

Flash Report on the Consolidated result for the year ended February 28, 2006

April 12, 2006

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 12, 2006

Parent company and other affiliated company name:

Mitsubishi Corporation (Code No.: 8058 Voting rights percentage: 31.7%)

Based on US GAAP: Unapplicable

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

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

	Total operating revenues		Operating income		Ordinary profit	
	¥ Million	%	¥ Million	%	¥ Million	%
2006 fiscal year	268,058	5.4	43,867	2.2	43,940	3.8
2005 fiscal year	254,395	3.6	42,941	12.7	42,322	15.8

	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	%	¥	¥	%	%	%
2006 fiscal year	22,025	7.8	215.50	215.46	13.1	12.0	16.4
2005 fiscal year	20,435	10.0	198.47	—	13.0	11.9	16.6

Notes: ① Equity in net income (loss) of affiliates:

2006 fiscal year: ¥285million 2005 fiscal year: (¥609million)

② Average number of shares outstanding at the beginning and end of the years:

2006 fiscal year: 102,202,291 shares 2005 fiscal year: 102,962,979 shares

③ Change in accounting method: Yes

④ Percentages for total operating revenues, operating income, ordinary profit and net income show increase (decrease) from previous year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity to total assets	Shareholders' equity per shares
	¥ Million	¥ Million	%	¥
2006 fiscal year	375,106	175,184	46.7	1,712.68
2005 fiscal year	356,309	160,282	45.0	1,568.66

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

shares at February 28, 2006 102,286,068 shares at February 28, 2005 102,177,191

(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
2006 fiscal year	46,932	(55,282)	(7,794)	60,440
2005 fiscal year	47,328	(33,297)	(13,836)	76,584

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

Number of consolidated subsidiaries: 6

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): 0

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

2. Forecast Consolidated Performance for 2007 fiscal year (from March 1, 2006, to February 28, 2007)

	Total operating revenues	Operating income	Ordinary profit	Net income
	¥ Million	¥ Million	¥ Million	¥ Million
2007 interim period	147,000	24,100	24,000	12,100
2007 fiscal year	292,000	45,300	45,300	23,300

Reference: Forecast net income per share for the 2007 fiscal year: 223.76yen

*Calculated based on average number of shares outstanding of 104,125,881 shares at closing of February 2007 fiscal term, which reflects the transfer of treasury stock scheduled on April 14, 2006.

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 forecasts due to many factors. In addition, please refer to 16th 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 serves as the headquarters for its own and franchised stores in the LAWSON chain.
- A subsidiary, NATURAL LAWSON, INC., manages the "NATURAL LAWSON" chain of convenience stores, whose business is conducted in line with the catchwords: "Beauty" and "Health." This subsidiary develops store formats and provides product planning and development services, as well as guidance on the management of individual stores.
- A subsidiary, VALUE LAWSON, Inc, was established on April 13, 2005. This subsidiary manages the "LAWSON STORE 100" chain of outlets, which primarily targets housewives and elderly customers, and offers products at a flat-rate price of mainly ¥100 per item. This subsidiary develops store formats and provides product planning and development services, as well as individual store management guidance.
- 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.

[Ticket sales business]

- A subsidiary, LAWSON TICKET, INC., is listed on the JASDAQ market. This subsidiary sells tickets for concerts, sporting events, movies, etc. mainly through the Loppi multimedia terminals in LAWSON stores.

[e-commerce business]

- A subsidiary, i-Convenience, Inc, maintains the "iLAWSON," an i-mode-compatible site that allows i-mode users to order various products and services and receive a variety of information via their mobile phones.

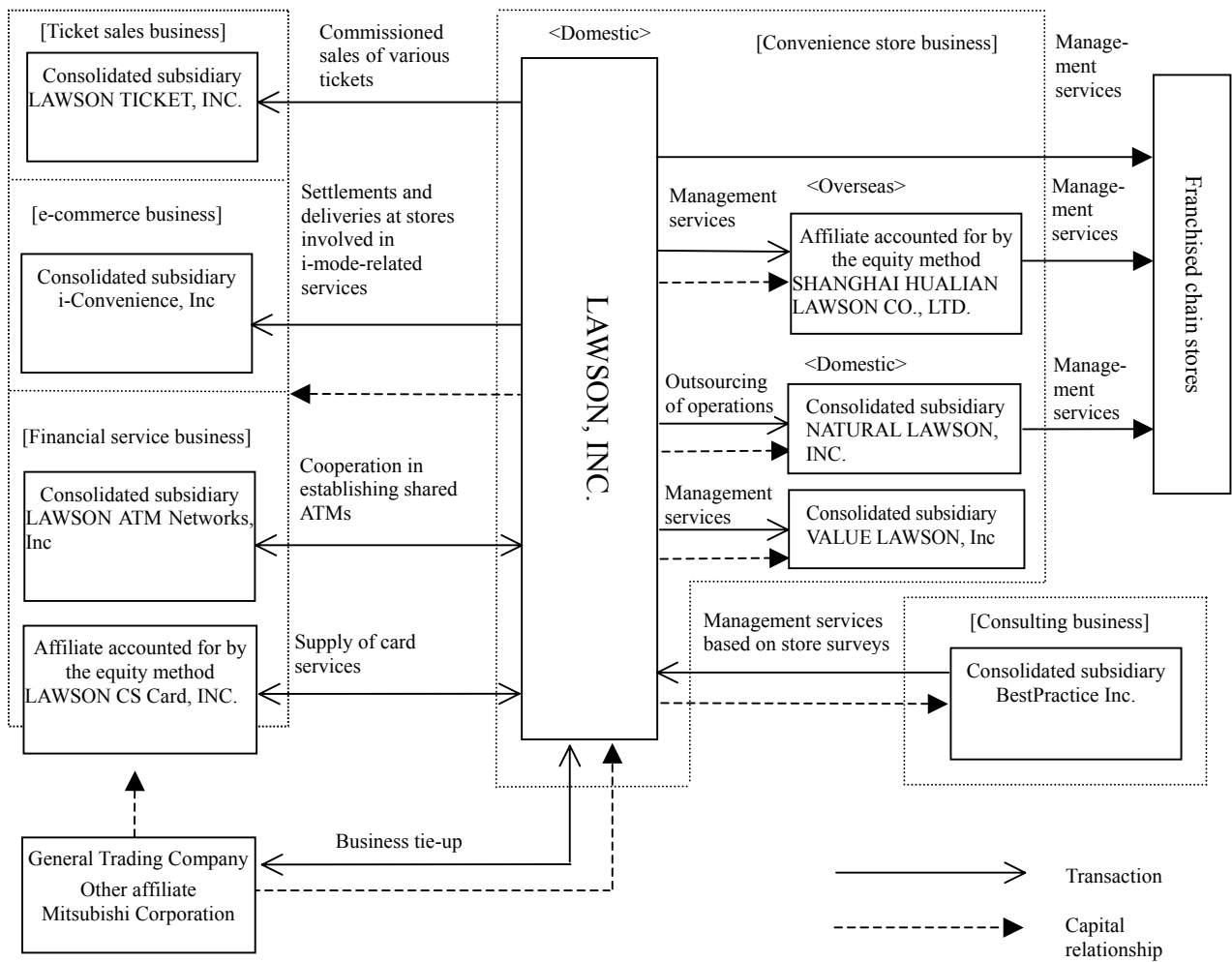
[Financial service business]

- A subsidiary, LAWSON ATM Networks, Inc, installs, maintains and operates bank ATMs located mainly in LAWSON stores, and conducts clerical procedures for depositing and withdrawing money as well as money transfers via the ATM network in question, for alliance partners on a consignment basis.
- An affiliate, LAWSON CS Card, INC., issues credit cards exclusively to LAWSON customers and supplies them with a wide range of unique card services through such channels as the Loppi terminals.

[Consulting business]

- A subsidiary, BestPractice Inc., mainly conducts surveys of convenience store operation performance. On the basis of the survey results, it then gives advice and specific proposals to LAWSON stores on improvement of store operation performance.

The following chart shows the relationship among Group companies and affiliates.



Management Policy

1. Basic Management Policy

(1) Corporate Philosophy and Code of Conduct

The occasion of our 30th anniversary presented an opportunity for all of us at LAWSON to reexamine our common raison d'être. As a result, we established a new corporate philosophy: "Happiness and Harmony in Our Communities." Under this concept, we have established a three-point Code of Conduct that governs our corporate activities: 1) Acting with utmost consideration for others, 2) Challenging with innovative ideas and actions, and 3) Having a strong will to attain the objectives.

In particular, we place the utmost importance on customer satisfaction as the foundation of our achievements; in light of this, we will continue efforts to enhance customer satisfaction in the hope of contributing to our customers' happiness.

(2) Vision and Strategy

We are taking various steps to realize "Happiness and Harmony in Our Communities." Central to this effort is "the Neighborhood Hot Station," a nickname for our stores which communicates the idea of "hot" new products, information and services that take into account local preferences, and aims to be a place where customers can relax. Under the "LAWSON Challenge 2007" medium-term business plan, we are implementing initiatives aimed at winning the support of local communities, so as to realize "Happiness and Harmony in Our Communities."

2. Basic Policy on Profit Distribution

The Company places a high priority on profit distribution to shareholders, and follows a policy of paying appropriate dividends with due regard for sufficient 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 ¥45 per share for the first-half period, and plans to pay a year-end dividend of ¥45 for a total dividend of ¥90 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 renovation 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 ¥10 per share, up ¥100 over the reporting term. At the present time, the Company intends to ensure continued profit distribution around the target payout ratio of 40%.

3. Performance Indicators (Targets)

With the aim of efficiently utilizing shareholders' equity and increasing enterprise value, we have set the following medium-term targets: an annualized growth rate of 10% in EPS for the three-year period from fiscal 2006 to fiscal 2008, and ROE of 15% by the end of fiscal 2008.

4. Medium-to-Long-Term Management Strategies

We recognize the following to be the six priority challenges facing the convenience store business, and the management strategies we have formulated aim to resolve these issues.

(1) Widen Target Customer Segments in Japan

With the aging of the population and the low birthrate, convenience stores will need to target not only men in their 20s and 30s (their traditional core customers), but also working women, housewives and the elderly.

(2) Changes in Market Structure and Intensifying Competition

Amid growing disparities among regions and income levels, convenience store operators face intensifying competition from other industries and retail segments, such as food service industry and drugstores, and are being required to make adjustments to nationwide and standardized store management practices and diversify their product lineup.

(3) Soaring Raw Materials Prices

The sector must address the possibility of further raw material price increases due to unpredictable developments, such as rising oil prices and outbreaks of BSE and bird flu.

(4) Deregulation Resulting from Amendments to the Large-scale Retail Store Location Law

With customer choice broadening due to the lengthening of supermarket operating hours and the deregulation of pharmaceutical product sales, convenience stores must provide new value to respond to these changes.

(5) Increasing Social Concern about CSR (Corporate Social Responsibility)

Convenience store chain operators must not only seek profit, but also recognize the societal duties their sector bears, and conduct operations in awareness of CSR prerogatives.

We will realize "Happiness and Harmony in Our Communities" by taking measures to address these six issues. In this effort, we will implement the following three policies:

1. Strengthening Product Development Prowess (Using innovation to increase the competitiveness of our products)
2. Improving Store-Operating Skills (Applying the Three Challenge Practices)
3. Reinforcing Store Development Capabilities (Opening stores in convenient locations)

In addition, another basic strategy is the adoption of a store format tailored to the changing market structure to increase the satisfaction of each and every one of the communities and customers we serve.

Also, anticipating further changes in our operating environment in the future, we are taking measures to enhance customer convenience. We are making our best efforts to support owners of franchised stores so they can make their stores more attractive and improve their profits.

In more concrete terms, LAWSON is focusing on the following five initiatives.

(1) Strengthening Our New Product Development Capabilities

With a focus on product safety, high quality standards, health-consciousness and great taste, we will strengthen our ability to develop original products, by improving the efficiency of procurement of fresh foods and ingredients, and introducing the latest culinary tools at consigned manufacturing companies. Also, we will do our best to ensure a regional flavor. Through such initiatives, we aim to raise our original added value and develop products that gain customer support.

