

Flash Report on the Consolidated result for the year ended February 28, 2009

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: Tomoki Takanishi, Financial & Accounting Office General Manager Tel.: (03) 5435-2773

Date of the Board of Directors Meeting on the Closing of Accounts: April 13, 2009

1. Consolidated Performance for the 2008 fiscal year (from March 1, 2008, to February 28, 2009)

(1) Consolidated operating results

Notes: ① Amounts below one million yen are truncated.

Notes: ② Percentages for total operating revenues, operating income, ordinary profit and net profit show increase (decrease) from previous year.

	Total operating revenues		Operating profit		Recurring profit	
	¥ Million	%	¥ Million	%	¥ Million	%
2008 fiscal year	349,476	16.0	49,186	5.5	48,787	5.5
2007 fiscal year	301,176	6.4	46,610	4.7	46,244	3.6

	Net profit		Net profit per share	Fully diluted profit per share	Return on equity	Ratio of recurring profit to total assets	Ratio of operating profit to total operating revenues
	¥ Million	%	¥	¥	%	%	%
2008 fiscal year	<u>23,807</u>	<u>7.6</u>	<u>240.10</u>	<u>239.89</u>	<u>12.5</u>	11.7	14.1
2007 fiscal year	22,119	5.4	214.69	214.57	11.6	11.6	15.5

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

2008 fiscal year: ¥(631)million 2007 fiscal year: ¥(200)million

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
2008 fiscal year	<u>436,096</u>	<u>201,166</u>	<u>44.8</u>	<u>1,968.12</u>
2007 fiscal year	397,107	188,573	46.6	1,867.84

Note: Capital adequacy:

2008 fiscal year: ¥195,174million 2007 fiscal year: ¥185,171million

(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
2008 fiscal year	51,717	(15,647)	(14,911)	83,981
2007 fiscal year	55,773	(36,525)	(31,973)	62,822

2. Dividends status

	Annual dividends per share					Total dividends for the year	Payout ratio	Ratio of dividends to shareholders' equity
	1Q	Interim dividend	3Q	Year-end dividend	Total			
2007 fiscal year	¥ —	¥ 55	¥ —	¥ 55	¥ 110	¥ Million 11,196	% 51.2	% 5.9
2008 fiscal year	—	80	—	80	160	15,866	<u>66.6</u>	<u>8.3</u>
2009 fiscal year (Forecast)	—	80	—	80	160		62.2	

3. Forecast Consolidated Performance for 2009 fiscal year (from March 1, 2009, to February 28, 2010)

	Total operating revenues		Operating profit		Recurring profit		Net profit	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	¥
2009 interim period	233,000	43.5	29,200	0.3	28,900	0.0	15,700	1.2
2009 fiscal year	469,000	34.2	50,500	2.7	49,700	1.9	25,500	0.8

Reference: Forecast net profit per share for the 2009 fiscal year: 257.13yen

4. Other

(1) Change in the scope of consolidation and application of the equity method: None

(2) Differences in accounting treatments applied compared to previous consolidated fiscal year: None

(3) The number of the issue stock:

i) The number of the stocks issued in the end of term
February, 2009: 99,600,000 February, 2008: 99,600,000

ii) The number of treasury shares in the end of term
February, 2009: 432,015 February, 2008: 463,629

[Reference]

1. Non-consolidated Performance for the 2008 Fiscal Year (from March 1, 2008, to February 28, 2009)

(1) Operating results

Notes: ① Amounts below one million yen are truncated

Notes: ② Percentages for total operating revenues (Total net sales of Lawson stores), operating income, ordinary profit and net profit show increase (decrease) from previous year.

	Total operating revenues (Total net sales of Lawson stores including franchised stores)		Operating profit		Recurring profit		
	¥ Million	%	¥ Million	%	¥ Million	%	
2008 fiscal year	279,739	(1,506,312)	3.8(7.4)	46,913	3.5	47,321	4.5
2007 fiscal year	269,582	(1,402,786)	5.3(1.8)	45,334	2.2	45,298	1.7

	Net profit		Net profit per share	Fully diluted profit per share
	¥ Million	%	¥	¥
2008 fiscal year	22,066	16.8	222.54	222.35
2007 fiscal year	18,899	(13.0)	183.43	183.33

(2) Financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
2008 fiscal year	402,117	195,634	48.6	1,969.99
2007 fiscal year	385,335	187,146	48.5	1,886.15

Note: Capital adequacy:

2008 fiscal year: ¥195,360 million 2007 fiscal year: ¥186,986 million

2. Forecast Non-consolidated Performance for 2009 Fiscal Year (from March 1, 2009, to February 28, 2010)

	Total operating revenues		Operating profit		Recurring profit		Net profit		Net profit per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million
2009 interim period	146,000	1.5	27,600	0.2	27,500	(1.6)	12,100	(13.2)	122.01
2009 fiscal year	287,000	2.6	47,100	0.4	46,600	(1.5)	21,400	(3.0)	215.79

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 6th page of appending data about matters, such as precondition of the above-mentioned forecast.

