss) of affiliates:

2005 fiscal year : (¥609million) 2004 fiscal year: (¥1,128million)

Average number of shares outstanding at the beginning and end of the years:

2005 fiscal year: 102,962,979shares 2004 fiscal year: 105,651,228 shares

Change in accounting method: None

Percentages for total operating revenues, operating income, ordinary profit and net income show increase (decrease) from previous year.

Effective from current period, amounts of less than one million yen in the consolidated financial statements have been truncated instead of the previous method of rounding them off.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity to total assets	Shareholders' equity per shares
	¥ Million	¥ Million	%	¥
2005 fiscal year	356,309	160,282	45.0	1,568.66
2004 fiscal year	354,831	154,317	43.5	1,479.31

Note: Number of outstanding shares at the end of the respective years:

shares at February 28,2005 102,177,191 shares at February 29,2004 104,316,616

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	¥ Million	¥ Million	¥ Million	¥ Million
2005 fiscal year	47,328	(33,297)	(13,836)	76,584
2004 fiscal year	37,424	(40,621)	(14,364)	76,389

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 5

Number of unconsolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 2

(5) Change in the scope of consolidation and application of the equity method

Consolidation (newly included): 1 (Excluded): 1

Equity method (newly applied): 1 (Excluded): 0

2. Forecast Consolidated Performance for 2006 fiscal year (from March 1, 2005, to February 28, 2006)

	Total operating revenue	Ordinary profit	Net income
	¥ Million	¥ Million	¥ Million
2006 interim period	137,000	23,400	11,300
2006 fiscal year	270,000	43,500	21,500

Reference: Forecast net income per share for the 2006 fiscal year: 210.41 yen

Note: The above-mentioned forecast is based on the information, which is able to get hand at present, and including a potential risk and uncertainty. Therefore, actual achievements may differ from these forecast due to many factors. In addition, please refer to 12th page of appending data about matters, such as precondition of the above-mentioned forecast.

Corporate Group

The major group companies of the LAWSON Group in their respective business segments are as follows:

[Convenience store business]

- The Company operates and manages its own and franchised LAWSON stores as the headquarters of LAWSON chain stores.
- A subsidiary, NATURAL LAWSON, INC., changed its trade name from that of its predecessor, LAWSON e-Planning, Inc., as of April, 2004. This subsidiary engages in the operations outsourced by the Company with regard to the establishment of business formats, product planning and development and store management guidance for “NATURAL LAWSON” stores, which are dedicated to pursuing the keywords: “Fine Health”.
- An affiliate, Shanghai Hualian Lawson Co., Ltd., engages in LAWSON’s chain-store development operations in Shanghai, China. This affiliate is a joint venture with Brilliance Group Co., Ltd., which has its headquarters in Shanghai. The assignment of equity in May 2004 reduced the Company’s equity position in Shanghai Hualian Lawson Co., Ltd., from 70.0% to 49.0%. As a result, Shanghai Hualian Lawson Co., Ltd., has become an affiliate accounted for by the equity method instead of a consolidated subsidiary of the Company.

[Ticket sales business]

- A subsidiary, Lawson Tickets Co., Ltd., sells tickets to concerts, sporting events, movies and other events mainly through the Loppi multimedia terminals installed in LAWSON stores. With a view to future business expansion, the company’s shares were listed on the Jasdaq Securities Exchange in October 2004.

[e-commerce business]

- A subsidiary, i-Convenience, Inc., maintains the “iLAWSON” official i-mode site, which allows customers to order various products and services and receive a variety of information via their mobile phones.

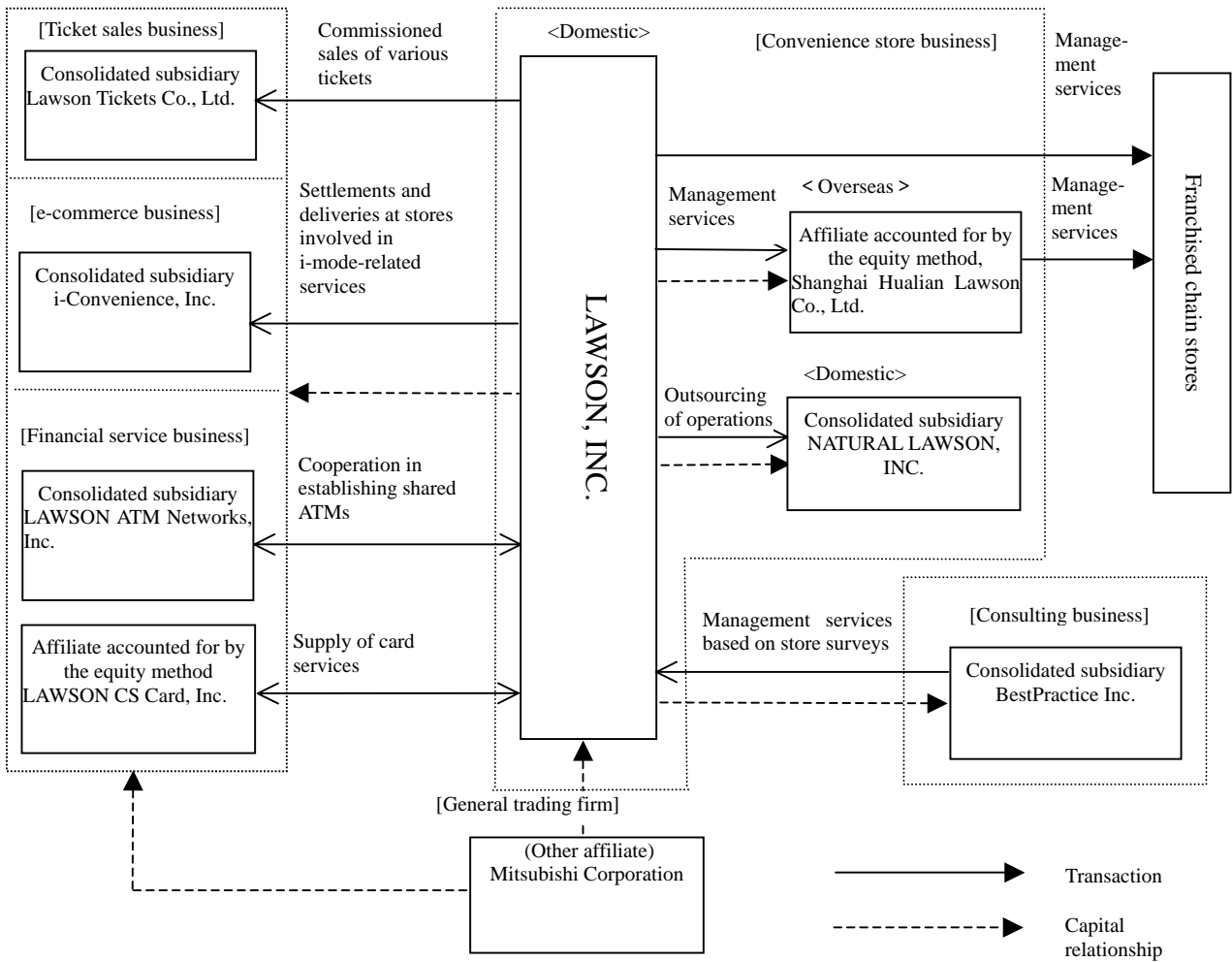
[Financial service business]

- A subsidiary, LAWSON ATM Networks, Inc., establishes, maintains and operates shared ATMs mainly in LAWSON stores, and conducts the outsourced financial services of the associated financial institutions such as money crediting/debiting and transfers via the shared ATM network.
- An affiliate, LAWSON CS Card, Inc., issues credit cards exclusively to LAWSON customers and supplies them with different card services through such infrastructures as Loppi.

[Consulting business]

- A subsidiary, BestPractice Inc., mainly engages in actual-condition surveys concerning convenience stores to give advice and specific proposals for the improvement of LAWSON stores.

The following diagram shows the relationships among the LAWSON businesses.



Management Policy

1. Business Keynote

(1) Corporate philosophy and action guidelines

Under the LAWSON corporate philosophy of “LAWSON contributes to the convenience of customers and the development of local communities with its respectful personal services and creative activities,” our corporate activities are carried out in accordance with the action guidelines that focus on satisfying six major stakeholders: customers, franchised storeowners, partners, shareholders, local communities, and our employees. In particular, customer satisfaction is a cornerstone of our corporate activities and a priority objective.

(2) Vision and strategy

To become “the ‘hot’ station in the neighborhood,” the Company always works on improvements. This catchphrase expresses the ideal image for LAWSON stores to portray, that is, to be a station where customers can access “hot” (up-to-date) products, services and information, as well as find a place for recreation and relaxation. In the medium-term management plan, Lawson Challenge 2007, we continue our commitment to innovative measures that serve to gain the strong support of customers in respective areas toward realizing this ever-improving store vision of becoming a community-based convenience-store chain.

2. Basic Policy on Profit Distribution

The Company places a high priority to profit distribution to shareholders and follows a policy of paying appropriate dividends with due regard for adequate earnings retention required for future business development, in accordance with the Company’s financial position, profitability level and payout ratio.

In compliance with this policy, the Company paid an interim dividend of ¥35 per share for this semiannual period and plans to pay a year-end dividend of ¥35 for a total dividend of ¥70 per share annually.

Retained earnings not distributed to shareholders will be allocated to improving the value of the Company by the reinvestment of such funds in new store openings and the restoration of existing stores, as well as the encouragement of new business development. In view of a projected improvement in the Company’s business performance in the current term, we intend to pay an annual dividend of ¥90 per share, up ¥20 over the reporting term. At the present time, the Company intends to ensure continued profit distributions around the target payout ratio of 40%.

3. Target Management Indices

As priority targets under its medium-term management plan, the Company aims to achieve a 10% growth per annum in EPS and an ROE of 15%.

4. Medium-to-Long-Term Management Strategies

The various challenges facing the Company and the whole convenience store industry can be subsumed under following six headings.

<The Challenges Facing Convenience Stores>

(1) Changes in domestic customer segments

Along with the clear progression of the aging population combined with the diminishing number of children, we have to actively cope with new, extensive needs from potential customer segments such as females and middle-aged people in addition to the conventionally targeted core group of males in their 20s and 30s.

(2) Intensifying competition

As industrial competition has intensified beyond the differences in business type or category, with new entrants from the restaurant and drug store industries, we must review and adjust the previous nationally unified or standard type methods and systems in terms of store management and product lineup.

(3) High prices of raw materials

The Company must create a diversified and flexible system for the procurement of materials, so as to minimize the impact of external events such as a rise in the price of crude oil, or a recurrence of the BSE epidemic.

(4) The relaxation of regulations for retailers, such as revision of the Large-Scale Retail Store Location Law
Consumers are enjoying an increasingly wide choice of retail outlet options, as a result of deregulation (e.g. the extension of opening hours by supermarkets and the easing of regulations on the sale of pharmaceuticals). To remain competitive, convenience stores must respond by enhancing the convenience of their services.

(5) Unseasonable weather

We need to pay much more attention to daily weather variations as well as fully understand local weather conditions when selecting the assortment of exhibited items, in addition to the swift and proper adaptation to unseasonable changes in the weather such as a cool summer and warm winter.

(6) Rising expectations regarding corporate social responsibility

Rather than focus solely on the pursuit of profit, the Company must base its management policies firmly on the principles of corporate social responsibility.