(2) Improving Store-Opening Capabilities through the Implementation of the "Three Challenge Practices"

Our goal is not to create a nationwide uniform store format, but to ensure that each store shows individuality that increases customer satisfaction.

Creating individually tailored stores means creating sales spaces that thoroughly satisfy the particular group of customers in each community. At the same time, we aim to create attractive stores where the customer feels comfortable shopping and makes return visits, by ensuring that stores and their surrounding neighborhoods are kept clean and that customers are truly made to feel welcome.

(3) Reinforcing Store-Opening Capabilities (Opening stores in optimal locations with profitability as the priority)

Our store-opening policy prioritizes customer convenience and profitability for both franchise store owner and headquarters, by avoiding a standardized approach to decision-making and instead choosing new store locations taking into account the characteristics of the region and specific locations. New store openings are supported through close collaboration between operations and development departments in data collection regarding prospective sites, and alliances with major companies and transactions with local companies in prospective markets.

(4) Enhancing Customer Convenience through Alliances

To enhance customer convenience, we develop initiatives based on new ideas rather than on established practices. We have begun undertaking site-specific store openings, such as on hospital premises (Hospital LAWSON stores), and have also opened Postal LAWSON stores, which are located in post offices and are operated through a business alliance with Japan Post. In this way, we are developing stores in new domains, finely tailored to customer needs. We have offered a membership service through the "LAWSON Pass" points-system program, the "Loppi" multimedia terminals, and services utilizing in-store ATMs.

(5) Store Formats Tailored to Their Markets

To respond to the price ranges and functions that are demanded by the continuously evolving markets, we will provide store formats tailored to specific markets.

Our regular-format LAWSON stores will focus on providing new products, famous brand goods and convenient services, while the NATURAL LAWSON chain will make beauty and health the main focus of its product lineup. The LAWSON STORE 100 chain will offer perishables in small quantities and a broader product lineup at a standardized price of ¥100.

5. Basic Approach to Corporate Governance and Progress

(1) Basic Approach to Corporate Governance

We place great importance on the following seven stakeholders and strive to maximize enterprise value by making LAWSON stores a place where:

1. the customer is always made to feel welcome
2. franchised store owners can feel that they are realizing their full potential
3. part-time staff and workers on short-term contracts can develop their skills and grow as a result of their own efforts
4. suppliers and service providers see their dreams take shape
5. employees can take pride in their work and really feel a sense of being useful to society
6. shareholders can contribute indirectly to society and invest their dreams for the future, and
7. members of customer communities can feel welcome and safe.

These are our goals, and the realization of these objectives will contribute to the maximization of enterprise value. To this end, we will continue to ensure that laws and regulations are strictly observed, and social codes of conduct are honored. In accordance with LAWSON's corporate philosophy and the LAWSON Code of Ethics, we will give attention to people requiring support. Moreover, we believe it important to increase management soundness and transparency as well as to raise corporate governance standards through compliance and rigorous disclosure.

(2) Our Corporate Governance System

Governance concerning management decision-making, execution and auditing

1. The Company's Governing Bodies

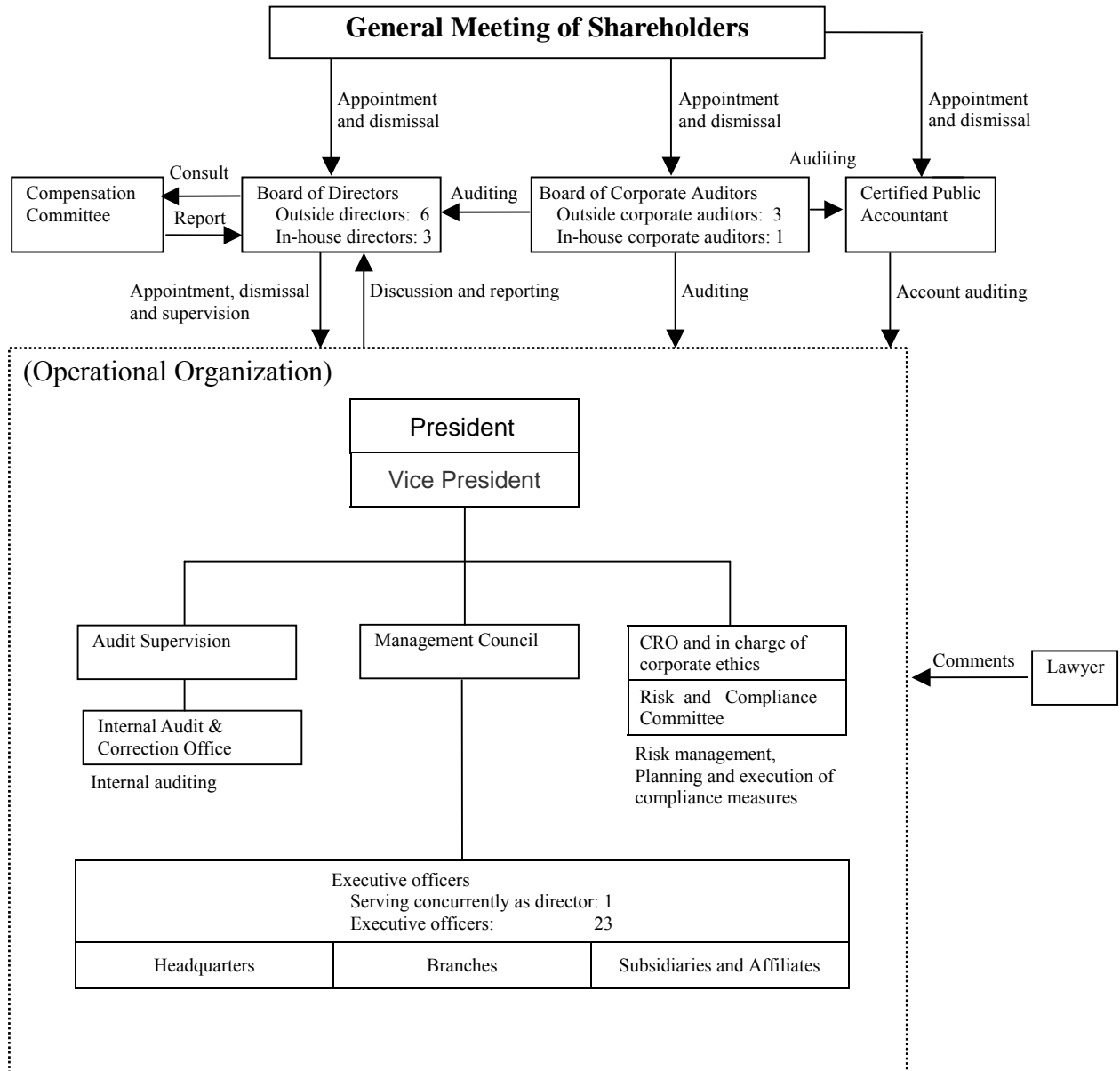
Regarding corporate governance, LAWSON employs a statutory auditor system instead of the so-called committee system. It currently has four statutory auditors, including three outside auditors. The corporate auditors supervise the decision-making process and executive actions of the Board of Directors. By a resolution at the regular general meeting of shareholders held in May 2005, LAWSON's Board of Directors consists of nine directors, with six from outside the Company. The number of Board members has been kept to a minimum to speed up the decision-making process. Outside directors account for the majority, which enables them to contribute their insight and expertise on companywide management strategy-making and other important issues, thus helping to make LAWSON's governance system more appropriate.

The Management Committee meets once a month (from March 2006, once a week) in principle. This meeting is attended by the three internal directors, the executive officers, the internal statutory auditor, and also heads of Head Office departments and Head of branch office when their presence is required. At these meetings, decisions are made following discussion of important matters relating to management strategy.

LAWSON's corporate governance framework is structured as outlined on the next page.

Corporate Governance and Internal Control Systems

(As of February 2006)



2. Internal Controls System

With regard to our scope of business, centering on convenience store operations, LAWSON provides a diverse assortment of products and services through its extensive network of retail branches encompassing 47 prefectures nationwide. Therefore, LAWSON is required to ensure strict compliance with a large number of legal restrictions, at both the national and local levels. At the same time, LAWSON must take measures to minimize a variety of risks. The Company has drafted the LAWSON Code of Ethics, as guidelines for employees' ethical conduct, and all our employees are working hard to uphold this code of conduct. We are thus strengthening our internal control system by working to raise employee awareness regarding the code of conduct and ensure strict compliance with all laws and regulations. Together with the above-mentioned management decision-making and checking process carried out by the Board of Directors, Board of Corporate Auditors, and the Management Committee, strict legal compliance and ethical conduct are expected to raise the level of the Company's internal control system.

To further strengthen our Internal Control System, we drew up guidelines for bolstering internal controls based on the corporate law in February 2006. These guidelines went into effect on March 1, 2006. In addition to making outside directors the majority on the Board of Directors and establishing the Board of Corporate Auditors as well as an internal auditing department (as an independent unit), we have appointed a Chief Compliance Officer (CCO) to oversee compliance and risk management, and set up a CCO Office with dedicated staff members. LAWSON has also assigned compliance officers to seven LAWSON branches nationwide. By drawing up stricter compliance guidelines and periodically offering employee training on ethical conduct, we intend to increase employees' familiarity with the LAWSON Code of Ethics and raise awareness companywide concerning compliance issues.

3. Risk Management System

From the perspective of corporate ethics, we at LAWSON place a priority on three major risk areas: product quality and hygiene control, data security, and natural and other disasters. We must be prepared for all varieties of emergencies that may arise, and develop a system by which to provide a swift response.

Under ordinary circumstances, the Risk and Compliance Committee meets once a month to discuss ways to avoid undue risk. A subordinate organization to this committee identifies potential risks, determines the priority level of each risk, devises risk-prevention measures, and monitors the progress of the process for responding to contingencies. In the event of a contingency, an emergency risk response committee will be established to prevent the situation from worsening. In this way, management is making efforts to minimize damage. Once the damage has been contained, another committee will be set up to survey the situation and prevent further occurrences. This committee examines the factors that contributed to the materialization of the risk in question, and also considers ways to regain the public's trust and prevent future occurrences. In this way, we will work to improve our risk management capabilities.

In the case of large-scale disasters, we will set up a disaster response headquarters to provide a swift response. Meanwhile, we are in the process of developing a system for enabling the swift implementation of disaster response measures.

4. Internal Audits, Board of Corporate Auditors and Independent Auditors

a. Internal Audits

To strengthen monitoring functions for better observance of regulatory and social responsibility standards, we have also established an independent internal auditing department (the Internal Audit & Correction Office), and continuously check upon the appropriateness of operations, including the legality of our operations, and our risk management posture.

b. Board of Corporate Auditors

The Board of Corporate Auditors consists of four statutory auditors, including three outside auditors, and in principle meets every month. Each corporate auditor attends important meetings, including those of the Board of Directors, and offers opinions from a fair and impartial perspective regarding general management issues and individual issues. In this way, they supervise executive actions of the Board of Directors by examining the Company's internal control system, which include legal observance and risk management frameworks.

c. Auditing of Accounts by Certified Public Accountants

In accordance with the stipulations of the Law Concerning Special Provisions under the Commercial Code for the Auditing of Joint-Stock Companies, as well as the Securities and Exchange Law, the Company has concluded a contract for auditing services with the accounting firm Deloitte Touche Tohmatsu (hereinafter "Tohmatsu"). There are no special relationships involving mutual interests between the Company and Tohmatsu or any of the staff of Tohmatsu engaged in auditing work for the Company. In close liaison with the Company's statutory auditors, the auditing firm issues a report on its planned auditing work for each business period, and subsequently issues regular reports on the progress of the auditing. During each business period, the Company's statutory auditors and the

auditing firm exchange information and opinions whenever deemed necessary to the efficiency and accuracy of the auditing process.

The names of the Certified Public Accountants (CPAs), and the number of Assistant Certified Public Accountants and other assistants involved in the auditing of the Company's accounts for the reporting period are as follows.