1. Operating Results

1. Review of Operation

(1) Analysis of Consolidated Operating Results

During fiscal 2008, the year ended February 28, 2009, the Japanese economy faced an increasingly uncertain outlook. This was due to climbing prices for daily necessities amid rising prices for crude oil and raw materials since the previous fiscal year, as well as to the increasing severity of the global financial crisis from the third quarter. In annualized terms, Japan's GDP for the October-December quarter of 2008 contracted at the fastest rate since the first oil shock in 1973. As economic conditions worsened, consumers increasingly tightened their belts mainly due to concerns over job security and falling personal income that were prompted by sluggish corporate results in the wake of plummeting exports.

In Japan's retail industry, major developments included growth in sales of PB (private brand) goods in response to increasingly conservative consumer spending patterns and capital alliances and operational tie-ups between major GMS (General Merchandise Store) chains and drugstores against the backdrop of the amendments to the Pharmaceutical Affairs Act that come into effect in 2009.

In the convenience store (CVS) industry, although fierce competition persisted in terms of both store openings and merchandise development, all CVS companies posted strong existing-store sales. Among other factors, more customers visited stores, driven by the introduction of cigarette vending machines that require taspo cards (adult identification IC cards) to make a purchase. Favorable weather conditions were another factor that benefited sales.

In this operating environment, the LAWSON Group (the "Company") has adopted the following management policies with the aims of realizing its corporate philosophy of "Happiness and Harmony in our Community," and improving customer satisfaction in convenience store operations and other businesses.

[Convenience Store Operations]

The status of merchandise strategy and services, store operations, store development and other aspects of Convenience Store Operations in the fiscal year under review is outlined as follows:

Merchandise Strategy and Services

On the merchandise front, in addition to focusing on developing merchandise assortments that appeal to a wide range of customer groups, the Company also developed several dishes with generous servings that are aimed at its traditional core customer base of young men. These dishes included Genki Na Omori Katsudon (super-size pork cutlet rice bowl) and Niku-tappuri Hiyashi Chuka (cold Chinese egg noodles with extra white meat topping). In sales promotions, the Company conducted campaigns with a stronger emphasis on entertainment based on the "Lawson Genki Plan" (In Japanese Genki means to be vibrant, cheerful, and vigorous). The Fall Rilakkuma Fair campaign, which ran from September through November 2008, helped immensely in expanding new customer groups, including women. Furthermore, the Company launched sales of Lemon Flavor Karaage-kun to a strong customer response. The launch of this new lemon-seasoned Japanese-style fried chicken was based on the results of a customer survey.

Breakdown of sales at chain stores by merchandise categories

Fiscal period Product group	Previous fiscal year March 1, 2007, to February 29, 2008		Current fiscal year March 1, 2008, to February 28, 2009		YOY Percentage change
	Sales (Millions of yen)	Ratio to total (%)	Sales (Millions of yen)	Ratio to total (%)	
Processed foods	726,750	51.4	844,324	54.2	116.2
Fast foods	327,501	23.1	332,894	21.4	101.6
Daily delivered foods	162,625	11.5	186,109	11.9	114.4
Nonfood products	198,230	14.0	195,453	12.5	98.6
Total	1,415,106	100.0	1,558,781	100.0	110.2

On the services front, the Company's bill settlement services processed more than 156 million transactions for customers, representing a total transaction value of ¥1,506.5 billion. Meanwhile, ATMs (automatic teller machines) were installed in stores in 1 new prefectures, bringing the total number of prefectures with LAWSON stores that have ATMs to 37. Strong subscriber support has enabled the membership cards, LAWSON PASS and MY LAWSON POINT, to enroll approximately 8.5 million members, reflecting aggressive membership promotions.

On December 1, 2008, the Company began allowing LAWSON PASS and MY LAWSON POINT members to exchange shopping points on their cards for discounts on purchases at the check-out counter, at the rate of ¥1 for every shopping point.

Store Operations

In store operations, the Company continued providing guidance to franchise owners in order to ensure merchandise assortments match customer needs in each location. Guidance is continuously provided to individual stores based on a thorough understanding of the customers in each area so as to create merchandise assortments that will satisfy these customers.

In specific terms, the Company endeavored to increase ordering accuracy by refining and making greater use of store charts, a decision-making tool created from analyses of marketing and management at the individual store level. The aim is to minimize lost sales opportunities, which result from stores being out of stock when a product is needed by customers, and to reduce product disposal losses, which are incurred by franchise owners when disposing of unsold products.

Furthermore, the Company has commenced store guidance activities designed to promote ordering based on customer-generated data (via a new ordering system planned for deployment in fiscal 2009).

The Company continued to implement the "Mystery Shopper" program, which helps to strengthen store operation capabilities. In this program, "undercover" researchers visit individual LAWSON stores as ordinary shoppers and objectively and quantitatively evaluate them from a customer's perspective.

Store Development

The Company worked to develop stores that it expects to generate high earnings, by rigorously adhering to proprietary standards for opening stores. This entailed concentrating on opening new stores mainly in major metropolitan areas in the Kanto, Kinki and Chubu regions. As a result, daily sales at new stores grew steadily.

Ninety-nine Plus Inc., which became a consolidated subsidiary on September 5, 2008, is working to achieve further growth as a member of the LAWSON Group, based around a convenience store business specializing in perishable foods that can meet the needs of housewives and middle-aged and elderly customers.