Taking into account these challenges, Lawson is working to realize its management vision of making its stores into the most attractive and most talked-about places in every neighborhood. To achieve this goal, as well as to fully satisfy every customer who visits our stores – no matter where they are located – we have identified three vital elements: (1) improving our product development abilities; (2) more closely supervising our store managers to ensure that our stores meet the needs of local communities, our shelves are always stocked with the products customers most want, and our service is caring and attentive; and (3) ensuring that our stores are located at the spots most convenient for the majority of customers in the area.

We are also making sure that the convenience of our services keeps pace with changes in the social environment. We are focusing on encouraging franchisees to design their store layouts to facilitate enjoyable shopping, as this is the surest long-term way of achieving increased profits, and the Company is providing its franchisees with unstinting support in their efforts.

The Company is currently pursuing the following initiatives.

(1) Strengthening product development capabilities (promoting “safety, security, health and deliciousness” and actively responding to regional characteristics)

With the catchphrase, “safety, security, health and deliciousness,” we intend to aggressively strengthen our product development capabilities for original products by implementing more efficient procurement methods for raw materials and installing the latest cooking equipment in the plants of outsourced manufacturing vendors, while proactively coping with regional characteristics such as the seasoning of foods. With such an innovative commitment, we aim to develop products with enhanced value-added that would be firmly supported by customers.

(2) Reinforcing store management capabilities by promoting LAWSON’s Three Challenge Practices at the storefront

We will promote the “individual store” principle to improve customer satisfaction at every store, instead of pursuing nationwide uniform storefronts. The individual store principle means that storeowners understand customers’ attributes in their trading areas and create familiar sales floor layouts that promise maximum CS to customers in each area. In addition, staff at every store will endeavor to clean up inside and outside the store to create a good atmosphere and will provide cordial service to visitors to ensure repeat visits.

(3) Convenient site location (profitability-focused store openings)

We intend to stress profitability with franchised storeowners and at headquarters by careful examination by region and store, without relying on the uniform store-opening standard. We will promote new store openings through closer on-site collaboration in sharing information among the administration and store development departments, enhanced joint programs with locally influential corporations and active business alliances.

(4) Increase in convenience through the tie-up

As we search for enhanced customer convenience, we will promote a variety of novel store formats based on flexible ideas without being constrained by ready-made ideas. For example, Hospital Lawson is a store format designed for locations within hospital premises. In addition, Postal Lawson stores are opened inside post offices through a business tie-up with JAPAN POST. These programs aim to extend store deployment in new trading areas in response to changing customer needs. We also provide a variety of services with the LAWSON PASS members’ card, a business alliance with Culture Convenience Club Co., Ltd., and Loppi multimedia terminals and installed ATMs.

5. Basic Views on Corporate Governance and the Current State of Measures Implemented

(1) Basic views on corporate governance

The Company stresses shareholders' viewpoints and those of its other stakeholders. Accordingly, we are committed to maximizing corporate value so that all the stakeholders are happy with LAWSON: customers, thanks to LAWSON stores' locations and operations; franchised storeowners, owing to their affiliation with the LAWSON chain; partners, due to our business alliances; and employees because of their worthwhile jobs. To that end, the Company believes it is important to raise management soundness and transparency through improved compliance and open disclosure, in other words, strengthened corporate governance.

(2) Current state of measures implemented for corporate governance

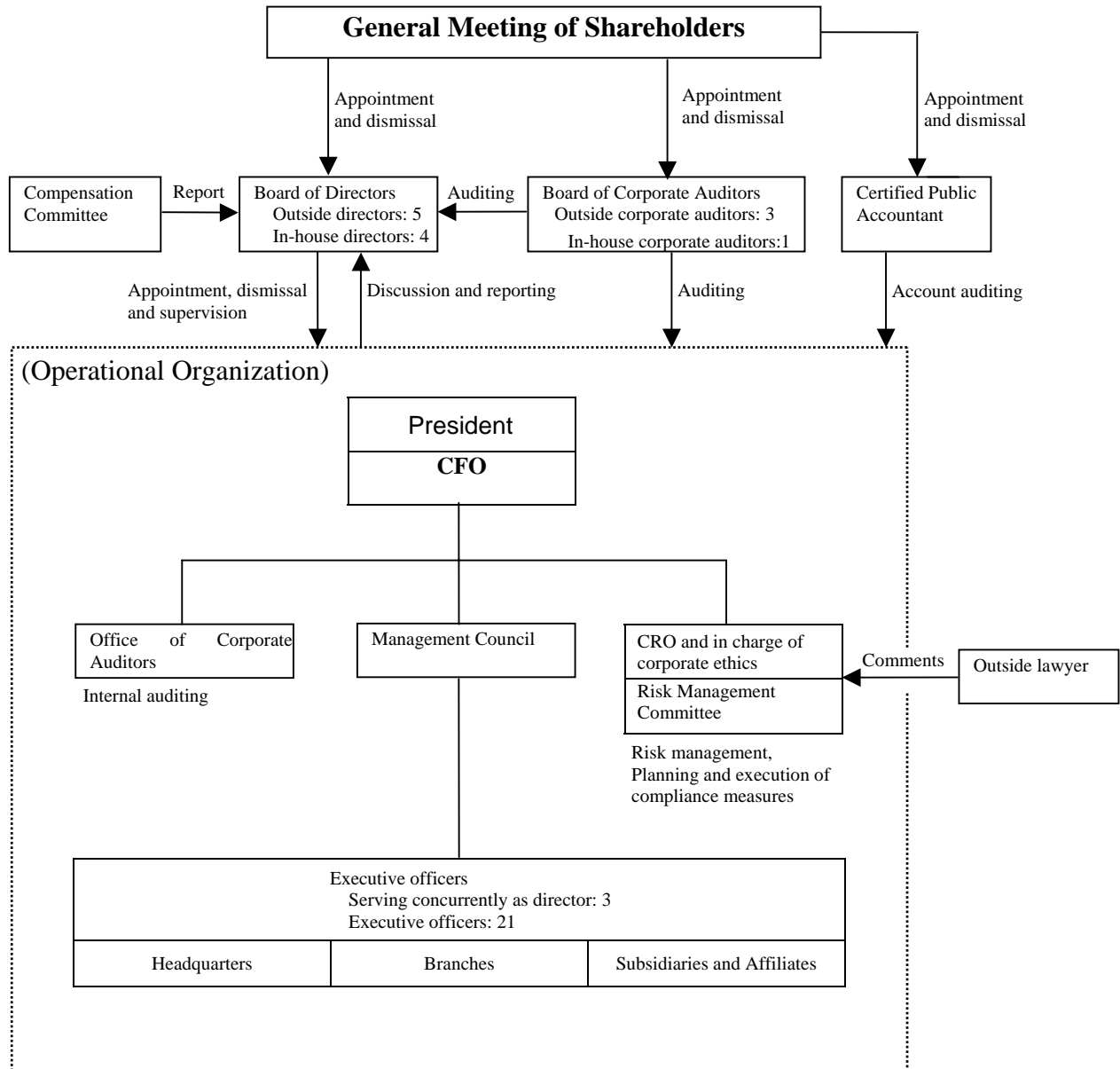
Corporate governance systems in managerial organizations involved in management decision making, administration and supervision of the Company

Pursuant to the resolution adopted by the Ordinary General Shareholders' Meeting held in May 2003, the number of directors totals nine (four in-house directors and five outside counterparts). As a consequence, we are confident that the insight and expertise of the outside directors are thoroughly taken into account, thereby resulting in fairer judgments on important management-related matters, including the planning of overall business strategies.

With the continued adoption of the corporate auditor system, the Board of Corporate Auditors' four members (including three outside counterparts) attend important meetings, such as the Board of Directors' meetings, to provide objective and fair opinions on overall business administration as well as individual matters. Moreover, the corporate auditors continue to audit routine business duties conducted by the respective directors, including the investigation of internal control systems related to compliance and risk management. The Board of Corporate Auditors meets monthly, in principle. In addition, the Internal Audit Office, an independent in-house audit department, continuously audits the propriety of corporate operations in terms of compliance with laws and regulations and social responsibility, including the legal performance of operations and responses to risk management.

Corporate Governance and Internal Control Systems

(As of February 28, 2005)



The Company has entered into advisory contracts with several law firms to receive advice on business judgments with regard to corporate management and daily business operations. The Company has also concluded a contract with the accounting firm of Deloitte Touche Tohmatsu for the auditing of its accounts. The Company shall pay compensation for their services to its directors and corporate auditors as set forth below.

Compensation for Directors and Corporate Auditors						
	Directors		Corporate auditors		Total	
	Number of persons	Aggregate payment	Number of persons	Aggregate payment	Number of persons	Aggregate payment
Payment authorized by general meeting of shareholders	11	¥171 mn	5	¥46 mn	16	¥217 mn
Retirement pay (one-time lump sum payment) authorized by general meeting of shareholders	2	¥3 mn	1	¥15 mn	3	¥18 mn
Total		¥174 mn		¥61 mn		¥235 mn

Notes:

1. As of the reporting term-end, there were nine directors and four corporate auditors in the service of the Company.
2. The above figure for directors on the Company's payroll includes two directors who retired as of May 28, 2004.
3. The above figure for corporate auditors on the Company's payroll includes one corporate auditor who retired as of May 28, 2004.

Details of Compensation Paid to the Auditing Firm	
	Amount
Amount paid for production of certificate of audit in accordance with the terms of the contract agreed between the auditing firm and the Company	¥42 million
Compensation paid for services performed other than the above	¥39 million
Total	¥81 million

Summary of interests on personal relations, capital relations, trading relations and other relations with outside directors and outside corporate auditors

Among the five outside directors, Hiroshi Mino is currently Executive Officer of Mitsubishi Corporation, LAWSON's most important strategic partner. Koji Furukawa is an advisor of Mitsubishi Corporation. Muneaki Masuda is currently President and CEO of Culture Convenience Club Co., Ltd., with which the Company has a strategic alliance to jointly promote a shared shopping point-saving system and other programs. Reiko Okutani is currently President of The R Co., Ltd., which is entrusted with part of the Company's training program. None of these outside directors has a personal interest in business relations with the Company. Hiroshi Tasaka is currently a professor at Graduate School of Tama University and has no business relationship with the Company. The three outside corporate auditors are Masaaki Kojima from Mitsubishi Corporation; Yoshiyuki Sanada, an employee of Mitsubishi Corporation; and Tetsuo Ozawa, a lawyer with no business relationship with the Company.

Measures implemented in the recent one year (March 2004–February 2005) to enhance corporate governance

The Board of Directors has met 12 times to determine statutory affairs and important management-related matters. The Remuneration Advisory Committee, which is chaired by Hiroshi Mino, has met six times. It submitted reports on the method for determining remuneration for directors and senior vice presidents. The Risk Management Committee headed by Katsuhiko Yamasaki, Member of the Board, Executive Vice President and CRO in charge of Corporate Ethics, has met 12 times to build an internal compliance system in corporate organizations and to make decisions related to risk management on trading purposes. Furthermore, the Information Security Office was established on June 1, 2004, to enhance the protection of computer-processed personal data in anticipation of the Law for the Protection of Computer-Processed Personal Data. A responsible senior vice president and dedicated staff were also appointed. In addition, a CSR Promotion Office under the direct supervision of the president of the Company was established in March 2005 to actively fulfill our corporate social responsibilities, and a director of the Company was given special responsibility for overseeing compliance matters, so as to integrate and reinforce compliance activities throughout the Company.