●Names of CPAs involved:

CPAs stipulated in Article 28 of the Certified Public Accountants Law: Toshihiko Matsumiya, Seiji Harada, Hiroyuki Morita

●Numbers of assistant staff involved:

4 CPAs, 4 Assistant CPAs, and 1 other auditing staff

5. Compensation for Board Members and Corporate Auditors; Fees for Auditing Companies

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	¥176 mn	5	¥53 mn	16	¥230 mn
Retirement pay (one-time lump sum payment) authorized by general meeting of shareholders	2	¥31 mn	1	¥ 4 mn	3	¥36 mn
Total		¥208 mn		¥58 mn		¥266 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 27, 2005.
3. The above figure for corporate auditors on the Company's payroll includes one corporate auditor who retired as of May 27, 2005.

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	¥ 4 million
Total	¥46 million

Summary of personal relations, capital relations, business relations and other conflict of interest issues between LAWSON and its outside directors and outside statutory auditors

Of the six outside directors, Hiroshi Tasaka is Professor at the Graduate School of Tama University, and the President of SophiaBank Limited., to which the Company made a payment for the evaluation of essays, written to commemorate the Company's 30th anniversary. Reiko Yonezawa is President of The R Co., Ltd., and runs part of our education training program under an outsourcing arrangement; Muneaki Masuda is President and Representative Director of Culture Convenience Club Co., Ltd., with which LAWSON has formed a strategic alliance, and which jointly operates our points-card programs.

None of these relationships involve any of these three outside directors in direct conflicts of business interest with LAWSON. Koji Furukawa is Senior Adviser to the President of Mitsubishi Corporation, our most important strategic partner. Koichi Narita is General Manager of the Living Essentials Group CEO Office of Mitsubishi Corporation. Takehiko Kakiuchi is General Manager of Planning & Coordination, Investment Administration & Credit, within Mitsubishi Corporation's Living Essentials Group CEO Office. Of the three outside statutory auditors, Masaaki Kojima is an ex-employee of Mitsubishi Corporation, and Hiroshi Kuwata is an outside statutory auditor dispatched by Mitsubishi Corporation. Tetsuo Ozawa is a lawyer, and has no business relationship with us.

Measures implemented over the last 12 months to enhance corporate governance

The Board of Directors met 15 times during the 12-month period to decide on issues stipulated in laws and other important management matters, as well as to monitor the conduct of operations. The Compensation Committee, chaired by outside director Koji Furukawa, met six times and made recommendations to the Board of Directors regarding the decision-making process on compensation of directors and executive officers. The Risk and Compliance Committee, chaired by Katsuhiko Yamasaki, director, senior managing executive officer, Chief Risk Office, and corporate ethics officer, met 12 times to discuss the internal compliance system and make decisions related to risk management at the operational level.

In March 2005, the CSR Promotion Office was established under the direct supervision of the president to pursue CSR activities, and at the same time a director in charge of internal auditing was appointed to strengthen compliance and internal controls.

6. Relationship between LAWSON, INC. and its Parent Company and others

(1) Trade Name of Parent Company and Others

Parent Company and Others	Relationship	Percentage of voting rights held by parent company and others (of which, those on equity stakes held indirectly)	Securities exchanges on which equity shares issued by the parent company and others are traded
Mitsubishi Corporation	Other related company	31.7% (0.3%)	Tokyo Stock Exchange Osaka Securities Exchange Nagoya Stock Exchange London Stock Exchange

(2) Position of Reporting Company (LAWSON, INC.) within the Corporate Group Headed by Mitsubishi Corporation

Mitsubishi Corporation holds 31.7% of all voting rights in LAWSON, INC., or 32,399,000 shares (including shares held by other subsidiaries). LAWSON, INC. is an affiliate of Mitsubishi Corporation accounted for by the equity method. LAWSON, INC. and Mitsubishi Corporation maintain an important and mutual strategic relationship, and, in addition to frequent exchanges of personnel, are currently in the process of reinforcing their collaboration in existing business fields, including with regard to store opening and product development, as well as in ventures into new business fields. In these ways, the management of the Company aims to raise its enterprise value.

(3) Matters Relating to Transactions with the Parent Company and others

Nothing to report

Operating Performance and Financial Position

1. Review of Operation

(1) Overview

During the reporting period, ended February 2006, Japan's economy showed a steady recovery. The nation's GDP in the October-December quarter recorded positive growth on a year-on-year basis in both real and nominal terms, led by consumer spending and private housing investment. On the Tokyo Stock Exchange, the Nikkei Average recovered the ¥16,000 level, and hopes for an economic recovery rose toward the end of the reporting period. However, the year-on-year decline in the GDP deflator, which indicates the trend of goods prices, was larger for the Oct.-Dec. quarter than for the preceding quarter, suggesting that it was still too soon to announce an end to the country's long-running deflationary economy. Moreover, while the economy clearly appeared to be on the road to recovery in Japan's three major metropolitan areas, there was little sense of a real recovery in the rest of the country, and business confidence levels were also far from uniform across the whole country.

In the retail industry, the past few years have seen increasingly severe competition between companies in different retail sectors or operating very different business models. As a result, wide gaps have opened up between the successful and the unsuccessful companies, largely depending on disparities in the effectiveness of their management strategies, as well as the soundness of their financial bases.

In the convenience store sector, major chains continued to pursue active store-opening strategies during the reporting period. Meanwhile, supermarkets are attempting to challenge the convenience stores' competitiveness by extending their opening hours, and in a growing number of cases even opening round the clock. The convenience store chain operators have also had to contend with fierce competition from other business formats, such as restaurant chains, specialist boxed-lunch and other ready-to-eat food shop chains, and the so-called drug stores, where food sales have now assumed considerable importance. Another notable recent development has been the rapid growth of a new type of convenience store model that focuses on fresh food (particularly vegetables) and that serves customers living close by.

As a result of these changes in the business environment, competition among conventional convenience stores — whose core target customers are young males mainly seeking time-saving and convenience — has developed into a war of attrition. As a consequence, sales by these convenience store chains on an existing store basis once again fell below the previous-year level during the reporting period.

Against this background, the LAWSON Group implemented the following management measures:

1. During the reporting period, we focused management efforts on strengthening our network of existing stores and opening new outlets, based on three guiding principles: improving our product development capabilities; reinforcing our store operation capabilities; and enhancing our store-opening capabilities. The successful implementation of these three objectives will, we are sure, lead to greater customer satisfaction.
2. By developing our new store format chain – LAWSON STORE 100 – together with our main LAWSON chain and the NATURAL LAWSON chain, we are beginning to create a three-pronged strategic approach to our target markets.
3. To mark the occasion of our 30th anniversary, we announced a new corporate philosophy: “Happiness and Harmony in our Community.” This encapsulates our aim of being a company that is a vital presence not only for our customers, but for society as a whole. Specific initiatives were launched to put this corporate philosophy into practice.

The management measures described above had the following results in the reporting period.

As a result of our efforts, total operating revenues came to ¥268,058 million, an increase of 5.4% over the previous term, while ordinary profit posted a year-on-year growth of ¥1,617 million (up 3.8%) to ¥43,940 million, thanks in part to an increase of ¥7,821 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 ¥1,589 million, or 7.8%, to ¥22,025 million.

The following is a segmental breakdown of business results.

Convenience Store Operations

Amid bewilderingly rapid change in the convenience store industry, LAWSON has staked its survival and future prosperity in this fiercely contested market on the development of new formats that meet the needs of specific customer segments.

Firstly, we have added a third store format to our existing two (the main chain of LAWSON convenience stores and our NATURAL LAWSON chain emphasizing value-added, health-oriented products). The first store in the new format, called LAWSON STORE 100, was opened in May 2005. It targets customer demographics not easily satisfied by the conventional convenience store, such as housewives and elderly people. Thus, it offers reasonably priced fresh food items (almost all items are priced at ¥100), as well as ready-cooked dishes and other processed foods. With the development of this new business format, we now have three different types of convenience store that address the needs of a very wide potential customer segment. That is to say, our mainline LAWSON stores target mainly young male consumers, principally singles, with an extensive array of popular and ever-changing products that always keeps up with the latest consumer preference trends. Our NATURAL LAWSON stores, with their emphasis on health and beauty, and their promise of support for a comfortable and natural lifestyle, target female consumers. By adopting a carefully chosen mix of these three store formats, we have expanded our area of possible store-openings, thus facilitating further corporate growth.

Through further enhancement of our convenience store operations under the headings of the following three principles, we are working to raise customer satisfaction to new heights.

1. Strengthening our product development prowess, based on our uniquely innovative approach and focusing on three keywords — safe, healthy, and tasty.
2. Improving store operation skills through the “Three Challenge Practices” — 1) creating stores and store layouts that please our customers, 2) keeping stores clean, and 3) serving customers with friendliness and courtesy.
3. Reinforcing store-opening capabilities by: a) constantly searching for the store sites that are the most convenient for our customers, b) setting strict standards for the selection of new store locations to ensure the stores will be highly profitable, c) developing new store formats, and d) forming business alliances where this is deemed advantageous

Product strategy

In the field of product development strategy, during the term under review we actively adopted innovative concepts to satisfy customer needs and widen the gap between ourselves and our nearest competitors. In the Gohantei brand of cooked rice dishes, which was launched in 2004 under the conceptual banner of incorporating innovative and surprising ideas into our products, we brought to market an average of two new products every month. In addition to our Kanitama no Kurozuan (Chinese omelette with crabmeat) and our Aburi Cha-shu-don (grilled roast pork-slice on rice), both of which we launched in April 2005, we also developed and launched new boxed lunches incorporating healthy foods such as the combination of rice and five other cereals. We also introduced the completely new idea of including soup in our boxed lunches. This allows our boxed lunches to more closely resemble a proper meal at home or in a restaurant. (Traditional Japanese cuisine prescribes three dishes, one soup, and a bowl of rice as the minimum for a civilized meal.) In this way, we have refurbished the Gohantei series of boxed lunches and enhanced their appeal.

Also popular was our range of sushi dishes, particularly our grilled mackerel sushi. Sales of this product category exceeded the level recorded for the previous year.

In our Onigiriya (pressed rice balls) series, launched three years previously, we became the first convenience store operator to market hand-rolled rice balls in a square nori (dried laver seaweed) wrapping (for which we have taken out a manufacturer’s patent). This product combines the crisp crunchiness of the nori, especially at the corners, with a plump, moist rice ball. We launched this product on our shelves nationwide in July 2005. In addition we have already introduced a new menu for rice balls, which are one of our mainstay items.

We have also responded to requests from female office workers in their twenties and thirties to introduce meals with a greater variety of ingredients and a good nutritional balance by launching the Deli & Pasta range of cooked pasta with meat & vegetables in October 2005.

As for the category of hot food offered at our store counters, we revamped our lineup during the reporting period, notably with the launching of a new series of our popular Kara-age Kun (Japanese-style fried chicken) as well as our first Western-style fried chicken series. Thanks to active sales promotion campaigns conducted at stores, sales posted year-on-year growth.

In June of 2005 we conducted a campaign in celebration of the 30th anniversary of the Company’s establishment, which included the sale of special boxed lunches based on the idea of “surprise & fun.”

Breakdown by merchandise category of sales at chain stores

In the processed foods category, sales of chilled beverages were favorable (up 2.5% year-on-year). Regarding fast food, sales of hot food were up (5.0% year-on-year), and sales of daily delivered (fresh) food rose 1.9% on the back of a favorable showing by bakery goods and desserts. In non-food products, a favorable performance by toys was not enough to offset the decline in revenues from the sale of magazines and the loss of sales of prepaid cards for toll-road expressways, as sales of the latter were discontinued during the term. As a result, total store sales posted a year-on-year decline of 0.6%.

Fiscal period Product group	Previous fiscal year March 1, 2004, to February 28, 2005		Current fiscal year March 1, 2005, to February 28, 2006		YoY Percentage change
	Sales (Millions of yen)	Ratio to total (%)	Sales (Millions of yen)	Ratio to total (%)	
Processed foods	665,687	50.1	682,006	50.1	+2.5
Fast foods	297,369	22.4	312,289	22.9	+5.0
Daily delivered foods	148,134	11.1	150,917	11.1	+1.9
Nonfood products	217,887	16.4	216,519	15.9	-0.6
Total	1,329,077	100.0	1,361,731	100.0	+2.5

Store operations

In store operations, we focused efforts on minimizing the two most common forms of “loss,” i.e. the opportunity loss (potential sales loss) when an item sought by a customer is absent from the store’s shelves (the store having sold out of that fast-moving item) and the real loss incurred when a product remains on the shelves beyond its sell-by date, owing to lack of popularity. The way to minimize both kinds of loss is to closely monitor the popularity of each item handled on a district-by-district basis, enabling the store management to order just the right amount. This requires the collection and analysis of product sales data for each store. A “single-store card” (local customer analysis at each store level) is then drawn up for each store, showing an analysis of the marketing and management, and this card is used to determine a hypothetical correct merchandise assortment. This is then put to a practical test, and revised as necessary according to the actual sales results.