As a result, the total number of stores at the end of the fiscal year reached 9,527, of which 93 were NATURAL LAWSON stores, 925 were LAWSON STORE100 stores and SHOP99 stores. This marks a year-on-year net increase of 940 stores from a year earlier.

Number of LAWSON stores by prefecture (As of February 28, 2009; consolidated subsidiaries only)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	498	Saitama	372	Gifu	110	Tottori	87	Saga	58
Aomori	162	Chiba	342	Shizuoka	167	Shimane	82	Nagasaki	84
Iwate	166	Tokyo	1,233	Aichi	423	Okayama	122	Kumamoto	90
Miyagi	183	Kanagawa	640	Mie	84	Hiroshima	132	Oita	126
Akita	142	Niigata	100	Shiga	123	Yamaguchi	108	Miyazaki	84
Yamagata	56	Toyama	106	Kyoto	236	Tokushima	109	Kagoshima	106
Fukushima	98	Ishikawa	78	Osaka	935	Kagawa	98	Okinawa	133
Ibaraki	106	Fukui	92	Hyogo	529	Ehime	150	Total	9,527
Tochigi	105	Yamanashi	66	Nara	104	Kochi	60		
Gunma	68	Nagano	133	Wakayama	110	Fukuoka	331		

Note: The above figures for number of stores include LAWSON STORE100 and SHOP99 operated by Ninety-nine Plus Inc. and Ninety-nine Plus Kansai Inc.

As of December 31, 2008, SHANGHAI HUALI AN LAWSON CO., LTD., a Chinese equity-method affiliate operating a convenience store chain in Shanghai, had 300 stores.

Corporate Social Responsibility (CSR) Activities

In the CSR field, the CSR Promotion Office, which reports directly to the president, continued to lead environmental protection and social contribution activities, working together with franchise owners and employees. The Company actively took part in disaster restoration and relief activities, including raising disaster relief funds and providing emergency relief supplies to areas affected by typhoons, earthquakes and other disasters. At the fiscal year-end, the total funds raised for the “Green Fund” and disaster relief funds since 1992 amounted to approximately ¥3.6 billion. Turning to waste reduction efforts, by the end of the fiscal year the Company's food recycling rate had reached roughly 24 thanks to waste reductions achieved by recycling cooking oils, promoting the conversion of food waste into animal feed and fertilizers, and using composting machines. Furthermore, in order to make more effective use of limited resources, in March 2007 the Company began a “Carry-It Campaign,” which encourages customers to carry regularly their own shopping bags and chopsticks to reduce usage of plastic bags and disposable wooden chopsticks. Since the beginning of the campaign, a total of 2 million “Convenience Store Eco-bags” have been distributed, mainly at stores. In recognition of its actions, LAWSON was awarded the “Minister of Economy, Trade and Industry Award” and the “Minister of the Environment Award for excellence in packaging” at the Achievement in Promoting 3R (Reduce, Reuse, Recycle Activities) Awards. In addition, by the end of the fiscal year, 7,200 tons of CO₂ had been offset through the Company's carbon offset program, an initiative launched in April 2008 that allows customers to contribute to reducing CO₂ by purchasing carbon credits using their accumulated shopping points or cash, or by purchasing products designated for carbon offset.

Other Activities

In terms of business alliances, on January 21, 2009 LAWSON reached an agreement with SAN-A CO., LTD., which operates supermarkets and other businesses mainly in Okinawa, for a tie-up in Okinawa Prefecture. Going forward, the two companies will look at collaborating on developing boxed lunches and prepared foods made from local ingredients, new product proposals, and store openings, as well as exchange information on strong-selling products, and conduct joint sales promotions.

Furthermore, on March 13, 2009, LAWSON concluded a transfer agreement with REX Holdings Inc. to purchase all of the shares in and receivables of am/pm convenience store operator am/pm Japan Co., Ltd. owned by REX Holdings. This acquisition was originally scheduled to take place on March 30, but has been postponed because LAWSON decided that continued discussions were necessary regarding terms and conditions of the transfer agreement in order to ensure a seamless acquisition..

During fiscal 2008, the Company continued its efforts to improve internal control systems and instill awareness of compliance issues throughout the entire organization, based on the “2008 Basic Policy for Maintaining Internal Control Systems.”

[Other Businesses]

In addition to convenience store operations, the LAWSON Group is involved in ticket sales, financial services, and other businesses.

LAWSON TICKET INC., which operates the ticket sales business, recorded year-on-year gains in ticket sales and operating profit thanks to robust concert ticket sales, a mainstay of this business.

However, LAWSON recorded a ¥1,936 million provision of allowance for doubtful accounts as a Special loss due to concerns about the recovery of funds allegedly misappropriated outside the company by two former directors of LAWSON ENTERMEDIA, INC. without authority and without following internal corporate procedures.

LAWSON ATM Networks, Inc., which operates a financial services-related business, performed strongly as a result of increases in the number of ATM machines installed nationwide in LAWSON stores and in the number of transactions. As of February 28, 2009, the number of ATMs installed nationwide was 5,970.