6. Basic Policies on Relations with Related Parties

<Relationship with Mitsubishi Corporation>

Management regards Mitsubishi Corporation—the mainstay of the Mitsubishi Group—as its most important strategic partner. Accordingly, we will further deepen our business alliance in the fields of new business and existing businesses such as store development and product development, to enhance LAWSON's corporate value.

Operating Performance and Financial Position

1. Review of Operations

(1) Overview

During the period under review, the Company's business year ended February 28, 2005, a number of positive factors began to make an appearance for the Japanese economy, including a gradually rising trend in capital investment and an improvement in corporate earnings. On the whole, however, the economy's prospects were not overly bright, against the backdrop of rising crude oil prices and the failure of consumer spending to stage a full recovery.

In the retail sector, business conditions have been extremely severe for several years now, against the background of a prolonged deflationary situation and fierce competition not only among established retail companies but also with the participation of new entrants from other industries. In these circumstances, a company's true capabilities will be highlighted by its success or failure in adapting flexibly to the changing market scene.

Amid this business environment, the Lawson Group continued to implement measures in line with its basic management vision of developing each of its stores into the most enjoyable gathering place in the neighborhood. In addition, we strived to improve customer satisfaction in the Lawson's stores, through the synergy between our core business of convenience store retailing and the value created with new services including ticket sales, an e-commerce business, a financial service-related business, and a consulting service run by our group companies.

As a result of our efforts, total operating revenues came to ¥254,395 million, an increase of 3.6% over the previous term, while ordinary profit posted a year-on-year growth of ¥5,759 million (up 15.8%) to ¥42,322 million, thanks in part to an increase of ¥9,053 million in franchise commission from franchised stores, in line with growth in the number of franchised outlets. Net income for the reporting period recorded a year-on-year gain of ¥1,864 million, or 10.0%, to ¥20,435 million.

The following is a breakdown of sales by business segment.

Convenience Store Operations

(Sales breakdown by product group; all stores)

Sales for processed foods category rose 6.5% year-on-year, thanks to brisk sales of beverages in the hotter-than-usual summer. Sales of fast foods declined 1.7% from the previous year due to sluggish sales of cooked rice and noodle products (despite favorable sales of hot food products). Sales of daily delivered (fresh) food were up 6.2% year-on-year, largely as a result of strong sales of bakery products. Owing to slack sales of magazines and cosmetics, sales of non-food products registered a decline of 1.5%.

Fiscal period Product group	Previous fiscal year March 1, 2003, to February 29, 2004		Current fiscal year March 1, 2004, to February 28, 2005		YoY Percentage change
	Sales (Millions of yen)	Ratio to total (%)	Sales (Millions of yen)	Ratio to total (%)	
Processed foods	625,031	48.5	665,687	50.1	+6.5
Fast foods	302,568	23.5	297,369	22.4	-1.7
Daily delivered foods	139,506	10.8	148,134	11.1	+6.2
Nonfood products	221,192	17.2	217,887	16.4	-1.5
Total	1,288,297	100.0	1,329,077	100.0	+3.2

Note: Sales registered by our Shanghai subsidiary, Shanghai Hualian Lawson Co., Ltd., are included in the figures for the previous fiscal year.

Store development

During the term under review, the Company opened quality-focused stores, principally in the Tokyo, Nagoya, and Osaka areas, while also actively pursuing the closure of stores that were unprofitable or had low daily sales levels and the opening of new stores at better locations. The total number of new stores (including those opened at better locations in replacement for other stores nearby that were closed) during the term under review throughout Japan was 711, while 455 stores were closed, giving a net year-on-year increase of 256 stores.

Meanwhile, our equity-method affiliate in Shanghai — Shanghai Hualian Lawson Co., Ltd. — opened 64 new stores, expanding the size of its chain to 210 stores. Together with the Lawson Group's 8,077 outlets in Japan, this gave the Group a total of 8,287 stores as of the term-end.

Number of stores by prefecture (As of February 28, 2005)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	494	Saitama	303	Gifu	84	Tottori	65	Saga	57
Aomori	123	Chiba	276	Shizuoka	155	Shimane	60	Nagasaki	83
Iwate	159	Tokyo	789	Aichi	336	Okayama	114	Kumamoto	86
Miyagi	159	Kanagawa	475	Mie	72	Hiroshima	115	Oita	106
Akita	127	Niigata	108	Shiga	114	Yamaguchi	109	Miyazaki	81
Yamagata	54	Toyama	95	Kyoto	178	Tokushima	102	Kagoshima	108
Fukushima	99	Ishikawa	68	Osaka	818	Kagawa	95	Okinawa	120
Ibaraki	107	Fukui	73	Hyogo	458	Ehime	138	Total	8,077
Tochigi	99	Yamanashi	62	Nara	95	Kochi	52	For reference: Shanghai	210
Gunma	65	Nagano	138	Wakayama	111	Fukuoka	292		

Note: For Shanghai Hualian Lawson Co., Ltd., the number of stores as of the its closing date (December 31, 2004) is reported.

Other Business Operations

In addition to its convenience store chain operations, the Lawson Group also engages in the sale of tickets for concerts, sports events, etc., in e-commerce business, in ancillary business for financial institutions, and in the consulting business for our franchised store owners. Our subsidiary Lawson Ticket Inc. in February 2005 began joint ticket sales operations with Rakuten Enterprise Inc. In addition to the sale of tickets at approximately 8,000 Lawson stores, tickets will also be sold online via the Rakuten Ichiba website (an online shopping mall). This move opens up Lawson's ticket sales operations to the 8 million or so members of the Rakuten Club, and the company looks forward to expanding its customer base further through the provision of a sophisticated information service and its convenient ticket sales service.

Lawson ATM Networks, Inc. our subsidiary in the ancillary financial services business, installs and maintains ATMs at Lawson stores, the number of which is growing along with increasing demand for such services. This subsidiary's accounts swiftly moved into the black in the reporting term.

Income and expenses

Operating results (on a consolidated basis)

Operating revenues increased ¥8,794 million, or 3.6% year-on-year, to ¥254,395 million. This is attributable to increased franchise commissions resulting from a growth in the number of franchises, and higher ATM commissions posted by LAWSON ATM Networks, a subsidiary.

Operating income rose ¥4,854 million, to ¥42,941 million, an increase of 12.7%. The gross profit margin rose by ¥12,033 million, while the growth in selling, general and administrative expenses was kept to ¥7,179 million.

Ordinary profit rose ¥5,759 million, or 15.8% year-on-year, to ¥42,322 million. This is in part the result of improvements in the profitability of LAWSON CS Card, an equity-method affiliate.

As a result, income before income taxes and minority interests for this period amounted to ¥36,040 million, up 9.5% year-on-year. This was despite a year-on-year decline of ¥2,642 million in the extraordinary gain/loss account. (Please note that the previous year's figures included a one-time gain on the settlement of accounts for the substitutional portion of the Employees' Pension Fund.)

Consequently, consolidated net income came to ¥20,435 million, up ¥1,864 million, or 10% year-on-year. Earnings per share was ¥198.47.

(3) Outlook

Amid a protracted deflationary trend and a persistent lack of clarity regarding the future direction of the economy, competition — often stretching across traditional demarcations between industries — is constantly becoming fiercer.

In these circumstances, the Lawson Group is pursuing business activities aimed at its basic goal of making each of its stores into an enjoyable gathering place for people in the neighborhood. Toward this end, we will make the utmost efforts to fulfill our three main goals, which are: to improve our product development abilities; supervise individual store operations more closely; and ensure that our store locations are truly convenient. In this way, we are working to improve the quality of our operations, while continuing to form business alliances.

In addition to business activities based on our recognition of the social mission of the convenience store industry, we pledge to constantly pursue and make optimal use of technological innovation, enabling us to lay the cornerstone of the “next-generation Lawson.” We are putting every effort into further raising the level of customer satisfaction, and thereby cement the loyalty of our customer base. In so doing, we will raise the brand recognition of the Lawson name and enhance the Group’s enterprise value.

For the year ending February 28, 2006, the Company anticipates consolidated ordinary profit will increase 2.8% year over year to ¥43.5 billion and non-consolidated ordinary profit will rise 2.8% to ¥43.4 billion.

(Millions of yen)

	August 2005 interim period (Forecast)	February 2006 fiscal term (Forecast)	February 2005 fiscal term (Actual results)	Year-on-year change (%)
Operating revenues	137,000	270,000	254,395	6.1
Ordinary profit	23,400	43,500	42,322	2.8
Net income	11,300	21,500	20,435	5.2
Net income per share (yen)	110.59	210.41	198.47	-

Average number of shares during the fiscal period: 102,962,979 shares

* The value is calculated based on the number of shares outstanding of the Company (102,177,191 shares) as of February 28, 2005.

Reference: Forecast non-consolidated performance

(Millions of yen)

	August 2004 interim period (Forecast)	February 2005 fiscal term (Forecast)	February 2004 fiscal term (Actual results)	Year-on-year change (%)
Operating revenues	127,000	248,000	239,534	3.5
Ordinary profit	232,000	43,400	42,237	2.8
Net income	11,500	22,100	20,585	7.4
Net income per share (yen)	112.54	216.29	199.93	-

Average number of shares during the fiscal period: 102,962,979 shares

* The value is calculated based on the number of shares outstanding of the Company (102,177,191 shares) as of February 28, 2005.

2. Financial Position

Cash flows

For the full-term ending in February 2005, net cash provided by operating activities increased ¥9,904 million, compared with those for the previous term, to ¥47,328 million on a consolidated basis. This is due largely to an increase in income before income taxes and minority interests, and to a decline in trade receivables, which more than offset declines in trade payables and deposits received.

Net cash used in investing activities decreased ¥7,324 million, to ¥33,297million. Although expenditures for the acquisition of fixed assets increased, there was also a larger rise in proceeds from redemption of bonds. Net cash used in financing activities totaled ¥13,836 million, which mainly consisted of an ¥8,798 million purchase of the Company’s own shares for inclusion in treasury stock and ¥5,775 million in dividend payments.

As a result of these cash flows, cash and cash equivalents at the end of the reporting period totaled ¥76,584 million, up ¥195 million compared with those at the end of the previous fiscal year.

Consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)			Current fiscal year (As of February 28, 2005)			Increase (Decrease)
		Amount	Composi tion ratio		Amount	Composi tion ratio	Amount
(Assets)			%			%	
Current assets							
Cash and bank deposits		76,393			71,585		(4,807)
Accounts receivable—due from franchised stores		18,628			10,332		(8,295)
Marketable securities		9,244			13,021		3,777
Merchandise inventories		1,497			1,376		(120)
Prepaid expenses		4,341			4,620		279
Short-term loans receivable		6,250			5,000		(1,250)
Accounts receivable—other		18,028			18,725		697
Deferred tax assets		2,818			3,240		422
Other		595			772		177
Allowance for doubtful accounts		(132)			(81)		50
Total current assets		137,662	38.8		128,592	36.1	(9,069)
Fixed assets							
Property and store equipment Used by Company-operated stores and other							
Buildings and structures	9,366			9,688			
- Accumulated depreciation	5,040	4,326		4,820	4,867		541
Furniture, fixtures and equipment	9,097			8,561			
- Accumulated depreciation	6,509	2,588		6,158	2,403		(184)
Land		3,846			4,296		450
Construction in progress		500			668		168
Total		11,260	3.2		12,236	3.5	976
Used by franchised stores							
Buildings and structures	89,946			104,908			
- Accumulated depreciation	36,955	52,991		42,733	62,174		9,183
Furniture, fixtures and equipment	48,340			49,562			
- Accumulated depreciation	30,411	17,929		33,154	16,407		(1,521)
Land		1,092			1,346		254
Total		72,012	20.3		79,929	22.4	7,917
Total property and store equipment— net		83,272	23.5		92,165	25.9	8,893

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)		Current fiscal year (As of February 28, 2005)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Software	13,718		10,969		(2,748)
Software development in progress	498		1,336		838
Consolidated adjustment account	8		-		(8)
Other	648		1,703		1,055
Total intangible fixed assets	14,872	4.2	14,010	3.9	(861)
Investments and other					
Investments in securities	1,715		1,464		(250)
Long-term loans receivable	13,109		16,809		3,700
Long-term prepaid expense	2,485		2,646		161
Lease deposits for Company- operated stores and others	16,060		15,610		(449)
Lease deposits for franchised stores	74,436		74,354		(81)
Deferred tax assets	6,804		8,291		1,487
Deferred tax assets for land revaluation	4,808		4,828		20
Other	1,359		1,673		314
Allowance for doubtful accounts	(1,751)		(4,137)		(2,386)
Total investments and other	119,025	33.5	121,541	34.1	2,516
Total fixed assets	217,169	61.2	227,716	63.9	10,547
Total Assets	354,831	100.0	356,309	100.0	1,478

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)		Current fiscal year (As of February 28, 2005)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable —trade	3,774		3,094		(679)
Accounts payable —trade for franchised stores	59,548		59,457		(90)
Accounts payable— due to franchised stores	1,402		3,982		2,580
Accounts payable — other	17,711		12,772		(4,938)
Accounts payable — other for franchised stores	493		248		(244)
Income taxes payable	10,009		11,717		1,708
Consumption taxes payable	1,114		996		(117)
Accrued expenses	1,859		2,088		229
Deposits received	43,745		40,269		(3,475)
Accrued employees' bonuses	2,689		2,788		99
Provision for use of LAWSON PASS points	-		409		409
Other	254		102		(151)
Total current liabilities	142,598	40.2	137,931	38.7	(4,666)
Long-term liabilities					
Allowance for employees' retirement benefits	1,144		1,807		663
Allowance for retirement benefits to directors and corporate auditors	218		304		86
Deposits received from franchisees and lessees	53,373		52,334		(1,038)
Other	289		159		(129)
Total long-term liabilities	55,024	15.5	54,606	15.3	(417)
Total Liabilities	197,622	55.7	192,537	54.0	(5,084)
(Minority Interest)					
Minority Interest	2,892	0.8	3,490	1.0	598
(Shareholders' Equity)					
Common stock	58,507	16.5	58,506	16.4	0
Capital surplus	41,521	11.7	41,523	11.7	2
Retained earnings	72,769	20.5	76,721	21.5	3,952
Land revaluation difference	(7,067)	(2.0)	(7,037)	(2.0)	29
Net unrealized gain on available for sale securities	53	0.0	110	0.0	57
Foreign currency translation adjustments	68	0.0	33	0.0	(35)
Treasury stock-at cost	(11,534)	(3.2)	(9,574)	(2.6)	1,959
Total Shareholders' Equity	154,317	43.5	160,282	45.0	5,965
Total Liabilities, Minority Interest and Shareholders' Equity	354,831	100.0	356,309	100.0	1,478

Consolidated Statements of Income

(Millions of yen)

Account item	Previous fiscal year (From March 1, 2003 to February 29, 2004)			Current fiscal year (From March 1, 2004 to February 28, 2005)			Compared with previous fiscal year
		Amount	Percent age		Amount	Percent age	Percentage
Operating revenues			%			%	
Franchise commissions from franchised stores	153,910			162,963			
Net sales reported by franchised stores							
Previous fiscal year: ¥ 1,220,819 million							
Current fiscal year: ¥1,265,275 million							
Total net sales of Lawson stores including franchised stores							
Previous fiscal year: ¥ 1,288,297 million							
Current fiscal year: ¥1,329,077 million							
Other	23,306	177,216	72.2	26,910	189,873	74.6	107.1
Net sales							
Net sales	(68,385)	68,385	(100.0)	(64,522)	64,522	(100.0)	
			27.8			25.4	94.4
Total operating revenues		245,601	100.0		254,395	100.0	103.6
Cost of goods sold	(50,058)	50,058	(73.2)	(46,818)	46,818		93.5
Gross profit on sales	(18,327)		(26.8)	(17,703)			
Operating gross profit		195,543	79.6		207,576	81.6	106.2
Selling, general and administrative expenses		157,456	64.1		164,635	64.7	104.6
Operating income		38,087	15.5		42,941	16.9	112.7
Non-operating income							
Interest received	297			355			
Compensation received for damage	221			209			
Compensation received for removal	204			280			
Other	326	1,048	0.4	532	1,377	0.5	131.5
Non-operating expense							
Interest expense	15			13			
Loss on cancellation of store lease contract	1,139			1,062			
Equity in losses of affiliated companies	1,128			609			
Other	290	2,572	1.0	312	1,996	0.8	77.6
Ordinary profit		36,563	14.9		42,322	16.6	115.8

Account item	Fiscal period			Previous fiscal year (From March 1,2003 to February 29, 2004)			Current fiscal year (From March 1,2004 to February 28, 2005)			Compared with previous fiscal year
		Amount	Percent age		Amount	Percent age	Percentage			
Special gains										
Gain on sales of investments in securities	2			92						
Gain on increase in a subsidiary's net equity resulted from it's allocation of new shares	574			134						
Special profit on disaffiliation from Group Employees' Pension Fund	812			-						
Other	137	1,525	0.6	19	245	0.2	16.1			
Special losses										
Loss on disposal of fixed assets	3,950			3,690						
Loss on sales of fixed assets	93			130						
Provision for allowance for doubtful accounts	-			2,182						
Other	1,122	5,165	2.1	525	6,528	2.6	126.4			
Income before income taxes		32,923	13.4		36,040	14.2	109.5			
Income taxes – current	12,992			17,313						
Deferred income taxes	1,725	14,717	6.0	(1,945)	15,367	6.1	104.4			
Minority interest in earnings (losses) of consolidated subsidiaries		(365)	0.2		237	0.1	-			
Net income		18,571	7.6		20,435	8.0	110.0			

Consolidated Statements of Capital surplus and Retained Earnings

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2003 to February 29, 2004)		Current fiscal year (From March 1,2004 to February 28, 2005)		Increase (Decrease)
	Amount		Amount		Amount
(Capital surplus)					
Balance of Capital surplus at beginning of the period		41,520		41,521	1
Increase in capital surplus					
Gain on disposal of treasury stock	1	1	1	1	0
Balance of Capital surplus at end of the period		41,521		41,523	2
(Retained earnings)					
Balance of retained earnings at beginning of the period		58,608		72,769	
Increase in retained earnings					
Net income	18,571	18,571	20,435	20,435	1,864
Decrease in retained earnings					
Cash dividends	4,380		5,775		
Retirement of treasury stock	-		10,703		
Reversal of land revaluation difference	30	4,410	5	16,485	12,075
Balance of retained earnings at end of the period		72,769		76,721	3,950

Consolidated Statements of Cash Flows

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2003 to February 29, 2004)	Current fiscal year (From March 1,2004 to February 28, 2005)
	Amount	Amount
Operating activities:		
Income before income taxes	32,923	36,040
Depreciation of fixed assets	14,212	15,059
Loss from disposal of fixed assets	2,603	2,447
Amortization of intangible fixed assets	4,287	4,574
Loss from disposal of intangible fixed assets	305	314
Equity in losses of affiliated companies	1,128	609
Increase (decrease) in allowance for retirement benefits to employees	(2,642)	663
Increase in allowance for doubtful accounts	362	2,342
Interest and dividend income	(297)	(355)
Interest expense	15	13
Loss on sales of fixed assets	93	130
Gain on sales of investments in securities	(2)	(92)
Gain on increase in a subsidiary's net equity resulted from it's allocation of new shares	(574)	(134)
Other —net	393	1,444
Decrease (Increase) in accounts receivable due from franchised stores	(11,601)	8,123
Decrease (Increase) in merchandise inventories	(15)	0
Increase in accounts receivable—other	(2,432)	(745)
Increase (decrease) in accounts payable—trade and due to franchised stores	(3,914)	2,097
Increase (decrease) in accounts payable—other	3,212	(4,919)
Increase (decrease)in deposits received	10,715	(3,476)
Decrease in deposits received from franchisees and lessees	(1,616)	(1,034)
Increase in other assets and liabilities—net	587	(503)
Subtotal	47,742	62,597
Interest and dividend income received	295	349
Interest expenses paid	(15)	(13)
Income taxes paid	(10,598)	(15,605)
Net cash provided by operating activities	37,424	47,328

Fiscal period Account item	Previous fiscal year (From March 1, 2003 to February 29, 2004)	Current fiscal year (From March 1, 2004 to February 28, 2005)
	Amount	Amount
Investing activities:		
Payment for purchase of marketable securities	(28,270)	(34,319)
Proceeds from redemption of marketable securities	24,471	35,545
Proceeds from sales of investments in securities	3	216
Increase in advances to associated company	-	(250)
Decrease (increase) in short-term loans receivable	(6,250)	1,250
Sales of a subsidiary's stock - net	-	(585)
Payment for acquisition of property and store equipment	(23,832)	(26,710)
Increase in intangible fixed assets	(2,128)	(2,691)
Payment for acquisition of goodwill	-	(1,685)
Increase in lease deposits—net	(1,002)	623
Increase in Long-term prepaid expenses	(756)	(1,086)
Other—net	(2,857)	(3,605)
Net cash used in investing activities	(40,621)	(33,297)
Financing activities:		
Proceeds from minority shareholders	1,547	681
Payment for acquisition of treasury stock - at cost	(11,549)	(8,798)
Cash dividends paid	(4,380)	(5,775)
Other	18	56
Net cash (used in) provided by financing activities	(14,364)	(13,836)
Effects of exchange rate changes on cash and cash equivalents	(44)	-
Net (decrease) increase in cash and cash equivalents	(17,605)	195
Cash and cash equivalents, beginning of year	93,994	76,389
Cash and cash equivalents, end of year	76,389	76,584

《Basis of Presenting the Consolidated Financial Statements》

1. Scope of consolidation

Consolidated subsidiaries: 5

Lawson Tickets Co., Ltd.

i-Convenience, Inc.

LAWSON ATM Networks, Inc.

BestPractice Inc.

NATURAL LAWSON, INC.

All the subsidiaries are consolidated.

BestPractice Inc. was incorporated in this fiscal year. NATURAL LAWSON, INC changed its name from LAWSON e-Planning, Inc. Shanghai Hualian Lawson Co., Ltd changed to affiliated company from consolidated subsidiary in line with reduction of the Company's share in this fiscal year.

2. Application of the equity method

Affiliated companies to which the equity method is applied: 2

LAWSON CS Card, Inc.

Shanghai Hualian Lawson Co., Ltd.

All Affiliated Companies are accounted for by the equity method.

3. Closing day for settlement of accounts of consolidated subsidiaries

The closing date of all consolidated subsidiaries is the same as the parent's closing date.

4. Summary of Significant Accounting Policies

(1) Valuation basis and method for important assets

Marketable securities and investments in securities:

Held-to-maturity debt securities: Carried at amortized cost.