By enforcing the use of this system, we aim to make ordering by our franchisees much more of an exact science. For this reason, our store supervisors, who constitute the linchpin of our store management guidance system, were given an even larger role in supporting our franchisees in managing their stores. In addition, in 2004 we introduced the Mystery Shopper program, in which inspectors pretending to be ordinary shoppers visit LAWSON stores and evaluate them from a customer’s perspective on such points as quality, service and cleanliness. This program has firmly established itself as a valuable management tool that motivates franchisees to make improvements to their stores and has made a valuable contribution to enhancing the store operation skills of each franchisee.

Store-opening strategy

In opening new retail outlets, the Company can choose from among three store formats — the conventional LAWSON store chain, the NATURAL LAWSON chain, and the LAWSON STORE 100 chain — to suit the particular needs of customers in each district. When we had only the conventional LAWSON chain, it proved difficult to open stores in certain locations because of severe competition from other convenience store operators. Now, however, we can distinguish ourselves from nearby rival stores by opening outlets in the NATURAL LAWSON or LAWSON STORE 100 chains.

During the reporting period, our store-opening program focused mainly on Japan’s three main urban areas, i.e. the Kanto region (around Tokyo), the Kinki region (encompassing Kobe, Osaka and Kyoto), and the Chubu region (around Nagoya). By rigorously applying in-house-designed criteria for store location selection, we have: 1) avoided opening stores on unpromising sites (No-Good Line Criteria), 2) employed our grid-point system to pinpoint the ideal location for a new store in each particular area, and 3) opened stores only when the projected return on investment (ROI) meets our standards. In these ways, we have opened a number of new stores that can be expected to make a valuable contribution to our earnings.

As part of our overall strategy of opening outlets in various types of locations, in November 2005 we concluded a business tie-up with Tokyu Corporation, a major railway company operating in the Kanto region. In line with this, we plan to open the first in a new line of stores within Tokyu’s train stations in the summer of this year.

We had already been operating a number of LAWSON stores in Tokyo Metro subway stations, and in February of this year we opened the first NATURAL LAWSON stores in Tokyo Metro stations with the aim of raising the name recognition of this store brand.

As a result of these measures, the number of new stores opened during the reporting period came to 717, while the number of outlets closed (including those that were reopened at a better location nearby) came to 428, giving a net year-on-year increase of 289 stores. As a result, the total number of stores at term-end was 8,366, of which 51 were stores in the NATURAL LAWSON chain, and 35 were LAWSON STORE 100 outlets.

The number of stores operated by SHANGHAI HUALIAN LAWSON CO., LTD., a Chinese affiliate under the equity method, increased by 73 during the term under review, to 283 stores at term-end.

As a result, the total number of stores operated by the LAWSON Group at the end of the reporting period was 8,649, of which 8,366 stores were in Japan and 283 overseas.

Number of stores by prefecture (As of February 28, 2006)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	500	Saitama	323	Gifu	91	Tottori	71	Saga	58
Aomori	139	Chiba	287	Shizuoka	151	Shimane	65	Nagasaki	83
Iwate	171	Tokyo	843	Aichi	340	Okayama	114	Kumamoto	89
Miyagi	162	Kanagawa	485	Mie	80	Hiroshima	122	Oita	113
Akita	131	Niigata	106	Shiga	118	Yamaguchi	110	Miyazaki	80
Yamagata	55	Toyama	102	Kyoto	181	Tokushima	103	Kagoshima	110
Fukushima	97	Ishikawa	73	Osaka	837	Kagawa	96	Okinawa	127
Ibaraki	107	Fukui	74	Hyogo	471	Ehime	152	Total	8,366
Tochigi	105	Yamanashi	62	Nara	100	Kochi	56	For reference: Shanghai	283
Gunma	68	Nagano	136	Wakayama	111	Fukuoka	311		

Note: For SHANGHAI HUALIAN LAWSON CO., LTD., the number of stores as of the it's closing date (December 31, 2005) is reported.

Other business developments

Turning to services (other than the sale of goods) offered at LAWSON Group stores, the number of bill settlement service payments that we handled during the reporting period increased to over 130 million for a value of ¥1,165.2 billion. We also installed ATMs at new locations in Miyagi prefectures, bringing the number of prefectures in Japan in which we offer ATM services to 27 out of the total of 47 prefectures. As for our LAWSON PASS card series (three types with combined credit card and point card functions, one type with point card function only), which we started in August 2002, the number of cardholders showed a substantial increase to top the 2 million mark.

Regarding the issue of corporate social responsibility (CSR), in March 2005 we established the CSR Promotion Office. The Office, under the direct control of the president, is charged with increasing the Company's activities in the fields of environmental preservation and contribution to the welfare of society. In April 2005 we became the first private-sector company to be awarded the Green Culture prize from the National Land Afforestation Promotion Organization. This award was given in recognition of our afforestation achievements, primarily through the LAWSON Green Fund, a tree-planting project in which our employees and the store staff of our franchisees are encouraged to actively participate, and which we have been operating since 1992.

Moreover, in February 2006, we became the first convenience store company to receive the METI Minister's Prize for outstanding achievement in the field of energy conservation in fiscal 2005 at a national energy conservation contest sponsored by the Energy Conservation Center, a public foundation. This prize was awarded in recognition of the contribution to energy conservation made by the energy-saving devices used in our existing stores, including the Eco-Pack (an energy saving device for refrigerators, air-conditioners, and moisture-prevention heaters, enabling the optimal operation) and the Eco-Monitor (an automated electricity consumption monitoring system).

In addition, during the reporting period, the LAWSON Group was actively engaged in restoration activities for areas struck by natural disasters such as earthquakes and typhoons. Our efforts included soliciting financial support for the victims via a special disaster fund, as well as the provision of much-needed food and other materials to affected communities. As a result, the aggregate outlay since 1992 by the LAWSON Green Fund and our fund-raising for victims of natural disasters comes to approximately ¥2.8 billion.

Other Operations

In addition to its convenience store operations, the LAWSON Group also engages in ticket sales, e-commerce, financial services, and consulting.

Ticket sales

Ticket sales are handled by LAWSON TICKET, INC., which primarily sells tickets for concerts. During the reporting period, sales of tickets for performances and sports events climbed steadily. Owing to inappropriate handling of personal data, the company's website and mobile phone site were closed down temporarily in October 2005.

Financial services

LAWSON ATM Networks, Inc. is enjoying growth in the number of ATMs installed at LAWSON stores and in the number of transactions conducted via existing ATMs, and its business performance is following an upward trend. It installed its first ATMs in Miyagi Prefecture in February 2006, bringing the number of ATM across the country to 3,812 as of the term end.

(2) Income and Expenses

Operating results (on a consolidated basis)

Operating revenues increased ¥13,662 million, or 5.4% year-on-year, to ¥268,058 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, Inc., a subsidiary.

Operating income rose ¥926 million, to ¥43,867 million, an increase of 2.2%. The gross profit margin rose by ¥12,184 million, while the growth in selling, general and administrative expenses was kept down to ¥11,258 million.

Ordinary profit rose ¥1,617 million, or 3.8% year-on-year, to ¥4,394 million. This is in part the result of the move back into the black of LAWSON CS Card, Inc., an equity-method affiliate.

As a result, income before income taxes and minority interests for this period amounted to ¥38,722 million, up 7.4% year-on-year, thanks largely to a gain of ¥988 million on the sale of investment securities. Consequently, net income came to ¥22,025 million, up ¥1,589 million, or 7.8% year-on-year. Earnings per share came to ¥215.50.

(3) Outlook for Fiscal 2007

The economy is expected to maintain its leisurely recovery pace, but increasingly intense inter-category competition is foreseen in the retail sector, while customer preferences are likely to become still more diverse.

In our own industry, competition among conventional convenience stores — whose core target customers have hitherto been young males mainly seeking time-saving and convenience — has developed into a war of attrition in a mature market between companies of essentially the same nature. Against the background of these factors, as well as the dwindling number of children and the rising life expectancy, it is becoming more and more difficult for convenience store operators to assure themselves of stable and sustainable long-term growth.

Amid this business environment, the management of the LAWSON Group, in pursuit of stable growth over a medium-term timescale, have determined that they cannot be constrained by the conventional approaches of the convenience store industry, and that they must adopt an across-the-board pursuit of innovation with the goal of ensuring that the Group continues to evolve and adapt to a changing world.

In line with this, in fiscal 2006 the management of LAWSON initiated a new medium-term management plan entitled LAWSON Challenge 2007. Under this plan, the Group's priorities are as listed below:

1. Innovation
2. Customer satisfaction and employee satisfaction
3. Improved productivity
4. Corporate social responsibility (CSR)

For fiscal 2007, in line with the objectives of our medium-term management plan as outlined above, our management efforts will be particularly focused on the following three elements:

1. Innovation-driven product development capability, focusing on cooked-rice meals and fast food
2. Strengthened store operational capabilities through extensive data collection and accurate analysis to improve the precision of store inventory ordering, thereby reducing sales opportunity losses for popular products
3. Enhanced store-opening capability, focusing on locations with high ROI potential, through strict application of our in-house store-opening criteria

Particularly with reference to (3) above (enhanced store-opening capability), we intend to widen the scope of possibilities for store location selection by buying properties in addition to leasing them, which has been our principal means thus far.

In addition to the measures described above, to offer products and services that match the preferences of women and older people — two demographic categories whose preferences have not been sufficiently catered to by the conventional convenience store format — we will invest even more of our management resources in the energetic development of our two new store chains, NATURAL LAWSON and LAWSON STORE 100, as well as the redesigning of our merchandise assortment to differentiate ourselves from our competitors.

By improving our existing stores, opening new stores with high potential ROI, and firmly establishing our new chain formats, we will be able to raise the level of customer satisfaction, thereby expanding our target consumer demographic. This will generate improved earnings not only for LAWSON, but also for our franchisees.

For the year ending February 28, 2007, the Company anticipates consolidated ordinary profit will increase 3.1% year over year to ¥45.3 billion and non-consolidated ordinary profit will rise 2.2% to ¥44.6 billion.

(Millions of yen)

	August 2006 interim period (Forecast)	February 2007 fiscal term (Forecast)	February 2006 fiscal term (Actual results)	Year-on-year change (%)
Operating revenues	147,000	292,000	268,058	8.9
Operating income	24,100	45,300	43,867	3.3
Ordinary profit	24,000	45,300	43,940	3.1
Net income	12,100	23,300	22,025	5.8
Net income per share (yen)	116.48	223.76	215.50	—

Average number of shares outstanding:

Aug. 2006 interim period: 103,877,807 shares Feb. 2007 fiscal year: 104,125,881 shares Feb. 2006 fiscal year: 102,202,291 shares

*The average number of shares outstanding for August 2006 interim period and February 2007 fiscal term is calculated by reflecting the transfer of treasury stock scheduled on April 14, 2006.

Reference: Forecast non-consolidated performance

(Millions of yen)

	August 2006 interim period (Forecast)	February 2007 fiscal term (Forecast)	February 2006 fiscal term (Actual results)	Year-on-year change (%)
Operating revenues	132,000	259,000	248,041	4.4
Operating income	23,900	44,900	43,804	2.5
Ordinary profit	23,700	44,600	43,639	2.2
Net income	12,500	23,600	22,707	3.9
Net income per share (yen)	120.33	226.64	222.18	—

Average number of shares outstanding:

Aug. 2006 interim period: 103,877,807 shares Feb. 2007 fiscal year: 104,125,881 shares Feb. 2006 fiscal year: 102,202,291 shares

*The average number of shares outstanding for August 2006 interim period and February 2007 fiscal term is calculated by reflecting the transfer of treasury stock scheduled on April 14, 2006.