(2) Profit and Loss

Total operating revenues rose ¥48,299million, or 16.0% year-on-year, to ¥349,476 million. This increase is attributable to a rise in franchise commissions as a result of an increase in the number of customers in line with the commencement of the use of “taspo” (IC adult-ID card that must be used when

purchasing cigarettes from vending machines), as well as an increase in commission income from the ATMs of LAWSON ATM Networks, Inc., a consolidated subsidiary.

Operating gross profit increased ¥21,117 million. This was more than offset by a ¥18,541 million rise in selling, general and administrative (SG&A) expenses due to proactive sales promotions. Consequently, operating profit rose ¥2,576 million, or 5.5% year-on-year, to ¥49,186 million.

Recurring profit increased ¥2,542 million, or 5.5% year-on-year, to ¥48,787 million.

Income before income taxes and minority interests was ¥40,271 million, ¥2,136 million, or 5.6%, higher than the previous fiscal year, due to the booking of the abovementioned provision of allowance for doubtful accounts.

As a result, net profit settled at ¥23,807 million, a rise of ¥1,688 million, or 7.6% year-on-year. Net profit per share came to ¥240.10.

(3) Outlook for Fiscal 2009

In fiscal 2009, Japan's economy is expected to continue worsening based on the strong yen resulting from economic stagnation in the U.S. and Europe, and other factors. It is therefore unlikely that we will see any improvement in consumer spending, which has been weakened by concerns about job security and declining personal income due to sluggish corporate results.

Furthermore, the competitive landscape facing the convenience store industry is undergoing increasingly tumultuous change. Conventional convenience store businesses offer merchandise assortments and services principally aimed at the core target of young men in their 20s and 30s whose priority is time saving and convenience. If the Company adheres to this conventional format, it will be unable to avoid a battle of attrition between undifferentiated convenience stores in a mature market. This will in turn make it increasingly difficult to achieve stable and sustainable growth in an aging society with a falling birthrate.

In this environment, the LAWSON Group is pursuing a strategy aimed at creating stores that bring joy to customers, as outlined in the management policy for fiscal 2009 “Your Choice of CVS LAWSON – Cheerful and Happy Communities – “. In line with this policy, the Company will carry out the following measures.

(i) Enhance existing customer satisfaction

In order to offer merchandise assortments and develop shopping facilities that suit the needs of customers in each “Machi” (store location), the Company is making use of data gathered from the 8.5 million LAWSON PASS and MY LAWSON POINT card members to create customer-oriented merchandise assortments.

Concerning merchandise, LAWSON will base its product development efforts on market analysis, particularly on data gathered from the card member programs, in order to develop products that reflect customer's opinions. In addition, the Company will pass the benefits of the lower cost of fuel and raw materials and the strong yen on to customers. Moreover, in order to enhance ties with local communities, the Company will work together with local governments to promote initiatives targeting local and non-local consumption of locally produced products.

With regard to sales promotions, the Company will seek to utilize the LAWSON PASS and MY LAWSON POINT membership cards in an effective manner.

These measures are also expected to lead to a greater number of customers and generate higher revenues, thereby raising the satisfaction levels of franchised store owners.

(ii) Improve asset efficiency by opening high-quality new stores and curbing store closures

LAWSON aims to improve asset efficiency as a whole by developing high-quality stores in accordance with proprietary store opening guidelines and reducing extraordinary losses from store closures by reducing store closures.

(iii) Strengthen personnel development

In accordance with its management policy and action guidelines, LAWSON is determined to nurture people who can think for themselves and not rely on direction from the top. In addition, personnel rotations are implemented to prepare future management candidates.

(iv) Introduce next-generation IT systems

LAWSON will introduce next-generation IT systems during fiscal 2009, with a view to revamping merchandise assortments based on customer-generated data. By doing so, the Company expects to

reduce lost sales opportunities at stores and losses from product disposals while improving ordering precision and enhancing product development.

(v) Improve internal controls

Regarding internal controls over financial reporting, effective from fiscal 2009, companies in Japan will be subject to the internal control reporting system stipulated by the Financial Instruments and Exchange Act. LAWSON will establish a dedicated internal organization to ascertain and document the status of internal controls throughout the Company and the various business processes that occur at the major operating bases. Through this process, the Company will put in place internal and third-party evaluation systems and related improvements, and implement them appropriately. In addition, the Company will follow its "2009 Basic Policy for Maintaining Internal Control Systems," to implement the necessary frameworks for ensuring legal compliance, information storage and control and risk management.

By steadily implementing these management policies, the Company is working to raise customer satisfaction in order to retain customers while attracting new ones. The overriding goals are to improve corporate earnings, expand earnings for franchised store owners (franchisees), and enhance corporate value.

For fiscal 2009, the LAWSON Group is forecasting recurring profit of ¥49.7 billion, 1.9% higher year on year.

(4) Analysis of Financial Position

[Total assets, Total liabilities, Total net assets analysis]

At the end of fiscal year ended February 28, 2009, total assets stood at ¥436,096 million, an increase of ¥38,988 million from the end of the previous year.

Total liabilities amounted to ¥234,929 million, an increase of ¥26,395 million from the end of previous year. The main factors of this increase were an increase of ¥13,165 million in Accounts Payable-Other and ¥8,537 million in accounts payable-trade for Company-operated stores.