Available-for-sale securities:

Securities whose market value is readily determinable: Reported at market value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Other: Stated at cost determined by the moving-average method.

Inventories:

Merchandise inventories: Retail method applied on an annual average cost basis

(2) Depreciation method of depreciable assets

Property and store equipment:

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is from 10 to 34 years for buildings and from 5 to 8 years for furniture, fixtures and equipment.

Intangible fixed assets:

Amortization of intangible assets is computed by the straight-line method.

Software costs of software for internal use are amortized by the straight-line method over 5 years, which is the internal useful life.

(3) Accounting standard for important reserves

Allowance for Doubtful Accounts:

Allowance for doubtful accounts is provided at an amount of possible losses from uncollectable receivables based on the actual rate of losses from bad debt for ordinary receivables, and on estimated recoverability for specific doubtful receivables.

Accrued Employees' Bonuses:

Accrued employees' bonuses are provided for payments of employees' bonuses based on the estimated amounts.

Provision for use of LAWSON PASS points:

The Company provides LAWSON PASS holders when purchasing goods, an entitlement to certain points that the holder can redeem for a discount on subsequent purchases from LAWSON stores. Effective March 1, 2004, the company established a provision for the future use of such points by the entitled pass holders. Prior to March 1, 2004, points were accounted for as an expense when a pass holder used such points. As the amount for future use can now be reasonably estimated using the experience history of percentage of points used compared with those entitled, a provision has been established. The effect of this change was to decrease operating income, ordinary profit, and income before corporate, inhabitant, and enterprise taxes by ¥409 million, respectively.

Allowance for Employees' Retirement Benefits:

Allowance for employees' retirement benefits is provided at the amount accrued based on the projected benefit obligations and plan assets at the balance sheet date. Actuarial differences will be amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of their occurrence. Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period (10 years) within an average remaining service period of employees.

Allowance for Retirement Benefits to Directors and Corporate Auditors:

Allowance for retirement benefits to directors, corporate auditors (including executive officers) and senior vice president is calculated to state the liability at 100% of the amount that would be required if all directors and corporate auditors resigned their services with the Company at the balance sheet date.

(4) Foreign Currency Transactions and Foreign Currency Financial Statements

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income. The balance sheet accounts as well as revenue and expense accounts of foreign affiliated companies are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "foreign currency translation adjustments" in a separate component of shareholders' equity.

(5) Lease

Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.

(6) Accounting for Consumption Tax

Consumption tax is accounted for using the tax exclusion method.

5. Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries, including the portion attributable to minority interests, are valued at their fair values at the respective dates when the subsidiaries were initially consolidated.

6. Amortization of consolidated adjustment account

The amount of consolidated adjustment account is amortized over 5 years on a straight-line basis.

7. Treatment of appropriation items of profit

The statements of consolidated retained earnings are based on the distribution of profit finalized during the consolidation fiscal year at the consolidated subsidiaries.

8. Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits and short-term investments due within three months from the acquired date, which are easily convertible into cash with little risk of value fluctuation.

《Notes to the Consolidated Financial Statements》

Notes to the Consolidated Balance Sheets

	(Millions of yen)	
	As of February 29, 2004	As of February 28, 2005
1. Investment in affiliated companies		
Investments in securities (shares)	651	291
Other (other equity investments)	-	436
2. Issued numbers of common stock	107,600,000 shares	104,600,000 shares
3. The numbers of treasury stock in the Company (common stock)	3,283,384 shares	2,422,809 shares
4. Revaluation of land used for business	<p>Land used for business was revalued on the basis prescribed by the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998). Revaluation difference resulted has been included in stockholders' equity as land revaluation difference, net of the related tax which is included in deferred tax assets for land revaluation.</p> <p>Revaluation method: The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance.</p> <p>Date of revaluation: February 28, 2002</p> <p>The difference between book value and market value of the revalued land as of balance sheet date.</p> <p style="text-align: right;">¥1,005million</p>	<p>Land used for business was revalued on the basis prescribed by the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998). Revaluation difference resulted has been included in stockholders' equity as land revaluation difference, net of the related tax which is included in deferred tax assets for land revaluation.</p> <p>Revaluation method: The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance.</p> <p>Date of revaluation: February 28, 2002</p> <p>The difference between book value and market value of the revalued land as of balance sheet date.</p> <p style="text-align: right;">¥1,481million</p>
5. Contingent liabilities	-	<p>Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc. 6,050</p>

Notes to the Consolidated Statements of Income

	(Millions of yen)	
	From March 1, 2003 to February 29, 2004	From March 1, 2004 to February 28, 2005
1. Main account of selling, general and administrative expenses		
Sales promotion and advertising	11,188	9,704
Doubtful debt account	438	264
Salary	22,716	22,485
Provision for accrued employees' bonuses	2,689	2,790
Retirement benefit costs	1,272	1,327
Provision for allowance for retirement benefits to directors and corporate auditors	148	132
Amortization of consolidated adjustment account	8	8
Rent account	42,679	46,785
Depreciation of fixed assets	14,212	15,059
2. Distribution of loss from disposal of fixed assets		
Buildings and structures	2,506	2,339
Furniture, fixtures and equipment	1,301	1,294
Software	125	55
Other	18	-
3. Distribution of loss from sales of fixed assets		
Buildings	51	113
Land	42	16

Notes to the Consolidated Statements of Cash Flows

Relations between the year-end balance of cash and cash equivalents and the accounts listed in the consolidated balance sheets

	(Millions of yen)	
	As of February 29, 2004	As of February 28, 2005
Cash and bank deposits	76,393	71,585
Marketable securities	9,244	13,021
Time deposits, etc., for which the deposit period exceeds three months	(4)	(2)
Bonds, etc., for which the redemption period exceeds three months	(9,244)	(8,018)
Cash and cash equivalents	76,389	76,584

Notes to Lease Contracts

1. Finance lease contracts other than those by which the ownership of the leased property is to be transferred to lessees

The assumed data as to acquisition cost, accumulated depreciation and net leased property

	(Millions of yen)	
	<u>As of February 29, 2004</u>	<u>As of February 28, 2005</u>
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	14,468	16,604
Accumulated depreciation	5,056	7,987
Leased property	9,412	8,617
Software		
Acquisition cost	-	782
Accumulated depreciation	-	39
Leased property	-	743
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	63,748	67,597
Accumulated depreciation	25,654	33,019
Leased property	38,094	34,578

- (2) Obligations under finance leases

Used by Company-operated stores and other:

Furniture, fixtures and equipment		
Due within one year	2,838	3,460
Due after one year	6,670	6,114
Total	9,508	9,574
Leased to franchised stores:		
Furniture, fixtures and equipment		
Due within one year	10,825	11,444
Due after one year	28,036	23,992
Total	38,861	35,436

- (3) Lease payments, depreciation expense and interest expense

Lease payments	15,133	16,132
Depreciation expense	14,186	15,180
Interest expense	1,160	1,063

- (4) Computation method of depreciation expense

Depreciation expense is computed by the straight-line method, assuming the lease period as the useful life and no residual value.

- (5) Computation method of interest expense

The difference between the total lease contract amount and the acquisition cost is assumed to be interest, and interest expense is computed by the interest method.

2. Operating lease contracts

Obligations under operation leases

	(Millions of yen)	
	<u>As of February 29, 2004</u>	<u>As of February 28, 2005</u>
Due within one year	736	733
Due after one year	5,814	5,722
Total	6,550	6,455

Notes to Market Value Information of Securities

(As of February 29, 2004)

1. Information regarding marketable held-to-maturity debt securities as of February 29, 2004, was as follows:
(Millions of yen)

Description	Type	Book value per consolidated balance sheets	Market value	Unrealized gain (loss)
Securities with market value exceeding book value per consolidated balance sheets	Government and municipal bonds, etc.	1,999	1,999	0
	Corporate Bonds	-	-	-
	Other	500	500	0
	Subtotal	2,499	2,499	0
Securities with book value per consolidated balance sheets exceeding market value	Government and municipal bonds, etc.	3,220	3,220	(0)
	Corporate Bonds	-	-	-
	Other	3,525	3,524	(1)
	Subtotal	6,745	6,744	(1)
Total		9,244	9,243	(1)

2. Information regarding marketable available-for-sale securities as of February 29, 2004, was as follows:
(Millions of yen)

Description	Type	Cost	Book value per consolidated balance sheets	Unrealized gain (loss)
Securities with cost exceeding book value per consolidated balance sheets	Equity	925	1,016	91
	Bond certificate	-	-	-
	Other	-	-	-
	Subtotal	925	1,016	91
Securities with book value per consolidated balance sheets exceeding cost	Equity	10	8	(2)
	Bond certificate	-	-	-
	Other	-	-	-
	Subtotal	10	8	(2)
Total		935	1,024	89

3. Information regarding available-for-sale securities sold during the year was as follows:
(Millions of yen)

Proceeds from the sale	Total gain from the sale	Total loss from the sale
3	2	-

4. Available-for-sale securities whose fair value is not readily determinable as of February 29, 2004, were as follows:

Available-for-sale securities		(Millions of yen)
	Book value per consolidated balance sheets	
Unlisted shares (excluding OTC securities)	40	
Total	40	

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 29, 2004 by contractual maturity were as follows:

		(Millions of yen)
Type	1 year or less	
Government and municipal bonds, etc.	5,219	
Other bonds	4,025	
Total	9,244	

(As of February 28, 2005)

1. Information regarding marketable held-to-maturity debt securities as of February 28, 2005, was as follows:

(Millions of yen)				
Description	Type	Book value per consolidated balance sheets	Market value	Unrealized gain (loss)
Securities with market value exceeding book value per consolidated balance sheets	Government and municipal bonds, etc.	-	-	-
	Corporate Bonds	-	-	-
	Other	-	-	-
	Subtotal	-	-	-
Securities with book value per consolidated balance sheets exceeding market value	Government and municipal bonds, etc.	-	-	-
	Corporate Bonds	-	-	-
	Other	13,021	13,019	1
	Subtotal	13,021	13,019	1
Total		13,021	13,019	1

2. Information regarding marketable available-for-sale securities as of February 28, 2005, was as follows:

(Millions of yen)				
Description	Type	Cost	Book value per consolidated balance sheets	Unrealized gain (loss)
Securities with cost exceeding book value per consolidated balance sheets	Equity	744	932	188
	Bond certificate	-	-	-
	Other	-	-	-
	Subtotal	744	932	188
Securities with book value per consolidated balance sheets exceeding cost	Equity	10	8	(2)
	Bond certificate	-	-	-
	Other	192	192	-
	Subtotal	203	201	(2)
Total		947	1,133	186

3. Information regarding available-for-sale securities sold during the year was as follows:

(Millions of yen)		
Proceeds from the sale	Total gain from the sale	Total loss from the sale
216	-	14

4. Available-for-sale securities whose fair value is not readily determinable as of February 29, 2004, were as follows:

Available-for-sale securities	(Millions of yen)
	Book value per consolidated balance sheets
Unlisted shares (excluding OTC securities)	39
Total	39

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 29, 2004 by contractual maturity were as follows:

(Millions of yen)	
Type	1 year or less
Government and municipal bonds, etc.	-
Other bonds	13,021
Total	13,021

Note to Derivative Transactions

None of disclosure is required because no derivative transactions were made by the Lawson Group for either the current or previous consolidated fiscal years.