2. Financial Position

Cash Flows

For the term ended February 2006, net cash provided by operating activities declined ¥395 million year-on-year, to ¥46,932 million. This is due to increase in gain on sales of investments in securities, accounts receivable due from franchised stores and accounts receivable - other, despite increase in accounts payable - other and deposits received. Net cash used in investing activities increased by ¥21,985 million year-on-year to ¥55,282 million. In addition to a decrease in proceeds from redemption of marketable securities, payment for purchase of marketable securities and acquisition of fixed assets increased.

Net cash used in financing activities posted a year-on-year decline of ¥6,041 million, to ¥7,794 million. Although cash dividends paid amounted to ¥8,187 million, this was partially offset by income of ¥395 million from the exercise of stock options.

As a result of the above, cash and cash equivalents at the end of the reporting period registered a decline of ¥16,143 million from the previous term-end, to ¥60,440 million.

3. Operational Risks

Hereunder, we list the principal categories of risk that may have a material effect on the business performance or financial position of the LAWSON Group. The management of the Group performs its work in the constant awareness of the possible materialization of such risks. While conducting risk management to lower as far as possible the likelihood of the materialization of risks, we also have a place a set of procedures for contingency management, enabling us to minimize losses in the event of the materialization of a risk or risks. However, we cannot guarantee that every possible category of risk to which the Group's activities are exposed is sufficiently covered by this system.

(1) Risks Involving Changes in the Group's Operating Environment

In view of the fact that the LAWSON Group is principally involved in the operation of the convenience store business, changes in the economic structure of Japan or other countries in which the Group operates, as well as fluctuations in business and market conditions, and structural changes in society, insofar as they may affect consumer behavior, may exert a significant effect on the Group's business performance and financial position. Other factors that are likely to affect the Group's business performance and financial position include competition with other convenience store operators or with companies operating some other business format within the retail sector, as well as any changes that may be made to Japan's Large-Scale Retail Store Location Law.

(2) Risks Involving Food Safety

The Group, in its mainline convenience store business, engages in the sale of food products. In cooperation with its business partners, the Group rigorously enforces a system of hygiene control (under which the strict observance of product quality standards is mandated) stretching from the initial food processing stage to the delivery of food items to its stores. The Group also ensures that strict hygiene control is maintained within its stores. In the unlikely event that a serious incident should occur, involving food poisoning or the discovery of foreign matter within a food product, this would damage the Group's reputation for trustworthiness in the eyes of its customers, thereby, in all probability, having an adverse impact on the Group's business performance and financial position. In the event of such an occurrence, it is the Group's policy to make as full a disclosure of the situation as possible through the mass media, with the aim of restricting the effect on the reputation of our stores among consumers to a minimum.

(3) Risks Involving the Handling of Personal Information

In the course of conducting its business operations, the Group comes into the possession of, and handles, various items of personal information relating to customers, business partners, and the owners of our franchised stores (the franchisees). The management is aware of the serious risk of the accidental or deliberate leakage of personal information to third parties, and of the risk of unauthorized access to such information. To minimize the probability of the materialization of such risks, the Group has exerted, and continues to exert, its full efforts to construct and maintain an adequate security system. The Group has published its Personal Information Protection Policy, and all Group employees have been acquainted with the details of this policy. Despite these precautions, however, there remains a possibility that personal information in our safekeeping may be released to unauthorized persons, and this could have a significant adverse effect on the business performance and financial position of the Group.

(4) Legal Risk

The Group operates stores in all regions of Japan, and in a number of overseas locations. The majority of these stores are open for business 24 hours of the day. For this reason, we are forced to carefully observe a number of national and local laws and regulations, both in Japan and overseas, pertaining to store-opening locations, business hours, hygiene standards, merchandise procurement transactions, and environmental protection, and are required to obtain various permits and licenses from the competent authorities. For these reasons, in the event of changes in such laws or regulations in the future, which are impossible to predict, or of changes in the method of enforcement of the law, we may face the necessity for the outlay of further expenses to conform to the new laws, and so on, and this may have a material effect on our business performance and financial position.

(5) Risks Involving Franchise Operations

In its principal business line of convenience store operations, the LAWSON Group employs a franchise system under which the owner of store signs a franchise contract with the Group, enabling him or her to use the Group's proprietary brand name and logo: in this way, the franchisee's store becomes part of the LAWSON chain. Consequently, there is a risk that an illegal or improper action or actions by one franchised store could damage the image of the chain as a whole.

Furthermore, as our franchise system is designed to encourage the improvement of business performance for both the franchised store and the Company, on the basis of a relationship of mutual trust between the two contracted

parties, in the event that the said relationship of trust between the Group and its franchisees is weakened, and as a consequence, that a large number of franchise contracts are dissolved, this would present a high risk of negatively affecting the business performance and financial position of the Group.

(6) Risks Involving Unusual Weather or Damage Due to Natural Causes

In the event that meteorological phenomena such as precipitation (rainfall or snow) or temperatures vary sharply from the annual average, in either direction, this may have a substantial adverse impact on the business performance and financial position of the Group. Moreover, as the Group operates a truly national chain of stores, with outlets located in all of Japan's 47 prefectures (which belong to a number of different climate zones), the Group is constantly at risk of adverse effects on its business performance or financial position from natural phenomena such as unusually heavy snowfalls or the passage of powerful typhoons.

Consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)			Current fiscal year (As of February 28, 2006)			Increase (Decrease)
		Amount	Composi tion ratio		Amount	Composi tion ratio	Amount
(Assets)			%			%	
Current assets							
Cash and bank deposits		71,585			60,940		(10,644)
Accounts receivable—due from franchised stores		10,332			10,762		430
Marketable securities		13,021			19,651		6,630
Merchandise inventories		1,376			1,573		196
Prepaid expenses		4,620			5,116		495
Short-term loans receivable		5,000			6,250		1,250
Accounts receivable—other		18,725			21,578		2,852
Deferred tax assets		3,240			3,188		(52)
Other		772			861		88
Allowance for doubtful accounts		(81)			(81)		0
Total current assets		128,592	36.1		129,841	34.6	1,248
Fixed assets							
Property and store equipment Used by Company-operated stores and other							
Buildings and structures	9,688			10,746			
- Accumulated depreciation	4,820	4,867		5,117	5,628		760
Furniture, fixtures and equipment	8,561			9,057			
- Accumulated depreciation	6,158	2,403		6,671	2,385		(17)
Land		4,296			3,813		(483)
Construction in progress		668			1,169		501
Total		12,236	3.5		12,997	3.5	761
Used by franchised stores							
Buildings and structures	104,908			119,569			
- Accumulated depreciation	42,733	62,174		50,604	68,964		6,789
Furniture, fixtures and equipment	49,562			51,704			
- Accumulated depreciation	33,154	16,407		35,818	15,886		(521)
Land		1,346			1,423		76
Total		79,929	22.4		86,273	23.0	6,344
Total property and store equipment— net		92,165	25.9		99,271	26.5	7,105

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)		Current fiscal year (As of February 28, 2006)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Software	10,969		9,843		(1,126)
Software development in progress	1,336		5,964		4,627
Consolidated adjustment account			13		13
Other	1,703		1,451		(251)
Total intangible fixed assets	14,010	3.9	17,272	4.6	3,262
Investments and other					
Investments in securities	1,464		2,538		1,074
Long-term loans receivable	16,809		20,630		3,821
Long-term prepaid expense	2,646		3,125		478
Lease deposits for Company-operated stores and others	15,610		15,072		(538)
Lease deposits for franchised stores	74,354		74,856		502
Deferred tax assets	8,291		11,046		2,754
Deferred tax assets for land revaluation	4,828		3,330		(1,497)
Other	1,673		2,583		909
Allowance for doubtful accounts	(4,137)		(4,462)		(324)
Total investments and other	121,541	34.1	128,720	34.3	7,179
Total fixed assets	227,716	63.9	245,265	65.4	17,548
Total Assets	356,309	100.0	375,106	100.0	18,796

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)		Current fiscal year (As of February 28, 2006)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable —trade	3,097		3,374		277
Accounts payable —trade for franchised stores	59,457		59,795		337
Accounts payable— due to franchised stores	3,982		3,416		(566)
Accounts payable — other	12,772		13,170		398
Accounts payable — other for franchised stores	248		244		(3)
Income taxes payable	11,717		10,323		(1,393)
Consumption taxes payable	996		927		(68)
Accrued expenses	2,088		2,304		216
Deposits received	40,269		44,614		4,344
Accrued employees' bonuses	2,788		2,544		(244)
Provision for use of LAWSON PASS points	409		364		(44)
Other	102		159		56
Total current liabilities	137,931	38.7	141,241	37.7	3,309
Long-term liabilities					
Allowance for employees' retirement benefits	1,807		2,816		1,009
Allowance for retirement benefits to directors and corporate auditors	304		317		13
Deposits received from franchisees and lessees	52,334		51,336		(998)
Allowance for impairment loss on leased property	—		140		140
Other	159		247		88
Total long-term liabilities	54,606	15.3	54,858	14.6	252
Total Liabilities	192,537	54.0	196,099	52.3	3,562
(Minority Interest)					
Minority Interest	3,490	1.0	3,822	1.0	332
(Shareholders' Equity)					
Common stock	58,506	16.4	58,506	15.6	0
Capital surplus	41,523	11.7	41,520	11.1	(3)
Retained earnings	76,721	21.6	88,355	23.6	11,634
Land revaluation difference	(7,037)	(2.0)	(4,854)	(1.3)	2,182
Net unrealized gain on available for sale securities	110	0.0	695	0.2	585
Foreign currency translation adjustments	33	0.0	105	0.0	72
Treasury stock-at cost	(9,574)	(2.7)	(9,144)	(2.5)	430
Total Shareholders' Equity	160,282	45.0	175,184	46.7	14,902
Total Liabilities, Minority Interest and Shareholders' Equity	356,309	100.0	375,106	100.0	18,796

Consolidated Statements of Income

(Millions of yen)

Account item	Previous fiscal year (From March 1, 2004 to February 28, 2005)		Current fiscal year (From March 1, 2005 to February 28, 2006)			Compared with previous fiscal year	
		Amount	Percent age		Amount	Percent age	Percentage
Operating revenues			%			%	
Franchise commissions from franchised stores	162,963			170,784			
Net sales reported by franchised stores							
Previous fiscal year: ¥ 1,265,275 million							
Current fiscal year: ¥1,295,704 million							
Total net sales of LAWSON stores including franchised stores							
Previous fiscal year: ¥ 1,329,077 million							
Current fiscal year: ¥1,361,731 million							
Other	26,910	189,873	74.6	30,628	201,412	75.1	106.1
Net sales							
Net sales	(64,522)	64,522	(100.0)	(66,645)	66,645	(100.0)	103.3
			25.4			24.9	
Total operating revenues		254,395	100.0		268,058	100.0	105.4
Cost of goods sold	(46,818)	46,818	(72.6)	(48,296)	48,296	(72.5)	103.2
Gross profit on sales	(17,703)		(27.4)	(18,348)		(27.5)	
Operating gross profit		207,576	81.6		219,761	82.0	105.9
Selling, general and administrative expenses		164,635	64.7		175,894	65.6	106.8
Operating income		42,941	16.9		43,867	16.4	102.2
Non-operating income							
Interest received	355			396			
Compensation received for damage	209			163			
Compensation received for removal	280			254			
Equity in gains of affiliated companies				285			
Other	532	1,377	0.5	524	1,626	0.6	118.0
Non-operating expense							
Interest expense	13			10			
Loss on cancellation of store lease contract	1,062			1,290			
Equity in losses of affiliated companies	609						
Other	312	1,996	0.8	252	1,553	0.6	77.8
Ordinary profit		42,322	16.6		43,940	16.4	103.8