Net assets stood at ¥201,166 million, an increase of ¥12,593 million, from the end of the fiscal year. The main factors of this increase were an increase the net profit posted of ¥10,420 million.

[Cash flow analysis]

Net cash provided by operating activities totaled ¥51,717 million, ¥4,056 million lower compared with the end of the previous year due to an increase in income before income taxes and minority interests.

Net cash provided by investing activities amounted to ¥15,647 million, a decrease in cash outflow of ¥20,877 million compared with the end of the previous year. This was attributable to factors such as repayments of loans from affiliated companies.

Net cash used in financing activities amounted to ¥14,911 million, a decrease in cash outflow of ¥17,061 million compared with the end of the previous year due to factors such as an decrease in purchase of treasury stock.

(5) Basic Policy on Profit Distribution, and the Reporting Term's & Next Term's Dividend Payment
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 ¥80 per share for the first-half period, and plans to pay a year-end dividend of ¥80 for a total dividend of ¥160 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.

Furthermore, based on the high priority it gives to returning profits to shareholders, LAWSON plans to pay an annual dividend per share of ¥160 applicable to the fiscal year ending February 28, 2010, despite expectations of a difficult operating environment.

In addition to paying dividends, the Company reserves the right to respond flexibly to market circumstances by acquiring or retiring treasury stock as a strategy to improve shareholder profit.

(6) Operating Risks

The principal categories of risk that may have a material effect on the business performance or financial

position of the LAWSON Group are listed below. The Group is fully aware of the potential for such risks to materialize, and intends to implement risk management accordingly, while taking optimal countermeasures as necessary. These risks faced by the Group include, but are not limited to, the following:

(i) Risks involving change in the Group's operating environment

In view of the fact that LAWSON Group is principally involved in the convenience store business, changes in the economic, market and societal structure of Japan or other countries in which the Group operates, insofar as they may affect consumer behavior, may exert a significant effect on the Group's business. 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 other business formats within the retail sector.

(ii) Risks involving food safety and hygiene

The Group sells food products to customers in its core convenience store business. In cooperation with its business partners, the Group rigorously enforces a system of hygiene control (under which the strict observance of product quality control is mandated) from the initial food processing stage to food item sales at its stores. The Group also ensures strict hygiene control within its stores. In the unlikely event of a serious incident such as 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, resulting in an adverse impact on the Group's business performance and financial position.

In such an event, the Group's policy is to do its utmost to promptly provide full disclosure of information about the situation through the news media, with the aim of minimizing the effect on the reputation of its stores among consumers.

(iii) 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, shareholders, business partners, and franchised store owners (the franchisees). The management recognizes as serious risks the leak of personal information to third parties, and unauthorized access to such information. In addition to information security measures, the Company has created a Personal Information Protection Policy, and all employees have been acquainted with it in detail. However, in the unlikely event of a leak of confidential personal information, the Group's business performance and financial position could be adversely affected.

(iv) Legal risk

The Group operates stores in all 47 prefectures of Japan, and a number of stores in Shanghai, and most are open 24 hours a day. For this reason, the Company is forced to carefully observe a number of national and local laws and regulations, both in Japan and China, pertaining to store opening locations, store operations, 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 unforeseeable changes in such laws or regulations, or in law enforcement methods going forward, the Company may incur additional expenses needed to conform to the new laws, and so forth, and this may have a material effect on its business performance and financial position.

(v) 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 the 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, an illegal or improper action or actions taken by one franchise store, as a contractual counterparty, could damage the image of the LAWSON chain as a whole. Consequently, the Group's business performance and financial position could be adversely affected.

Furthermore, as its franchise system is designed to encourage the improvement of business performance for both the franchise 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 franchisee is weakened, and as a consequence, that a large number of franchise contracts are dissolved, this would adversely affect the Group's business performance and financial position.

(vi) Risks involving unusual weather or damage due to natural causes

In the event that the weather or temperatures vary sharply from yearly norms, this may affect the

business performance and financial position of the Group. The Group operates a truly national chain of stores with outlets located in all of Japan's 47 prefectures, and additionally operates stores in Shanghai, China. Therefore, in the event that natural phenomena such as a major earthquake or typhoon cause physical damage to the Group's stores or other LAWSON facilities, the Group's business performance and financial position could be adversely affected.

(vii) Risks involving damage to IT systems

Operation of the Company's IT system may be impeded by a computer virus, or obstructed by natural causes such as an earthquake, which would disrupt the information network system, creating delays in the delivery of products to stores and causing the suspension of store services. Such developments could adversely affect the Group's business performance and financial position.

2. Corporate Group

The business segments in which the Company operates are as follows:

Convenience store business

- The Company serves as the headquarters for its own and franchised stores in the LAWSON and NATURAL LAWSON chains.
- A subsidiary, VALUE LAWSON, Inc manages the "LAWSON STORE100" chain, which primarily targets homemakers and older adults offering merchandise at low prices. This subsidiary develops store formats and provides merchandise planning and development services, as well as store operation.
- A subsidiary, Ninety-nine Plus Inc., listed on the JASDAQ Securities Exchange, operates the price-point store "SHOP 99" and other stores either by direct management or under the franchise system.
- An affiliate, SHANGHAI HUALIAN LAWSON CO., LTD., engages in the Company'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 Securities Exchange. This subsidiary sells tickets for concerts, sporting events, movies, etc. mainly through the Loppo multimedia terminals in LAWSON stores.