Note to Retirement Benefits

From March 1, 2003 to February 29, 2004

1. Summary of the retirement benefit plans adopted

The Company participated in a Japanese government welfare pension fund program (the Daiei Employees' Pension Fund) and also has a lump-sum severance indemnified plan, both of which are defined benefit plan.

The Company voluntarily disaffiliated from the Daiei Employees' Pension Fund as of March 31, 2003 and started defined contribution plans system from May 2003. For a lump-sum severance indemnified plan, the Company sets up trust fund.

2. Projected benefit obligations	(Millions of yen)
a Projected benefit obligations	(7,247)
b Plan assets	5,523
c Projected benefit obligation in excess of plan assets (a + b)	(1,724)
d Unrecognized actuarial differences	580
f Reported amount on the consolidated balance sheets, net (c + d)	(1,144)

Notes: 1. Consolidated subsidiaries adopted the simplified method to calculate the projected benefit obligation.

3. Net periodic benefit cost	(Millions of yen)
a Service cost	870

b	Interest cost	126
c	Amortization of actuarial differences	71
d	Net periodic benefit cost	1,067
e	Contribution to defined contribution plan 2	205
f	Total (= d + e)	1,272

Notes: 1. Net periodic benefit cost for consolidated subsidiaries, which adopted the simplified method, are included in "a. Service cost."

2. When the Company disaffiliated from the Daiei Employees' Pension Fund, the Company recorded special gain of ¥812 million by reversing allowance for employees' retirement benefits, which was determined after reflecting recognition of all remaining actuarial loss and prior service cost, and special contribution to the Fund for the purpose of disaffiliation.

4. Basis of calculation of projected benefit obligations

a	Discount rate	2.0 %
b	Expected rate of return on plan assets	0 %
c	Allocation method of estimated total retirement benefits	Straight-line basis (a method to allocate estimated total retirement benefits equally to respective periods in employee's whole service period)
d	Amortization period of prior service cost	10 years
	Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period within an average remaining service period of employees.	
e	Recognition of actuarial differences	10 years
	Actuarial differences will be amortized from the following fiscal year on a straight-line basis over a certain period within an average remaining service period of employees at the time of their occurrence.	

From March 1, 2004 to February 28, 2005

1. Summary of the retirement benefit plans adopted

The Company participated in a Japanese government welfare pension fund program (the Daiei Employees' Pension Fund) and also has a lump-sum severance indemnified plan, both of which are defined benefit plan.

The Company voluntarily disaffiliated from the Daiei Employees' Pension Fund as of March 31, 2003 and started defined contribution plans system from May 2003. For a lump-sum severance indemnified plan, the Company sets up trust fund.

2. Projected benefit obligations	(Millions of yen)
a	Projected benefit obligations (9,898)
b	Plan assets 5,536
c	Projected benefit obligation in excess of plan assets (a + b) (4,362)
d	Unrecognized prior service cost 1,581
e	Unrecognized actuarial differences 973
f	Reported amount on the consolidated balance sheets, net (c + d + e) (1,807)

Notes: 1. Consolidated subsidiaries adopted the simplified method to calculate the projected benefit obligation.

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3. Net periodic benefit cost	(Millions of yen)
a	Service cost 659
b	Interest cost 174

c	Amortization of prior service cost	175
d	Amortization of actuarial differences	72
e	Net periodic benefit cost	1,082
f	Contribution to defined contribution plan 2	245
g	Total (= e + f)	1,327

Notes: 1. Net periodic benefit cost for consolidated subsidiaries, which adopted the simplified method, are included in "a. Service cost."

4. Basis of calculation of projected benefit obligations

a	Discount rate	2.0 %
b	Expected rate of return on plan assets	0 %
c	Allocation method of estimated total retirement benefits	Straight-line basis (a method to allocate estimated total retirement benefits equally to respective periods in employee's whole service period)
d	Amortization period of prior service cost	10 years Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period within an average remaining service period of employees.
e	Recognition of actuarial differences	10 years Actuarial differences will be amortized from the following fiscal year on a straight-line basis over a certain period within an average remaining service period of employees at the time of their occurrence.

Notes to Accounting for income taxes

1. Deferred tax assets and liabilities were described as follows:

	As of February 29, 2004	(Millions of yen) As of February 28, 2005
Deferred tax assets		
Enterprise taxes payable	936	1,116
Accrued employees' bonuses	1,005	1,248
Valuation loss on investments in securities	543	309
Excess of depreciation	1,868	2,297
Excess of amortization of software	1,059	975
Allowance for employees' retirement benefits	2,210	2,708
Tax loss carry forward	1,516	-
Allowance for doubtful accounts	-	1,653
Other	2,049	1,599
Subtotal of deferred tax assets	11,186	11,910
Valuation allowances	(1,528)	(302)
Total deferred tax assets	9,658	11,607
Deferred tax liabilities		
Net unrealized gain on available-for-sale securities	(36)	(75)
Total deferred tax liabilities	(36)	(75)
Deferred tax assets-net	9,622	11,532

2. The difference between the normal effective statutory tax rate and the actual effective tax rate for previous fiscal year is reconciled as follows:

	From March 1,2003 to February 29, 2004
Normal effective statutory tax rate	42.0 %
(Reconciliation items)	
Permanently nondeductible expenses including expenses for entertainment	0.6 %
Inhabitant taxes – per capita	0.7 %
Tax loss carry forward for consolidated subsidiary	1.4 %
Equity in losses of affiliated companies	1.4 %
Gain on increase in a subsidiary’s net equity resulted from its allocation of new shares	(0.7) %
Reduction on deferred tax assets based on the change of enterprise tax rate	0.8 %
Other	(1.5) %
Actual effective tax rate	44.7 %

In line with a new local tax law enacted and became effective on March 31, 2003 for fiscal years beginning on or after April 1,2004, the statutory effective tax rate applied on the income taxes on deferred tax assets and liabilities (applicable only for portion taxable or deductible after March 1,2005) decreased from 42.0% to 40.5%. This reduction of the statutory effective tax rate resulted in a decrease in deferred tax assets (net of deferred tax liabilities) of ¥247 million and corresponding increase in the provision for income taxes of ¥248 million, and a decrease in deferred tax assets for land revaluation and corresponding decrease in land revaluation difference of ¥180million, respectively

The reconciliation between the statutory tax rate and the effective tax rate for current fiscal year has not been disclosed because the difference is less than 5% of the statutory tax rate.

Segment Information

1. Business segment information

(February 29, 2004) (February 28, 2005)

The company operates mainly the franchised store business and total operating revenue, operating income and total assets of the franchised store business account for more than 90% of the respective consolidated totals at all segments for both current and previous fiscal years, therefore information by industry segment is omitted.

2. Geographic segment information

(As of February 28,2004)

Domestic total operating revenue account for more than 90% of the respective consolidated totals at all segments for previous fiscal year, therefore, geographic segment information is omitted.

(As of February 28,2005)

The company has no foreign consolidated subsidiary and branch office for current fiscal year; therefore, geographic segment information is omitted.

3. Overseas sales

(February 29, 2004) (February 28, 2005)

Overseas sales account for less than 10% of consolidated sales at all segments for both current and previous fiscal years, therefore, overseas sales information is omitted.

Related Party Transactions

(As of February 29, 2004)

Directors and major individual shareholders, etc.

Attribute	Company name	Location	Capital stock (Millions of yen)	Business line or profession	Equity ownership percentage	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
						Director's posts held concurrently	Business relationship				
Company where majority voting rights are owned by a director	The R Co., Ltd	Chiyoda-ku, Tokyo	125	Human resources solution		One directors of the Company	Outsourcing of employees' training	Employees' training fee	20	Account payable	2
								Payment of commission for introducing non-graduate recruit	3		
								Payment of outsourcing fee	15		

Transaction conditions and the principles on the decision thereof :

1. Employees' training fee is determined by negotiations based on prices already submitted by the company.
2. As for payment of commission for introducing non-graduate recruit, the terms and conditions are determined as the same as those for other general business transactions.
3. Outsourcing fee is determined by taking into account the job contents of operations.

Subsidiaries and affiliates.

Attribute	Company name	Location	Capital stock (Millions of yen)	Business line or profession	Equity ownership percentage	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
						Director's posts held concurrently	Business relationship				
Affiliated companies	LAWSON CS Card, Inc	Minato-ku, Tokyo	3,950	Financial service	(Ownership) Direct 50% Indirect	One directors of the Company	Outsourcing of a card service etc	Increase in short-term loans receivable	2,250	Short-term loans receivable	6,250
								Interest received	34		

Transaction conditions and the principles on the decision thereof :

The interest rates of short-term loans were determined rationally, referring to the market interest rate.

(As of February 28, 2005)

Directors and major individual shareholders, etc.

Attribute	Name	Location	Capital stock (Millions of yen)	Business line or profession	Equity ownership percentage	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
						Director's posts held concurrently	Business relationship				
Company where majority voting rights are owned by a director	Reiko Okutani			President, The R Co., Ltd.			Outsourcing of employees' training	Employees' training fee	24		
								Payment of commission for introducing non-graduate recruit	1		
	Muneaki Masuda			President and Representative Director, Culture Convenience Club Co., Ltd.			Handling returned rental goods on behalf of Tsutaya	Handling charges on returned rental goods on behalf of Tsutaya	30	Accounts receivable - Other	4
								Payments for tie-up fee about T card point program	284	Accounts payable - Other	32

Note. The above transactions are made not for the directors personally but for their representative company.

Transaction conditions and the principles on the decision thereof :

1. Employees' training fee is determined by negotiations based on prices already submitted by the company.
2. As for payment of commission for introducing non-graduate recruit, the terms and conditions are determined as the same as those for other general business transactions.
3. As for the handling charges on returned rental goods on behalf of Tsutaya, the terms and conditions are determined on the same basis as those for other general business transactions by taking into account the logistics costs.
4. As for payments of tie-up fee about T card point program, the terms and conditions are determined as the same as those for other general business transactions

Subsidiaries and affiliates.

Attribute	Company name	Location	Capital stock (Millions of yen)	Business line or profession	Equity ownership percentage	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
						Director's posts held concurrently	Business relationship				
Affiliated companies	LAWSON CS Card, Inc	Shinagawa-ku, Tokyo	4,200	Financial service	(Ownership) Direct 50% Indirect	Three directors of the Company	Outsourcing of a card services etc	Increase in short-term loans receivable	5,000	Short-term loans receivable	5,000
								Interest received	46	Accrued interest receivable	4
								Guarantee for bank borrowings	6,050		
								Receipts of guarantee fee	3		
								Payments for purchasing additional shares issued on capital increase	250	Investments in securities	4,000

Transaction conditions and the principles on the decision thereof :

- 1.The Company receives guarantee fees granted to LAWSON CS Card, Inc for banks borrowings.
- 2.The interest rates of short-term loans were determined rationally, referring to the market interest rate.