Fiscal period Account item	Previous fiscal year (From March 1,2004 to February 28, 2005)			Current fiscal year (From March 1,2005 to February 28, 2006)			Compared with previous fiscal year
		Amount	Percent age		Amount	Percent age	Percentage
Special gains							
Gain on sales of investments in securities				988			
Gain on sales of investments in affiliated companies	92						
Reversal of allowance for doubtful accounts				263			
Gain on increase in a subsidiary's net equity resulted from it's allocation of new shares	134						
Other	19	245	0.1	56	1,308	0.5	532.6
Special losses							
Loss on disposal of fixed assets	3,690			3,013			
Loss on sales of fixed assets	130			409			
Provision for allowance for doubtful accounts	2,182						
Loss on impairment of long-lived assets				2,708			
Other	525	6,528	2.5	394	6,525	2.5	100.0
Income before income taxes		36,040	14.2		38,722	14.4	107.4
Income taxes – current	17,313			17,823			
Deferred income taxes	(1,945)	15,367	6.1	(1,606)	16,216	6.0	105.5
Minority interest in earnings of consolidated subsidiaries		237	0.1		480	0.2	202.8
Net income		20,435	8.0		22,025	8.2	107.8

Consolidated Statements of Capital surplus and Retained Earnings

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1, 2004 to February 28, 2005)		Current fiscal year (From March 1, 2005 to February 28, 2006)		Increase (Decrease)
	Amount		Amount		Amount
(Capital surplus)					
Balance of capital surplus at beginning of the period		41,521		41,523	1
Increase in capital surplus					
Gain on disposal of treasury stock	1	1			(1)
Decrease in capital surplus					
Loss on disposal of treasury stock			3	3	3
Balance of capital surplus at end of the period		41,523		41,520	(3)
(Retained earnings)					
Balance of retained earnings at beginning of the period		72,769		76,721	3,952
Increase in retained earnings					
Net income	20,435	20,435	22,025	22,025	1,589
Decrease in retained earnings					
Cash dividends	5,775		8,174		
Retirement of treasury stock	10,703				
Loss on disposal of treasury stock			33		
Reversal of land revaluation difference	5	16,485	2,182	10,390	(6,093)
Balance of retained earnings at end of the period		76,721		88,355	11,634

Consolidated Statements of Cash Flows

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2004 to February 28, 2005)	Current fiscal year (From March 1,2005 to February 28, 2006)
	Amount	Amount
Operating activities:		
Income before income taxes	36,040	38,722
Depreciation of fixed assets	15,059	15,859
Loss from disposal of fixed assets	2,447	1,845
Loss on impairment of long-lived assets		2,708
Amortization of intangible fixed assets	4,574	5,034
Loss from disposal of intangible fixed assets	314	910
Increase in allowance for retirement benefits to employees	663	1,009
Increase in allowance for doubtful accounts	2,342	324
Interest and dividend income	(355)	(396)
Interest expense	13	10
Equity in losses (gains) of affiliated companies	609	(285)
Loss on sales of fixed assets	130	409
Gain on sales of investments in securities	(92)	(988)
Gain on increase in a subsidiary's net equity resulted from it's allocation of new shares	(134)	
Other —net	1,444	263
Decrease (Increase) in accounts receivable due from franchised stores	8,123	(430)
Decrease (Increase) in merchandise inventories	0	(196)
Increase in accounts receivable—other	(745)	(2,477)
Increase in accounts payable—trade and due to franchised stores	2,097	49
Increase (decrease) in accounts payable—other	(4,919)	394
Increase (decrease)in deposits received	(3,476)	4,344
Decrease in deposits received from franchisees and lessees	(1,034)	(998)
Increase in other assets and liabilities—net	(503)	(343)
Subtotal	62,597	65,768
Interest and dividend income received	349	392
Interest expenses paid	(13)	(10)
Income taxes paid	(15,605)	(19,217)
Net cash provided by operating activities	47,328	46,932

Fiscal period Account item	Previous fiscal year (From March 1,2004 to February 28, 2005)	Current fiscal year (From March 1,2005 to February 28, 2006)
	Amount	Amount
Investing activities:		
Payment for purchase of marketable securities	(34,319)	(44,709)
Proceeds from redemption of marketable securities	35,545	33,075
Proceeds from sales of investments in securities	216	1,705
Increase in advances to associated company	(250)	
Decrease (increase) in short-term loans receivable	1,250	(1,250)
Sales of a subsidiary's stock - net	(585)	
Payment for acquisition of property and store equipment	(26,710)	(28,630)
Increase in intangible fixed assets	(2,691)	(9,257)
Payment for acquisition of good will	(1,685)	
Increase in lease deposits	623	36
Increase in long-term loans receivable - net		(3,821)
Increase in long-term prepaid expenses	(1,086)	(1,072)
Other—net	(3,605)	(1,359)
Net cash used in investing activities	(33,297)	(55,282)
Financing activities:		
Proceeds from minority shareholders	681	
Proceeds from issuance of share upon exercise of stock options		395
Payment for acquisition of treasury stock - at cost	(8,798)	(1)
Cash dividends paid	(5,775)	(8,187)
Other	56	
Net cash used in by financing activities	(13,836)	(7,794)
Net (decrease) increase in cash and cash equivalents	195	(16,143)
Cash and cash equivalents, beginning of year	76,389	76,584
Cash and cash equivalents, end of year	76,584	60,440

《Basis of Presenting the Consolidated Financial Statements》

1. Scope of consolidation

Consolidated subsidiaries: 6

LAWSON TICKET, INC.

i-Convenience, Inc

LAWSON ATM Networks, Inc

BestPractice Inc.

NATURAL LAWSON, INC.

VALUE LAWSON, Inc

All the subsidiaries are consolidated.

VALUE LAWSON, Inc was incorporated in this interim period.

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 Company 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.

Long - term prepaid expense

Amortization of long-term prepaid expense is computed by the straight - line method.

(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.

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 corporate auditors and executive officers of The Company, and to directors and corporate auditors of the certain consolidated subsidiary are calculated to state the liability at 100% of the amount that would be required if all corporate auditors, executive officers and directors resigned their services with the Company at the balance sheet date.

At the general shareholders' meeting held on May 27, 2005, the company abolished the conventional retirement benefit system for directors and retirement payments for previous directors are recognized in Account payable-other (Current liabilities).

(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.

9. Long-Lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No.6. "Guidance No.6. "Guidance for Accounting Standard for impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year end February 28, 2006.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase operating income and ordinary profit by ¥132 million, and to decrease income before income taxes by ¥1,854 million for the ended February 28, 2006, respectively.

In addition, the Group represents accumulated impairment losses in the form deductible directly from assets in pursuant to revised regulations of consolidated financial statements.

《Notes to Consolidated Financial Statements》

Notes to the Consolidated Balance Sheets

As of February 28, 2005	As of February 28, 2006
1. Investment in affiliated companies	1. Investment in affiliated companies
Investments in securities (stock) ¥291 million	Investments in securities (stock) ¥576 million
Other (other equity investments) ¥436 million	Other (other equity investments) ¥510 million
2. Accounts receivable due from franchised stores, accounts payable due to franchised stores-the amounts of credits and debts incurred for the deal with franchised stores.	2. Same as in the left
3. Accounts payable-trade for franchised stores - the amounts payable to vendors for merchandise purchased by franchised stores.	3. Same as in the left
4. Accounts payable-other due for franchised stores - the amounts payable for supplies purchased by franchised stores.	4. Same as in the left
5. Deposits received from franchise and lessees-the amounts received from mainly franchised stores.	5. Same as in the left
6. Issued numbers of common stock 104,600,000 shares	6. Same as in the left
7. The numbers of treasury stock in the Company (common stock) 2,422,809 shares	7. The numbers of treasury stock in the Company (common stock) 2,313,932 shares
8. 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. ¥1,481 million	8. 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
9. Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc. ¥6,050 million	9. Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc. ¥9,925 million

Notes to Consolidated Statements of Income

(Millions of yen)

From March 1, 2004 to February 28, 2005

From March 1, 2005 to February 28, 2006

1. Net sales, cost of goods sold, operating gross profit-the amounts from mainly company operated stores.	
2. Main account of selling, general and administrative expenses	
Sales promotion and advertising	9,296
Doubtful debt account	264
Salary	22,485
Provision for accrued employees' bonuses	2,790
Retirement benefit costs	1,327
Provision for allowance for retirement benefits to directors and corporate auditors	132
Rent account	46,785
Depreciation of fixed assets	15,059
3. Distribution of loss on disposal of fixed assets	
Buildings and structures	2,339
Furniture, fixtures and equipment	1,294
Software	55
4. Distribution of loss on sales of fixed assets	
Buildings	113
Land	16

1. Same as in the left	
2. Main account of selling, general and administrative expenses	
Sales promotion and advertising	8,812
Doubtful debt account	596
Salary	23,749
Provision for accrued employees' bonuses	2,544
Retirement benefit costs	1,581
Provision for allowance for retirement benefits to directors and corporate auditors	193
Rent account	51,236
Depreciation of fixed assets	15,859
3. Distribution of loss on disposal of fixed assets	
Buildings and structures	1,764
Furniture, fixtures and equipment	1,249
4. Distribution of loss on sales of fixed assets	
Buildings	117
Furniture, fixtures and equipment	1
Land	289

5.long-lived assets

5.long-lived assets

The Group recognized an impairment loss mainly for each stores as the smallest category bear cash flows.

The carrying amount of those assets was written down to the recoverable amount. The Group recognized impairment loss as special losses on following assets due to a decline in value of the related asset categories due mainly to a continuous operating losses.

Category by use	location	Assets	million of yen
Stores	Tokyo	Buildings and structure furniture, fixtures and equipment and others	272
	Osaka	"	182
	Others	"	1,869
Others	Tokyo	Software • furniture, fixtures and equipment and others	67
	Kyoto and others	Land	316
Total			2,708

Category by fixed assets

Buildings and Structure	1,675
Furniture, fixtures and equipment	452
Leased property	203
Land	316
Software	59

Recoverable value of the assets of the Group is the higher amount of net selling price or value in use. Not selling price of land was calculated based on appraised value by real estate appraiser or contract price, and the value in use was calculated by discounting estimated future cash flows to which the 6.0% discount rate was applied.

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 28, 2005	As of February 28, 2006
Cash and bank deposits	71,585	60,940
Marketable securities	13,021	19,651
Time deposits, etc., for which the deposit period exceeds three months	(2)	(500)
Bonds, etc., for which the redemption period exceeds three months	(8,018)	(19,651)
Cash and cash equivalents	76,584	60,440

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 28, 2005</u>	<u>As of February 28, 2006</u>
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	16,604	17,072
Accumulated depreciation	7,987	10,311
Accumulated impairment loss	-	14
Leased property	8,617	6,747
Software		
Acquisition cost	782	734
Accumulated depreciation	39	195
Accumulated impairment loss	-	-
Leased property	743	538
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	67,597	68,378
Accumulated depreciation	33,019	38,351
Accumulated impairment loss	-	126
Leased property	34,578	29,899
(2) Obligations under finance leases		
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Due within one year	3,460	3,377
Due after one year	6,114	4,469
Total	9,574	7,847
Allowance for impairment loss on leased property	-	14
Leased to franchised stores:		
Furniture, fixtures and equipment		
Due within one year	11,444	11,972
Due after one year	23,992	18,897
Total	35,436	30,869
Allowance for impairment loss on leased property	-	126
(3) Lease payments, depreciation expense, interest expense and impairment loss		
Lease payments	16,132	16,733
Transfer from allowance for impairment loss on leased property	-	63
Depreciation expense	15,180	15,781
Interest expense	1,063	1,090
Impairment loss	-	203
(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 28, 2005	As of February 28, 2006
Due within one year	733	662
Due after one year	5,722	5,231
Total	6,455	5,894

Notes to Market Value Information of Securities

(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 Stock	Equity	744	932	188
	Bond certificate	-	-	-
	Other	-	-	-
	Subtotal	744	932	188
Securities with book value per consolidated balance sheets exceeding cost Stock	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 28, 2005, 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 28, 2005 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	

(As of February 28, 2006)

1. Information regarding marketable held-to-maturity debt securities as of February 28, 2006, 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.	5,003	5,004	1
	Corporate Bonds	-	-	-
	Other	-	-	-
	Subtotal	5,003	5,004	1
Securities with book value per consolidated balance sheets exceeding market value	Government and municipal bonds, etc.	-	-	-
	Corporate Bonds	-	-	-
	Other	11,008	11,005	(2)
	Subtotal	11,008	11,005	(2)
Total		16,011	16,010	(1)

2. Information regarding marketable available-for-sale securities as of February 28, 2006, 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	76	1,252	1,175
	Bond certificate	299	299	0
	Other	-	-	-
	Subtotal	376	1,552	1,175
Securities with book value per consolidated balance sheets exceeding cost	Equity	0	0	0
	Bond certificate	3,841	3,838	(3)
	Other	210	210	0
	Subtotal	4,052	4,049	(3)
Total		4,428	5,601	1,172

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
1,705	988	0

4. Available-for-sale securities whose fair value is not readily determinable as of February 28, 2006, were as follows:

Available-for-sale securities	(Millions of yen)
	Book value per consolidated balance sheets
Unlisted shares (excluding OTC securities)	0
Total	0

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 28, 2006 by contractual maturity were as follows:

Type	(Millions of yen)	
	1 year or less	
Government and municipal bonds, etc.	5,243	-
Other bonds	14,408	497
Total	19,651	497

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, 2004 to February 28, 2005

1. Summary of the retirement benefit plans adopted

The Company and certain domestic subsidiary have defined benefit - lump - sum severance indemnity plans which cover substantially all of their employees.