E-commerce business

- A subsidiary, i-Convenience, Inc. develops websites that provide online sales, services and information. On March 1, 2009 the company will be absorbed by LAWSON TICKET, INC. and will focus on Internet sales, primarily those related to entertainment products.

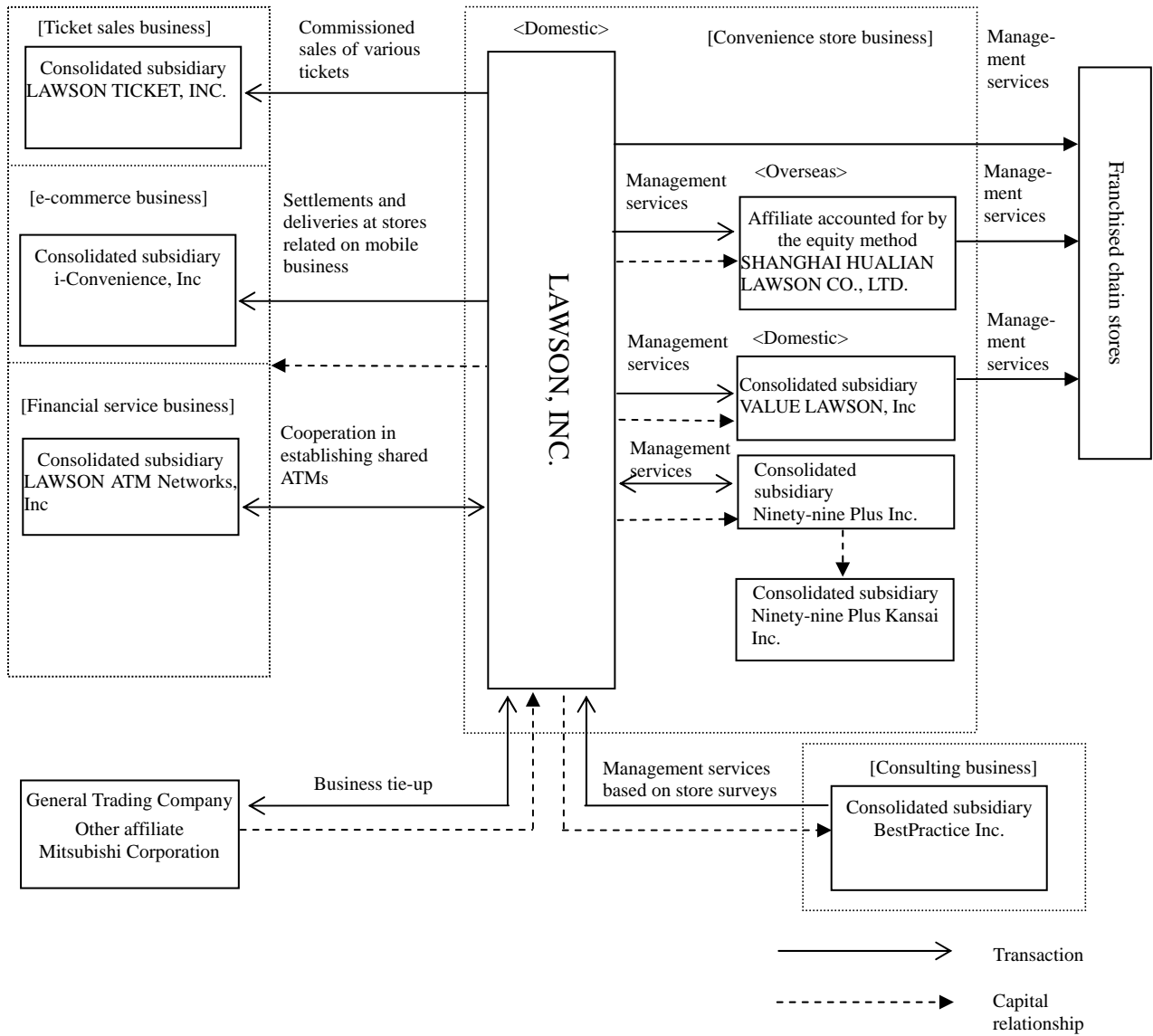
Financial service business

- 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.

Consulting business

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

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



3. Management Policy

(1) Basic Management Policy

(i) Corporate Philosophy and Code of Conduct

The Company's corporate philosophy "Happiness and Harmony in Our Communities" reflects its belief that its social significance derives from relationships with all its stakeholders.

Under this concept, the Company has established a Code of Conduct based on three principles governing its day-to-day corporate activities:

- 1) Act with utmost consideration for others,
- 2) Tackle challenges with innovative ideas and actions, and
- 3) See objectives through to the very end.

(ii) Vision

The Company is taking various steps to realize "Happiness and Harmony in Our Communities." Central to this effort is "Neighborhood Hot Station (Machi No Hotto Station in Japanese)," a nickname for the Company's stores, which communicates the idea of "hot" new merchandise, information and services that take into account local preferences and aims to be a place where customers can relax ("hotto" suru in Japanese).