Subsidiary of the other affiliated company

Attribute	Company name	Location	Capital stock (Millions of yen)	Business line or profession	Equity ownership percentage	Relationship with the Company		Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
						Director's posts held concurrently	Business relationship				
Affiliated companies	RYOSHOKU LIMITED	Ota-ku, Tokyo	10,630	Sales of processed foods	(Ownership) Direct 0.3% Indirect	-	Vendor	Purchases for the Company-operated stores	970	Accounts payable-trade	317
								(Purchases for the franchised stores)	(15,165)	Accounts payable-trade for franchised stores	4,925
	Food Service Network Co.,Ltd	Chuo -ku, Tokyo	2,000	Sales of fast foods and daily delivered foods	(Ownership) Direct Indirect	-	Vendor	Purchases for the Company-operated stores	2,791	Accounts payable-trade	900
								Purchases for the franchised stores	(44,698)	Accounts payable-trade for franchised stores	14,338

Note. Mitsubishi becomes the top shareholder of the Company as of December 2004. As a result, Mitsubishi changes its positions to the other affiliated company of the Company ; therefore, the Company discloses the transactions which have been made since December,2004

Transaction conditions and the principles on the decision thereof :

The terms and conditions for purchase transactions are determined as the same as those for other general business transactions, except that regarding the purchases made for the franchised stores, the Company acts as an alternative payer, not as direct party of purchase.

Overview of the Non-consolidated result for the year ended February 28, 2005

April 13, 2005

Listed Company Name: Lawson, Inc.

Code No.: 2651

(URL <http://www.lawson.co.jp/company/ir/index.html>)

Listing: Tokyo Stock Exchange and Osaka Securities Exchange

Location of Head Office: Metropolis of Tokyo

Company Representative: Takeshi Niinami, Representative Director, President & CEO

Contact: Kenji Morimoto, Senior Vice-President, Financial & Accounting Office Tel.: (03) 5435-2773

Date of the Board of Directors Meeting on the Closing of Accounts: April 13, 2005

Interim Dividend System: Yes

Date of Ordinary General Meeting of Shareholders: May 27, 2005

Unit Stock System: Yes (1 unit; 100 Shares)

1. Non-consolidated Performance for the 2005 Fiscal Year (from March 1, 2004, to February 28, 2005)

(1) Operating results

Note: Amounts below one million yen are truncated

	Total operating revenues (Total net sales of Lawson stores including franchised stores)			Operating income		Ordinary profit	
	¥ Million	%		¥ Million	%	¥ Million	%
2005 fiscal year	239,534	(1,329,077)	3.6(3.4)	42,220	11.0	42,237	12.2
2004 fiscal year	231,099	(1,285,018)	-3.4(-0.5)	38,039	10.2	37,629	13.3

	Net income		Net income per share	Fully diluted income per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of ordinary profit to operating revenues
	¥ Million	%	¥	¥	%	%	%
2005 fiscal year	20,585	8.2	199.93	-	12.8	12.1	17.6
2004 fiscal year	19,018	85.3	180.01	-	12.2	10.9	16.3

Notes Average number of shares during the term 2005 fiscal year: 102,962,979shares 2004 fiscal year: 105,651,228 shares

Changes in accounting methods: None

Percentages for total operating revenues (Total net sales of Lawson stores), operating income, ordinary profit and net income show increase (decrease) from previous year.

(2) Dividends status

	Annual dividends per share			Total dividends for the year	Payout ratio	Ratio of dividends to shareholders' equity
	Interim dividend	Year-end dividend				
	¥	¥	¥	¥ Million	%	%
2005fiscal year	70.00	35.00	35.00	7,161	35.0	4.4
2004fiscal year	41.00	20.00	21.00	4,310	22.8	2.7

(3) Financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity to total assets	Shareholders' equity per share
	¥ Million	¥ Million	%	¥
2005fiscal year	350,180	163,991	46.8	1,604.97
2004 fiscal year	349,328	157,843	45.2	1,513.12

Note Number of outstanding shares at the end of the fiscal year:

2005 fiscal year: 102,177,191 shares

2004 fiscal year: 104,316,616 shares

Number of treasury stock-at cost at the end of the fiscal year:

2005 fiscal year: 2,422,809shares

2004 fiscal year: 3,283,384 shares

2.Forecast Nonconsolidated Performance for 2006 Fiscal Year (from March 1, 2005, to February 28, 2006)

	Operating revenue	Ordinary profit	Net income	Annual dividend per share		
				Interim	Year-end	
	¥ Million	¥ Million	¥ Million	¥	¥	¥
2006 interim period	127,000 (711,000)	23,200	11,500	45.00	-	-
2006 fiscal year	248,000 (1,405,000)	43,400	22,100	-	45.00	90.00

Reference: Forecast net income per share for the 2006 fiscal year: 216.29yen

Note: The above-mentioned forecast is based on the information, which is able to get hand at present, and including a potential risk and uncertainty. Therefore, actual achievements may differ from these forecast due to many factors. In addition, please refer to 12th page of appending data about matters, such as precondition of the above-mentioned forecast.

Non-consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)		Current fiscal year (As of February 28, 2005)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Assets)		%		%	
Current assets					
Cash and bank deposits	66,280		60,574		(5,705)
Accounts receivable—due from franchised stores	18,455		10,332		(8,123)
Marketable securities	9,244		13,021		3,776
Merchandise inventories	1,376		1,371		(4)
Prepaid expenses	4,302		4,604		301
Short-term loans receivable	6,250		5,000		(1,250)
Accounts receivable—other	16,856		17,307		450
Deferred tax assets	2,755		2,997		242
Other	580		746		166
Allowance for doubtful accounts	(123)		(80)		42
Total current assets	125,977	36.1	115,875	33.1	(10,102)
Fixed assets					
Property and store equipment Used by Company-operated stores and other					
Buildings	8,593		9,122		
- Accumulated depreciation	4,512	4,080	4,458	4,664	583
Structures	566		544		
- Accumulated depreciation	351	214	357	187	(27)
Furniture, fixtures and equipment	8,479		8,271		
- Accumulated depreciation	6,157	2,321	5,995	2,276	(45)
Land		3,845		4,296	451
Construction in progress		499		668	168
Total	10,962	3.1	12,092	3.5	1,130
Used by franchised stores					
Buildings	74,229		86,007		
- Accumulated depreciation	30,345	43,883	34,263	51,744	7,860
Structures	15,699		18,900		
- Accumulated depreciation	6,602	9,096	8,469	10,430	1,333
Furniture, fixtures and equipment	48,154		49,562		
- Accumulated depreciation	30,357	17,796	33,154	16,407	(1,388)
Land		1,091		1,346	254
Total	71,868	20.6	79,929	22.8	8,060
Total property and store equipment— net	82,830	23.7	92,022	26.3	9,191

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)		Current fiscal year (As of February 28, 2005)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Software	12,768		10,256		(2,511)
Software development in progress	498		1,336		838
Goodwill	253		1,026		773
Other	366		651		284
Total intangible fixed assets	13,886	4.0	13,270	3.8	(616)
Investments and other					
Investments in securities	1,063		1,172		108
Investment in subsidiaries and affiliated companies	7,786		7,270		(516)
Long-term loans receivable	13,108		16,809		3,700
Long-term prepaid expenses	2,466		2,633		167
Lease deposits for Company-operated stores and others	15,969		15,553		(416)
Lease deposits for franchised stores	74,430		74,354		(76)
Deferred tax assets	7,391		8,851		1,460
Deferred tax assets for land revaluation	4,808		4,828		20
Other	1,359		1,675		316
Allowance for doubtful accounts	(1,751)		(4,137)		(2,386)
Total investments and other	126,633	36.2	129,011	36.8	2,378
Total fixed assets	223,350	63.9	234,304	66.9	10,953
Total Assets	349,328	100.0	350,180	100.0	851

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)		Current fiscal year (As of February 28, 2005)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable —trade	3,511		3,096		(414)
Accounts payable —trade for franchised stores	59,640		59,457		(183)
Accounts payable— due to franchised stores	1,385		3,982		2,597
Short-term borrowings	-		200		200
Accounts payable — Other	16,856		11,867		(4,989)
Accounts payable — Other for franchised stores	493		248		(244)
Income taxes payable	9,922		11,462		1,540
Consumption taxes payable	1,087		931		(155)
Accrued expenses	1,808		1,911		103
Deposits received	39,201		35,514		(3,687)
Accrued employees' bonuses	2,630		2,636		5
Provision for use of LAWSON PASS points	-		407		407
Other	242		94		(147)
Total current liabilities	136,779	39.1	131,810	37.7	(4,968)
Long-term liabilities					
Allowance for employees' retirement benefits	1,114		1,772		658
Allowance for retirement benefits to directors and corporate auditors	212		285		73
Deposits received from franchisees and lessees	53,378		52,318		(1,059)
Total long-term liabilities	54,704	15.7	54,377	15.5	(327)
Total Liabilities	191,484	54.8	186,188	53.2	(5,296)

Fiscal period Account item	Previous fiscal year (As of February 29, 2004)			Current fiscal year (As of February 28, 2005)			Increase (Decrease)
	Amount		Composi tion ratio	Amount		Composi tion ratio	Amount
(Shareholders' Equity)							
Common stock		58,506	16.7		58,506	16.7	-
Capital surplus							
Additional paid-in capital	41,520			41,520			
Other capital surplus							
Gain on disposal of treasury stock	1			3			
Total capital surplus		41,521	11.9		41,523	11.9	1
Retained earnings							
Legal reserve	727			727			
Voluntary reserve							
General reserve	30,000			50,000			
Unappropriated retained earnings	45,636			29,736			
Total retained earnings		76,363	21.9		80,463	23.0	4,100
Land revaluation difference		(7,066)	(2.0)		(7,037)	(2.0)	29
Net unrealized gain on available for sale securities		53	0.0		110	0.0	57
Treasury stock-at cost		(11,534)	(3.3)		(9,574)	(2.8)	1,959
Total Shareholders' Equity		157,843	45.2		163,991	46.8	6,147
Total Liabilities, Minority Interest and Shareholders' Equity		349,328	100.0		350,180	100.0	851

Non-consolidated Statements of Income

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2003 to February 29, 2004)		Current fiscal year (From March 1,2004 to February 28, 2005)			Compared with previous fiscal year
	Amount		Percentage	Amount		
			%			%
Operating revenues						
Franchise commissions from franchised stores	153,788			162,963		
Net sales reported by franchised stores						
Previous fiscal year: ¥ 1,219,323million						
Current fiscal year: ¥1,213,088million						
Total net sales of Lawson stores including franchised stores						
Previous fiscal year: ¥ 1,288,297million						
Current fiscal year: ¥1,294,042million						
Other	11,616	165,404	71.6	12,769	175,732	73.4
Net sales			(100.0)			(100.0)
Net sales	(65,694)	65,694	28.4	(63,801)	63,801	26.6
Total operating revenues		231,099	100.0		239,534	100.0
Cost of goods sold						
Inventory at beginning of year	1,398			1,376		
Purchase amount	47,782			46,163		
Total	49,181			47,539		
Inventory at end of year	1,376			1,371		
Cost of goods sold	(47,804)	47,804	(72.8)	(46,167)	46,167	(72.4)
Gross profit on sales	(17,889)		(27.2)	(17,634)		(27.6)
Operating gross profit		183,294	79.3		193,366	80.7
Selling, general and administrative expenses		145,255	62.8		151,145	63.1
Operating income		38,039	16.5		42,220	17.6
Non-operating income						
Interest received	264			343		
Compensation received for damage	220			209		
Compensation received for removal	204			280		
Other	314	1,003	0.4	532	1,365	0.6
Non-operating expense						
Interest expense						
Loss on cancellation of store lease contract	1,138			1,060		
Other	274	1,412	0.6	288	1,348	0.6
Ordinary profit		37,629	16.3		42,237	17.6