The Company established a trust fund for its lump - sum severance indemnity plan. In addition, the Company has a defined Contribution plan for severance payments.

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.

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.

From March 1, 2005 to February 28, 2006

1. Summary of the retirement benefit plans adopted

The Company and certain domestic subsidiary have defined benefit - lump - sum severance indemnity plans which cover substantially all of their employees.

The Company established a trust fund for its lump - sum severance indemnity plan. In addition, the Company has a defined Contribution plan for severance payments.

2. Projected benefit obligations	(Millions of yen)
a Projected benefit obligations	(10,710)
b Plan assets	5,536
c Projected benefit obligation in excess of plan assets (a + b)	(5,173)
d Unrecognized prior service cost	1,405
e Unrecognized actuarial differences	950
f Reported amount on the consolidated balance sheets, net (c + d + e)	(2,816)

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	813
b Interest cost	196
c Amortization of prior service cost	175
d Amortization of actuarial differences	118
e Net periodic benefit cost	1,304
f Contribution to defined contribution plan 2	248
g Total (= e + f)	1,552

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 28, 2005	(Millions of yen) As of February 28, 2006
Deferred tax assets		
Enterprise taxes payable	1,116	832
Accrued employees' bonuses	1,248	1,143
Valuation loss on investments in securities	309	-
Excess of depreciation	2,297	3,320
Excess of amortization of software	975	929
Allowance for employees' retirement benefits	2,708	3,255
Allowance for doubtful accounts	1,653	1,771
Impairment loss	-	2,197
Other	2,294	2,952
Subtotal of deferred tax assets	12,605	16,403
Valuation allowances	(997)	(1,690)
Total deferred tax assets	11,607	14,713
Deferred tax liabilities		
Net unrealized gain on available-for-sale securities	(75)	(478)
Total deferred tax liabilities	(75)	(478)
Deferred tax assets-net	11,532	14,234

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

The reconciliation between the statutory tax rate and the effective tax rate for previous and 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 28, 2005) (February 28, 2006)

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 28,2005) (As of February 28,2006)

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

3. Overseas sales

(February 28, 2005) (February 28, 2006)

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 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				
Directors	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		

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.

(As of February 28, 2006)

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				
Directors	Reiko Yonezawa			President, The R Co., Ltd.			Outsourcing of employees' training	Employees' training fee	9		
	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	24	Accounts receivable - Other	2
								Payments for tie-up fee about T card point program	503	Accounts payable - Other	46

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 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.
3. 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	Two directors of the Company	Outsourcing of a card services etc	Increase in short-term loans receivable	1,250	Short-term loans receivable	6,250
								Interest received	37	Accrued interest receivable	4
								Guarantee for bank borrowings	9,925		
								Receipts of guarantee fee	14		

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	4,026	Accounts payable-trade	335
								(Purchases for the franchised stores)	(66,038)	Accounts payable-trade for franchised stores	5,234
	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	11,753	Accounts payable-trade	925
								(Purchases for the franchised stores)	(199,732)	Accounts payable-trade for franchised stores	14,644

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.

Significant subsequent events of the corporate group after the closing of accounts

Based on the agreement of business alliance and capital tie-up with NTT DoCoMo, on March 28, 2006, the Company decided to transfer 2,092,000 of LAWSON common stock owned by the Company (about 2.0% of the total issued shares) to DoCoMo for a total amount of ¥ 9,020,704,000.

Overview of the Non-consolidated result for the year ended February 28, 2006

April 12, 2006

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 12, 2006

Interim Dividend System: Yes

Date of dividend payment: May 29, 2006

Date of Ordinary General Meeting of Shareholders: May 26, 2006

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

1. Non-consolidated Performance for the 2006 Fiscal Year (from March 1, 2005, to February 28, 2006)

(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	%
2006 fiscal year	248,041	(1,360,495)	3.6(2.4)	43,804	3.8	43,639	3.3
2005 fiscal year	239,534	(1,329,077)	3.6(3.4)	42,220	11.0	42,237	12.2

	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	%	¥	¥	%	%	%
2006 fiscal year	22,707	10.3	222.18	222.14	13.2	12.1	17.6
2005 fiscal year	20,585	8.2	199.93	—	12.8	12.1	17.6

Notes ① Average number of shares during the term 2006 fiscal year: 102,202,291 shares 2005 fiscal year: 102,962,979 shares

② Changes in accounting methods: Yes

③ 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
	¥	¥	¥			
2006 fiscal year	90.00	45.00	45.00	¥ Million 9,200	% 40.5	% 5.1
2005 fiscal year	70.00	35.00	35.00	7,161	35.0	4.4

(3) Financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity to total assets	Shareholders' equity per share
	¥ Million	¥ Million	%	¥
2006 fiscal year	368,276	179,505	48.7	1,754.94
2005 fiscal year	350,180	163,991	46.8	1,604.97

Note ① Number of outstanding shares at the end of the fiscal year:

2006 fiscal year: 102,286,068 shares 2005 fiscal year: 102,177,191 shares

② Number of treasury stock-at cost at the end of the fiscal year:

2006 fiscal year: 2,313,932 shares 2005 fiscal year: 2,422,809 shares

2.Forecast Nonconsolidated Performance for 2007 Fiscal Year (from March 1, 2006, to February 28, 2007)

	Total operating revenues (Total net sales of Lawson stores including franchised stores)	Operating income	Ordinary profit	Net income	Annual dividend per share		
					Interim	Year-end	
	¥ Million	¥ Million	¥ Million	¥ Million	¥	¥	¥
2007 interim period	132,000 (715,000)	23,900	23,700	12,500	50.00	—	—
2007 fiscal year	259,000 (1,420,000)	44,900	44,600	23,600	—	50.00	100.00

Reference: Forecast net income per share for the 2007 fiscal year: 226.64yen

*Calculated based on average number of shares outstanding of 104,125,881shares at closing of February 2007 fiscal term, which reflects the transfer of treasury stock scheduled on April 14, 2006.

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 forecasts due to many factors. In addition, please refer to 16th 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 28, 2005)		Current fiscal year (As of February 28, 2006)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Assets)		%		%	
Current assets					
Cash and bank deposits	60,574		53,093		(7,481)
Accounts receivable—due from franchised stores	10,332		10,783		451
Marketable securities	13,021		16,011		2,990
Merchandise inventories	1,371		1,382		10
Prepaid expenses	4,604		5,062		458
Short-term loans receivable	5,000		6,640		1,640
Accounts receivable—other	17,307		20,439		3,131
Deferred tax assets	2,997		2,929		(68)
Other	746		834		88
Allowance for doubtful accounts	(80)		(80)		(0)
Total current assets	115,875	33.1	117,096	31.8	1,220
Fixed assets					
Property and store equipment Used by Company-operated stores and other					
Buildings	9,122		9,761		
- Accumulated depreciation	4,458	4,664	4,681	5,080	416
Structures	544		817		
- Accumulated depreciation	357	187	421	395	207
Furniture, fixtures and equipment	8,271		8,766		
- Accumulated depreciation	5,995	2,276	6,479	2,286	10
Land		4,296		3,813	(483)
Construction in progress		668		1,169	501
Total	12,092	3.5	12,745	3.5	652
Used by franchised stores					
Buildings	86,007		96,686		
- Accumulated depreciation	34,263	51,744	39,752	56,934	5,190
Structures	18,900		22,882		
- Accumulated depreciation	8,469	10,430	10,852	12,030	1,599
Furniture, fixtures and equipment	49,562		51,704		
- Accumulated depreciation	33,154	16,407	35,818	15,886	(521)
Land		1,346		1,423	76
Total	79,929	22.8	86,273	23.4	6,344
Total property and store equipment— net	92,022	26.3	99,019	26.9	6,997

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)		Current fiscal year (As of February 28, 2006)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Goodwill	1,026		1,009		(16)
Right of leasehold	14		56		42
Right of trademark	69		64		(4)
Right of telephone	290		292		1
Software	10,256		9,349		(906)
Software development in progress	1,336		5,964		4,627
Other	276		3		(273)
Total intangible fixed assets	13,270	3.8	16,740	4.5	3,470
Investments and other					
Investments in securities	1,172		1,464		291
Investment in subsidiaries and affiliated company	7,270		7,519		249
Investment in affiliated limited private company	438		438		
Long-term loans receivable	16,809		20,630		3,821
Long-term prepaid expenses	2,633		3,104		470
Lease deposits for Company-operated stores and others	15,553		14,898		(654)
Lease deposits for franchised stores	74,354		74,856		502
Deferred tax assets	8,851		11,566		2,714
Deferred tax assets for land revaluation	4,828		3,330		(1,497)
Other	1,237		2,072		835
Allowance for doubtful accounts	(4,137)		(4,462)		(324)
Total investments and other	129,011	36.8	135,419	36.8	6,407
Total fixed assets	234,304	66.9	251,180	68.2	16,875
Total Assets	350,180	100.0	368,276	100.0	18,096

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)		Current fiscal year (As of February 28, 2006)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable —trade	3,096		3,148		51
Accounts payable —trade for franchised stores	59,457		59,795		337
Accounts payable— due to franchised stores	3,982		3,416		(565)
Short-term borrowings	200				(200)
Accounts payable — Other	11,867		11,971		103
Accounts payable — Other for franchised stores	248		244		(3)
Income taxes payable	11,462		10,059		(1,403)
Consumption taxes payable	931		863		(67)
Accrued expenses	1,911		1,996		85
Deposits received	35,514		39,909		4,395
Accrued employees' bonuses	2,636		2,328		(307)
Provision for use of LAWSON PASS points	407		361		(45)
Other	94		144		50
Total current liabilities	131,810	37.7	134,240	36.5	2,429
Long-term liabilities					
Allowance for employees' retirement benefits	1,772		2,775		1,002
Allowance for retirement benefits to directors and corporate auditors	285		285		(0)
Deposits received from franchisees and lessees	52,318		51,329		(989)
Allowance for impairment loss on leased property			140		140
Total long-term liabilities	54,377	15.5	54,530	14.8	153
Total Liabilities	186,188	53.2	188,770	51.3	2,582

Fiscal period Account item	Previous fiscal year (As of February 28, 2005)			Current fiscal year (As of February 28, 2006)			Increase (Decrease)
	Amount		Composi tion ratio	Amount		Composi tion ratio	Amount
(Shareholders' Equity)							
Common stock		58,506	16.7		58,506	15.9	
Capital surplus							
Additional paid-in capital	41,520			41,520			
Other capital surplus							
Gain on disposal of treasury stock	3						(3)
Total capital surplus		41,523	11.8		41,520	11.2	(3)
Retained earnings							
Legal reserve	727			727			
Voluntary reserve							
General reserve	50,000			50,000			
Unappropriated retained earnings	29,736			42,053			12,317
Total retained earnings		80,463	23.0		92,781	25.2	12,317
Land revaluation difference		(7,037)	(2.0)		(4,854)	(1.3)	2,182
Net unrealized gain on available for sale securities		110	0.0		697	0.2	586
Treasury stock-at cost		(9,574)	(2.7)		(9,144)	(2.5)	430
Total Shareholders' Equity		163,991	46.8		179,505	48.7	15,514
Total Liabilities, Minority Interest and Shareholders' Equity		350,180	100.0		368,276	100.0	18,096

Non-consolidated Statements of Income

(Millions of yen)

Account item	Previous fiscal year (From March 1,2004 to February 28, 2005)		Current fiscal year (From March 1,2005 to February 28, 2006)			Compared with previous fiscal year
	Amount		Percentage	Amount		
Operating revenues			%			
Franchise commissions from franchised stores	162,963			170,812		104.8
Net sales reported by franchised stores						
Previous fiscal year: ¥ 1,265,275 million						
Current fiscal year: ¥1,298,221 million						
Total net sales of LAWSON stores including franchised stores						
Previous fiscal year: ¥ 1,329,077 million						
Current fiscal year: ¥1,360,495 million						
Other	12,769	175,732	73.4	14,954	185,766	74.9
Net sales			(100.0)			(100.0)
Net sales	(63,801)	63,801	26.6	(62,274)	62,274	25.1
Total operating revenues		239,534	100.0		248,041	100.0
Cost of goods sold						
Inventory at beginning of year	1,376			1,371		
Purchase amount	46,163			44,944		
Total	47,539			46,315		
Inventory at end of year	1,371			1,382		
Cost of goods sold	(46,167)	46,167	(72.4)	(44,933)	44,933	(72.2)
Gross profit on sales	(17,634)		(27.6)	(17,341)		(27.8)
Operating gross profit		193,366	80.7		203,108	81.9
Selling, general and administrative expenses		151,145	63.1		159,303	64.2
Operating income		42,220	17.6		43,804	17.7
Non-operating income						
Interest received	343			379		
Compensation received for damage	209			163		
Compensation received for removal	280			254		
Other	532	1,365	0.6	543	1,341	0.5
Non-operating expense						
Loss on cancellation of store lease contract	1,060			1,257		
Other	288	1,348	0.6	249	1,507	0.6
Ordinary profit		42,237	17.6		43,639	17.6

Fiscal period Account item	Previous fiscal year (From March 1,2004 to February 28, 2005)			Current fiscal year (From March 1,2005 to February 28, 2006)			Compared with previous fiscal year
	Amount		Percentage	Amount		Percentage	Percentage
Special gains							
Gain on sales of fixed assets	18			24			
Gain on sales of securities	—			988			
Reversal of allowance for doubtful accounts	—			263			
Other	17	36	0.0	32	1,308	0.5	3,628.3
Special losses							
Loss on disposal of fixed assets	3,662			2,967			
Loss on sales of fixed assets	130			409			
Provision for allowance for doubtful accounts	2,182			—			
Loss on impairment of long-lived assets	—			2,640			
Other	515	6,490	2.7	347	6,364	2.5	98.1
Income before income taxes		35,783	14.9		38,582	15.6	107.8
Income taxes – current	16,936			17,426			
Deferred income taxes	(1,739)	15,197	6.3	(1,551)	15,874	6.4	104.5
Net income		20,585	8.6		22,707	9.2	110.3
Unappropriated retained earnings— carried forward		23,445			26,160		
Reversal of land revaluation difference		5			2,182		
Loss on disposal of treasury stock		—			33		
Interim cash dividends		3,585			4,597		
Retirement of Treasury stock		10,703			—		
Unappropriated retained earnings—at end of year		29,736			42,053		

Statements of Appropriation of Retained Earnings

(Millions of yen)

Account item	Fiscal period	Previous fiscal year (From March 1,2004 to February 28, 2005)		Current fiscal year (From March 1,2005 to February 28, 2006)		Increase (Decrease)
		Amount		Amount		Amount
(Appropriation of unappropriated retained earnings)						
Unappropriated retained earnings—At end of year			29,736		42,053	12,317
Appropriation of retained earning						
Year-end dividends		3,576	3,576	4,602	4,602	1,206
Retained earnings to be carried forward			26,160		37,450	11,290
(Appropriation of other capital surplus)						
Other capital surplus						
Gain on disposal of treasury stock		3	3	—	—	(3)
Other capital surplus to be carried forward			3		—	(3)

《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.

Long - term prepaid expense

Amortization of long-term prepaid expense is computed by the straight - line method.

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.

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 corporate auditors and executive officers of the Company is calculated to state the liability at 100% of the amount that would be required if all corporate auditors, executive officers resigned their services with the Company at the balance sheet date.

At the general shareholders' meeting held on May 27,2005, the Company abolished the conventional retirement benefit system for directors and retirement payments for previous directors are recognized in Account payable-other (Current liabilities).

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.

7. Long-Lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No.6. "Guidance No.6. "Guidance for Accounting Standard for impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year end February 28, 2006.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase operating income and ordinary profit by ¥119 million, and to decrease income before income taxes by ¥1,854 million for the ended February 28, 2006, respectively.

In addition, the Group represents accumulated impairment losses in the form deductible directly from assets in pursuant to revised regulations of consolidated financial statements.

《Notes to Non-consolidated Financial Statements》

Notes to the Non-consolidated Balance Sheets

As of February 28, 2005	As of February 28, 2006
1.Accounts receivable due from franchised stores, accounts payable due to franchised stores-the amounts of credits and debts incurred for the deal with franchised stores.	1.Same as in the left
2.Accounts payable-trade for franchised stores - the amounts payable to vendors for merchandise purchased by franchised stores.	2.Same as in the left
3.Accounts payable-other due for franchised stores - the amounts payable for supplies purchased by franchised stores.	3.Same as in the left
4.Deposits received from franchise and lessees-the amounts received from mainly franchised stores.	4.Same as in the left
5.Total number of shares authorized to be issued by the Company (common stock) 409,300,000 shares Issued numbers of common stock 104,600,000 shares	5.Same as in the left Issued numbers of common stock 104,600,000 shares
6.Principal assets due to the affiliated company Short-term loans receivable ¥5,000million	6.Principal assets due to the affiliated company Short-term loans receivable ¥6,640million

<p>7.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.</p>	<p>7.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.</p>
¥1,481million	
<p>8.Total numbers of treasury stock in the Company (common stock)</p>	<p>8.The numbers of treasury stock in the Company (common stock)</p>
2,422,809 shares	2,313,932 shares
<p>9.Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc.</p>	<p>9.Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc.</p>
¥6,050 million	¥9,925 million
<p>10.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.</p>	<p>10.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.</p>
¥110 million	¥697 million

Notes to Non-consolidated Statements of Income

		(Millions of yen)
From March 1, 2004 to February 28, 2005	From March 1, 2005 to February 28, 2006	
1.Net sales, cost of goods sold, operating gross profit-the amounts from mainly company operated stores.	1.Same as in the left	
2.Main account of selling, general and administrative expenses	2.Main account of selling, general and administrative expenses	
Sales promotion and advertising	Sales promotion and advertising	8,755
Doubtful debt account	Doubtful debt account	596
Salary	Salary	21,597
Provision for accrued employees' bonuses	Provision for accrued employees' bonuses	2,328
Retirement benefit costs	Retirement benefit costs	1,540
Provision for allowance for retirement benefits to directors and corporate auditors	Provision for allowance for retirement benefits to directors and corporate auditors	122
Rent account	Rent account	50,872
Depreciation of fixed assets	Depreciation of fixed assets	15,799

3.Distribution of gain on sales of fixed assets		3.Distribution of gain on sales of fixed assets	
Buildings	18	Buildings	7
		Land	16
4.Distribution of loss on disposal of fixed assets		4.Distribution of loss on disposal of fixed assets	
Buildings	1,985	Buildings	1,407
Structures	354	Structures	311
Furniture, fixtures and equipment	1,294	Furniture, fixtures and equipment	1,247
Software	27		
5.Distribution of loss on sales of fixed assets		5.Distribution of loss on sales of fixed assets	
Buildings	113	Buildings	117
Land	16	Furniture, fixtures and equipment	1
		Land	289
6.long-lived assets		6.long-lived assets	

The Group recognized an impairment loss mainly for each stores as the smallest category bear cash flows.

The carrying amount of those assets was written down to the recoverable amount. The Group recognized impairment loss as special losses on following assets due to a decline in value of the related asset categories due mainly to a continuous operating losses.

Category by use	location	Assets	million of yen
Stores	Tokyo	Buildings and structure furniture, fixtures and equipment and others	272
	Osaka	"	182
	Others	"	1,869
Others	Kyoto and others	Software • furniture, fixtures and equipment and others	316
Total			2,640

Category by fixed assets

Buildings and Structure	1,467
Furniture, fixtures and equipment	208
Leased property	445
Land	203
Software	316

Recoverable value of the assets of the Group is the higher amount of net selling price or value in use. Not selling price of land was calculated based on appraised value by real estate appraiser or contract price, and the value in use was calculated by discounting estimated future cash flows to which the 6.0% discount rate was applied.

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 28, 2005	As of February 28, 2006
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	6,534	6,811
Accumulated depreciation	2,799	3,371
Accumulated impairment loss	-	14
Leased property	3,735	3,426
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	67,597	68,378
Accumulated depreciation	33,019	38,351
Accumulated impairment loss	-	126
Leased property	34,578	29,899

(2) Obligations under finance leases

Used by Company-operated stores and other:

Furniture, fixtures and equipment		
Due within one year	1,316	1,301
Due after one year	2,562	2,269
Total	3,879	3,570
Allowance for impairment loss on leased property	-	14

Leased to franchised stores:

Furniture, fixtures and other		
Due within one year	11,444	11,972
Due after one year	23,992	18,897
Total	35,436	30,869
Allowance for impairment loss on leased property	-	126

(3) Lease payments, depreciation expense, interest expense and impairment loss

Lease payments	14,156	14,466
Transfer from allowance for impairment loss on leased property	-	63
Depreciation expense	13,215	13,686
Interest expense	1,051	950
Impairment loss	-	203

(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 28, 2005	As of February 28, 2006
Due within one year	733	662
Due after one year	5,722	5,231
Total	6,455	5,894

Notes to Marketable Securities and Investments in Securities

(February 28,2005)

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

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

(February 28,2006)

Investment in subsidiaries and affiliated companies whose fair value is readily determinable as of February 28,2006 were as follows:

(Millions of yen)

	Book value per non-consolidated balance sheets	Fair value	Difference
Investment in subsidiary	1,379	5,695	4,316

Notes to Accounting for income taxes

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

(Millions of yen)

	As of February 28, 2005	As of February 28, 2006
Deferred tax assets		
Enterprise taxes payable	1,087	808
Accrued employees' bonuses	1,186	1,053
Reversal of write-off investments in securities	309	-
Reversal of write-off of investments affiliates	348	351
Excess of depreciation	2,282	2,920
Excess of amortization of software	967	929
Allowance for employees' retirement benefits	2,695	3,238
Allowance for doubtful accounts	1,653	1,771
Impairment loss	-	2,197
Other	1,393	1,702
Total deferred tax assets	11,925	14,974
Deferred tax liabilities		
Available-for-sale securities	(75)	(478)
Total deferred tax liabilities	(75)	(478)
Deferred tax assets-net	11,849	14,496

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%

Significant subsequent events of the corporate group after the closing of accounts

Based on the agreement of business alliance and capital tie-up with NTT DoCoMo, on March 28, 2006, the Company decided to transfer 2,092,000 of LAWSON common stock owned by the Company (about 2.0% of the total issued shares) to DoCoMo for a total amount of ¥9,020,704,000.

Transfers of Officers

(From May 26, 2006)

(1) Change in representative directors

Nothing concerned

(2) Nominees for new directors

Director	Toru Moriyama currently Senior Executive Vice President, General Manager, Merchandizing & Logistics Division
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Director	Manabu Asano currently Senior Vice President CCO(Chief Compliance Officer), in charge of Corporate Ethics, in charge of Internal Audit
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(3) Nominees for new corporate auditors

Corporate Auditor	Munehiko Nakano currently Group Controller, Machinery Group, Mitsubishi Corporation
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(4) Retiring director

Director	Katsuhiko Yamasaki
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Director	Koichi Narita
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* Koichi Narita is outside director stipulated in Article 188, Paragraph 2, Item 7-2, of Commercial Code.

(5) Retiring corporate auditor

Corporate Auditor	Masaaki Kojima
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