Fiscal period Account item	Previous fiscal year (From March 1,2003 to February 29, 2004)		Current fiscal year (From March 1,2004 to February 28, 2005)		Compared with previous fiscal year
	Amount	Percentage	Amount	Percentage	Percentage
Special gains					
Gain on sales of fixed assets	115		18		
Special profit on disaffiliation from Group Employees' Pension Fund	811		-		
Other	20	947	17	36	0.0
Special losses					
Loss on disposal of fixed assets	3,835		3,662		
Loss on sales of fixed assets	93		130		
Provision for allowance for doubtful accounts	-		2,182		
Other	1,104	5,033	515	6,490	2.7
Income before income taxes		33,543		35,783	14.9
Income taxes – current	12,738		16,936		
Deferred income taxes	1,785	14,524	(1,739)	15,197	6.3
Net income		19,018		20,585	8.6
Unappropriated retained earnings— carried forward		28,767		23,445	
Reversal of land revaluation difference		30		5	
Interim cash dividends		2,120		3,585	
Retirement of Treasury stock		-		10,703	
Unappropriated retained earnings—at end of year		45,636		29,736	

Statements of Appropriation of Retained Earnings

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1, 2003 to February 29, 2004)		Current fiscal year (From March 1, 2004 to February 28, 2005)		Increase (Decrease)
	Amount		Amount		Amount
(Appropriation of unappropriated retained earnings)					
Unappropriated retained earnings—At end of year		45,636		29,736	(15,899)
Appropriation of retained earning					
1 Year-end dividends	2,190		3,576		
2 Voluntary reserve					
General reserve	20,000	22,190	-	3,576	(18,614)
Retained earnings to be carried forward		23,445		26,160	2,714
(Appropriation of other capital surplus)					
Other capital surplus					
Gain on disposal of treasury stock		1		3	1
Other capital surplus to be carried forward		1		3	1

《Summary of Significant Accounting Policies》

1. Marketable Securities and investments in securities:

Held-to-maturity debt securities: Carried at amortized cost.

Investments in subsidiaries and affiliated companies: Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities whose market value is readily determinable: Reported at market value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Other: Stated at cost determined by the moving-average method.

2. Inventories:

Merchandise inventories Retail method applied on an annual average cost basis

3. Depreciation method of depreciable assets

Property and store equipment:

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is from 10 to 34 years for buildings and from 5 to 8 years for furniture, fixtures and equipment.

Intangible fixed assets:

Amortization of intangible assets is computed by the straight-line method.

Software costs of software for internal use are amortized by the straight-line method over 5 years, which is the internal useful life.

4. Accounting standard for important reserves

Allowance for Doubtful Accounts:

Allowance for doubtful accounts is provided at an amount of possible losses from uncollectable receivables based on the actual rate of losses from bad debt for ordinary receivables, and on estimated recoverability for specific doubtful receivables.

Accrued Employees' Bonuses:

Accrued employees' bonuses are provided for payments of employees' bonuses based on the estimated amounts.

Provision for use of LAWSON PASS points:

The Company provides LAWSON PASS holders when purchasing goods, an entitlement to certain points that the holder can redeem for a discount on subsequent purchases from LAWSON stores. Effective March 1,2004,the company established a provision for the future use of such points by the entitled pass holders. Prior to March 1,2004,points were accounted for as an expense when a pass holder used such points. As the amount for future use can now be reasonably estimated using the experience history of percentage of points used compared with those entitled, a provision has been established. The effect of this change was to decrease operating income, ordinary profit, and income before corporate, inhabitant, and enterprise taxes by ¥407 million, respectively.

Allowance for Employees' Retirement Benefits:

Allowance for employees' retirement benefits is provided at the amount accrued based on the projected benefit obligations and plan assets at the balance sheet date. Actuarial differences will be amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within an average remaining service period of employees at the time of their occurrence. Prior service cost is amortized, starting the fiscal year incurred, on a straight-line basis over a certain period (10 years) within an average remaining service period of employees.

Allowance for retirement benefits to directors and corporate auditors:

Allowance for retirement benefits to directors and corporate auditors (including executive officers) is calculated to state the liability at 100% of the amount that would be required if all directors and corporate auditors resigned their services with the Company at the balance sheet date.

5. Lease

Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.

6. Accounting for consumption tax

Consumption tax is accounted for using the tax exclusion method.

《Notes to Non-consolidated Financial Statements》
Notes to the Non-consolidated Balance Sheets

	As of February 29, 2004	As of February 28, 2005
1.Total number of shares authorized to be issued by the Company (common stock)	412,300,000 shares	409,300,000 shares
Number of shares issued (common stock)	107,600,000 shares	104,600,000 shares
2. The numbers of treasury stock in the company (common stock)	3,283,384 shares	2,422,809 shares
3. Principal assets due to the affiliated company	Short-term loans receivable ¥6,250million	Short-term loans receivable ¥5,000million Other (other equity investments) ¥438million
4. Revaluation of land used for business	Land used for business was revalued on the basis prescribed by the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998). Revaluation difference resulted has been included in stockholders' equity as land revaluation difference, net of the related tax which is included in deferred tax assets for land revaluation. Revaluation method: The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance. Date of revaluation: February 28, 2002 The difference between book value and market value of the revalued land as of balance sheet date. ¥1,004million	Land used for business was revalued on the basis prescribed by the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998). Revaluation difference resulted has been included in stockholders' equity as land revaluation difference, net of the related tax which is included in deferred tax assets for land revaluation. Revaluation method: The value of land is determined based on the road-based prices adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119, March 31, 1998) and the assessed value as stipulated in Article 2, Item 5 of the same Ordinance. Date of revaluation: February 28, 2002 The difference between book value and market value of the revalued land as of balance sheet date. ¥1,481million
5.Contingent liabilities	-	Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc. ¥6,050 million
6.Limitation on dividend	Increase in net assets stipulated in Article 124, Item 3 of the Commercial Code Enforcement Regulation, which is valued at market price. ¥53 million	Increase in net assets stipulated in Article 124, Item 3 of the Commercial Code Enforcement Regulation, which is valued at market price. ¥110 million

7.Change in number of Shares -
issued retirement of
Treasury stock

The Number of shares for retirement
of treasury stock 3,000,000 shares
The amounts of purchased treasury
stock ¥10,703 million

Notes to Non-consolidated Statements of Income

	(Millions of yen)	
	From March 1, 2003 to February 29, 2004	From March 1, 2004 to February 28, 2005
1. Main account of selling, general and administrative expenses		
Sales promotion and advertising	11,416	9,393
Doubtful debt account	429	263
Salary	21,961	21,449
Provision for accrued employees' bonuses	2,630	2,636
Retirement benefit costs	1,256	1,319
Provision for allowance for retirement benefits to directors and corporate auditors	142	106
Rent account	42,410	46,690
Depreciation	14,074	14,996
2. Distribution of gain on sales of fixed assets		
Buildings	0	18
Land	114	-
3. Distribution of loss on disposal of fixed assets		
Buildings	2,201	1,985
Structures	289	354
Furniture, fixtures and equipment	1,294	1,294
Software	49	27
4. Distribution of loss on sales of fixed assets		
Buildings	50	113
Land	42	16

Notes to Lease Contracts

1. Finance lease contracts other than those by which the ownership of the leased property is to be transferred to lessees

(1) The assumed data as to acquisition cost, accumulated depreciation and net leased property

	(Millions of yen)	
	As of February 29, 2004	As of February 28, 2005
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	5,491	6,534
Accumulated depreciation	1,764	2,799
Leased property	3,726	3,735
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	63,748	67,597
Accumulated depreciation	25,653	33,019
Leased property	38,094	34,578

(2) Obligations under finance leases

Used by Company-operated stores and other:

Furniture, fixtures and equipment		
Due within one year	1,070	1,316
Due after one year	2,738	2,562
Total	3,808	3,879
Leased to franchised stores:		
Furniture, fixtures and other		
Due within one year	10,824	11,444
Due after one year	28,036	23,992
Total	38,861	35,436

(3) Lease payments, depreciation expense and interest expense

Lease payments	13,434	14,156
Depreciation expense	12,500	13,215
Interest expense	1,143	1,051

(4) Computation method of depreciation expense

Depreciation expense is computed by the straight-line method, assuming the lease period as the useful life and no residual value.

(5) Computation method of interest expense

The difference between the total lease contract amount and the acquisition cost is assumed to be interest, and interest expense is computed by the interest method.

2. Operating lease contracts

Obligations under operation leases

	(Millions of yen)	
	As of February 29, 2004	As of February 28, 2005
Due within one year	735	733
Due after one year	5,813	5,722
Total	6,549	6,455

Notes to Marketable Securities and Investments in Securities

(February 29,2004)

As of February 29, 2004, fair value is not readily determinable for any of the investments in subsidiaries or affiliated companies.

(February 28,2005)

Investment in subsidiaries and affiliated companies whose fair value is readily determinable as of February 28,2005 were as follows:

(Millions of yen)

	Book value per non-consolidated sheets	Fair value	Difference
Investment in subsidiary	1,379	6,784	5,405

Notes to Accounting for income taxes

1. Deferred tax assets and liabilities were described as follows:

	As of February 29, 2004	(Millions of yen) As of February 28, 2005
Deferred tax assets		
Enterprise taxes payable	924	1,087
Accrued employees' bonuses	982	1,186
Reversal of write-off investments in securities	543	309
Reversal of write-off of investments affiliates	715	348
Excess of depreciation	1,866	2,282
Excess of amortization of software	1,059	967
Allowance for employees' retirement benefits	2,197	2,695
Allowance for doubtful accounts	-	1,653
Other	1,893	1,393
Total deferred tax assets	10,182	11,925
Deferred tax liabilities		
Available-for-sale securities	(36)	(75)
Total deferred tax liabilities	(36)	(75)
Deferred tax assets-net	10,146	11,849

2. The difference between the normal effective statutory tax rate and the actual effective tax rate is reconciled as follows:

The reconciliation between the statutory tax rate and the effective tax rate has not been disclosed because the difference is less than 5%

3. Tax - rates change

In line with a new local tax law enacted and became effective on March 31, 2003 for fiscal years beginning on or after April 1, 2004, the statutory effective tax rate applied on the income taxes on deferred tax assets and liabilities (applicable only for portion taxable or deductible after March 1, 2005) decreased from 42.0% to 40.5%. This reduction of the statutory effective tax rate resulted in a decrease in deferred tax assets (net of deferred tax liabilities) of ¥264 million and corresponding increase in the provision for income taxes of ¥266 million, and a decrease in deferred tax assets for land revaluation and corresponding decrease in land revaluation difference of ¥179 million, respectively.

Transfers of Officers

(From May 27, 2005)

(1) Change in representative directors

Nothing concerned.

(2) Nominees for new directors

Director	Kouichi Narita (currently General Manager, Group CEO Office and Lawson Project Management Unit, Living Essentials Group, Mitsubishi Corporation)
Director	Takehiko Kakiuchi (currently General Manager, Planning & Coordination, Investment Administration & Credit, Living Essentials Group CEO Office, Mitsubishi Corporation)

(3) Nominee for new corporate auditors
Corporate Auditor

Hiroshi Kuwata
(currently Manager, Investment Administration Team, Controller's Office, Mitsubishi Corporation)

(4) Retiring director

Director	Teruo Aoki
Director	Hiroshi Mino

*Hiroshi Mino is outside director stipulated in Article 188, Paragraph 2, Item 7-2, of the Commercial Code.

(5) Retiring corporate auditor

Corporate Auditor	Yoshiyuki Sanada
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