(2) Performance Indicators (Targets)

From the perspective of medium-and-long-term management strategy, the Company believes investment in high ROI (return on investment) enterprises will lead to the most efficient use of shareholders' equity and greatest enhancement of shareholder value. The Company regards ROE (return on equity) as the best measure of the optimal utilization of shareholders' equity. Accordingly, the Company is targeting ROE of 15% on a consolidated basis over the medium term.

(3) Medium-and-Long-Term Management Strategies

The business environment facing convenience stores is defined by several factors, including: worsening business conditions due to a global economic slowdown; population decline arising from Japan's declining birthrate and aging society; over-concentration on Tokyo; fierce competition from other business sectors; deflation; customer sensitivity to food safety; and stronger environmental awareness. Never before has the convenience store industry experienced such an environment. Against this backdrop, the Company recognizes the following as priority issues ahead.

The Company believes that its core business strategies must address these priority issues.

Priority Issues of the Company

(i) Growing Need to Broaden Customer Segments

Faced with a declining birthrate and aging society, the Company must expand its customer base and increase customer numbers by targeting not only men in their 20s and 30s, its traditional core customers, but also women, the middle-aged and seniors. It must therefore continue to develop merchandise and services suited to the needs of each customer segment.

(ii) Polarization of Market Structure and Intensifying Competition

Amid growing regional disparity, the Company faces changes in its operating environment defined by deregulation following the amendment of the Pharmaceutical Affairs Act and other legislation, and intensifying competition from other industries and retail segments. In response, the Company must revamp nationwide and standardized store management practices, take a fresh look at its merchandise assortments and continue to improve the level of convenience in an effort to reinvent its stores to better suit the customer.

(iii) Increasing public interest in CSR

The Company recognizes the societal duties the convenience store sector bears and, as a publicly listed corporation, it must not only seek profit, but also remain fully aware of CSR priorities in the course of business operations.

Key to the measures necessary to address the above issues is the Company's mid- to long-term basic

strategy of “creating stores to suit the needs of each and every customer in the area.” While focused on this strategy, the Company is working to raise the customer satisfaction of each individual in every location. The Company continues to provide total support to franchised store owners (franchisees) so that they can focus on building stores with more emphasis on customers, to improve earnings. To ensure the effectiveness of this support, the Company is focusing on the following concrete initiatives.

Initiatives to Address Priority Issues

(i) Improving New Merchandise Development Capabilities

While strengthening its ability to develop safe and reliable original merchandise, the Company will proactively develop merchandise suited to regional preferences by focusing on such aspects as taste and price. In this process, the Company aims to raise its original added value and develop merchandise that garners a strong customer response.

(ii) Improving Store Operation Capabilities

The Company will continue its efforts to improve customer satisfaction through promoting the Three Challenge Practices. They are (1) ensuring merchandise assortments are matched to individual locations, (2) keeping stores and surrounding areas clean, and (3) serving customers courteously. When selecting store merchandise, the Company will focus on ensuring the merchandise assortment suits local customers, by creating individually tailored stores. At the same time, the Company will strive 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.

(iii) Reinforcing Store-Development Capabilities

The Company’s store-development policy prioritizes customer convenience and profitability for both franchise store owners and headquarters. The Company seeks to establish high-ROI (return on income) stores by avoiding a standardized, nationwide approach to decision-making and choosing new store locations based on detailed regional and location characteristics.

(iv) Tailoring Store Formats to Suit Local Characteristics

Conscious that market needs are becoming increasingly complex and diversified, the Company provides store formats that offer retail spaces and merchandise assortments to suit the location. As for the Company’s store development strategy, regular LAWSON stores will be opened to target customers seeking new merchandise, famous brand goods and convenient services; NATURAL LAWSON stores will be opened to target customers seeking beauty, health and amenity. The LAWSON STORE100 will be opened to target customers seeking perishables packaged in small quantities and low standardized prices.

(v) Enhancing Convenience by Opening Stores in Special Locations and Expanding Financial Services

To enhance customer convenience, the Company develops initiatives based on new ideas rather than on established practices. In tie-ups with other corporations, the Company opens stores in special locations (captive commercial spaces providing high profitability due to the absence of competing stores). In its financial services, the Company aims to increase convenience for customers by expanding the LAWSON PASS and MY LAWSON POINT card programs and offering various services via the “Loppi” multimedia terminals, and in-store ATMs.

Furthermore, the Company is also making transactions more convenient for customers by accepting electronic payment via iD™, QUICKPay™ and Edy at stores.

(vi) Accelerating Business Reform Through Capital and Business Alliances

The Company continues to effectively respond to the rapidly changing social environment and the needs of customers through capital and business alliances that enable it to improve profitability on an individual store basis.

Consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)			Current fiscal year (As of February 28, 2009)			Increase (Decrease)
		Amount	Composi tion ratio		Amount	Composi tion ratio	Amount
(Assets)			%			%	
Current assets							
Cash and bank deposits		62,126			82,486		20,359
Accounts receivable—due from franchised stores		11,949			21,376		9,426
Marketable securities		4,199			5,299		1,100
Merchandise inventories		1,723			5,292		3,569
Prepaid expenses		5,804			7,010		1,205
Short-term loans receivable		20,000			300		(19,699)
Accounts receivable—other		26,983			26,692		(291)
Deferred tax assets		3,632			4,061		428
Other		1,932			2,382		449
Allowance for doubtful accounts		(102)			(140)		(37)
Total current assets		138,250	34.8		154,760	35.5	16,510
Fixed assets							
Property and store equipment Used by Company-operated stores and other							
Buildings and structures	14,436			23,044			
- Accumulated depreciation	5,494	8,941		8,950	14,093		5,151
Furniture, fixtures and equipment	8,761			12,029			
- Accumulated depreciation	6,712	2,049		8,743	3,285		1,235
Land		2,462			2,317		(145)
Construction in progress		948			320		(628)
Total		14,403	3.6		20,016	4.6	5,613
Used by franchised stores							
Buildings and structures	140,484			150,702			
- Accumulated depreciation	63,511	76,972		70,474	80,228		3,255
Furniture, fixtures and equipment	50,277			49,891			
- Accumulated depreciation	38,603	11,674		39,718	10,172		(1,501)
Land		3,381			4,581		1,199
Total		92,028	23.2		94,982	21.8	2,953
Total property and store equipment— net		106,431	26.8		114,999	26.4	8,567

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Software	10,284		12,014		1,730
Software development in progress	6,657		14,571		7,913
Goodwill	902		4,851		3,949
Other	443		464		20
Total intangible fixed assets	18,287	4.6	31,902	7.3	13,614
Investments and other					
Investments in securities	7,607		750		(6,857)
Long-term loans receivable	25,646		27,422		1,775
Long-term prepaid expense	4,158		6,049		1,890
Lease deposits for Company- operated stores and others	9,770		13,488		3,717
Lease deposits for franchised stores	72,984		71,869		(1,115)
Deferred tax assets	12,809		<u>14,469</u>		<u>1,659</u>
Deferred tax assets for land revaluation	467		180		(287)
Other	3,095		<u>4,546</u>		<u>1,451</u>
Allowance for doubtful accounts	(2,403)		<u>(4,342)</u>		<u>(1,939)</u>
Total investments and other	134,137	33.8	<u>134,433</u>	30.8	<u>296</u>
Total fixed assets	258,856	65.2	<u>281,335</u>	64.5	<u>22,478</u>
Total Assets	397,107	100.0	<u>436,096</u>	100.0	<u>38,988</u>

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable —trade for Company-operated stores	4,352		12,890		8,537
Accounts payable —trade for franchised stores	61,234		64,325		3,091
Accounts payable— due to franchised stores	2,201		822		(1,379)
Long-term debt due within one year	—		816		816
Accounts payable — other	13,149		26,314		13,165
Accounts payable — other for franchised stores	177		326		149
Income taxes payable	11,427		9,455		(1,971)
Consumption taxes payable	1,438		1,039		(398)
Accrued expenses	2,134		2,509		374
Deposits received	56,294		<u>60,780</u>		<u>4,486</u>
Accrued employees' bonuses	2,663		3,199		535
Provision for use of points granted	797		933		136
Other	108		327		218
Total current liabilities	155,979	39.3	<u>183,740</u>	<u>42.1</u>	<u>27,761</u>
Long-term liabilities					
Long-term debt	—		1,152		1,152
Allowance for employees' retirement benefits	4,174		5,050		875
Allowance for retirement benefits to executive officers and corporate auditors	182		201		18
Deposits received from franchisees and lessees	45,831		42,440		(3,390)
Allowance for impairment loss on leased property	314		480		166
Other	2,052		1,863		(189)
Total long-term liabilities	52,554	13.2	51,188	11.7	(1,366)
Total Liabilities	208,534	52.5	<u>234,929</u>	<u>53.9</u>	<u>26,395</u>

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Net assets)					
Owners' equity					
Common stock	58,506	14.7	58,506	13.4	—
Capital surplus	41,520	10.5	41,520	9.5	—
Retained earnings	87,390	22.0	<u>97,811</u>	<u>22.4</u>	<u>10,420</u>
Treasury stock-at cost	(1,837)	(0.5)	(1,712)	(0.4)	125
Total Owners' equity	185,579	46.7	<u>196,124</u>	<u>45.0</u>	<u>10,545</u>
Valuation and translation adjustments					
Net unrealized gain (loss) on available- for-sale securities	134	0.0	(40)	(0.0)	(175)
Deferred Loss on Derivatives under Hedge Accounting	(1)	(0.0)	—	—	1
Land revaluation difference	(682)	(0.1)	(969)	(0.2)	(287)
Foreign currency translation adjustments	140	0.0	59	0.0	(81)
Total Valuation and translation adjustments	(408)	(0.1)	(950)	(0.2)	(542)
Stock acquisition rights	159	0.0	274	0.1	114
Minority Interests	3,242	0.9	<u>5,717</u>	<u>1.3</u>	<u>2,475</u>
Total net assets	188,573	47.5	<u>201,166</u>	<u>46.1</u>	<u>12,593</u>
Total Liabilities, and total net assets	397,107	100.0	<u>436,096</u>	100.0	<u>38,988</u>

Consolidated Statements of Income

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1, 2007 to February 29, 2008)			Current fiscal year (From March 1, 2008 to February 28, 2009)			Compared with previous fiscal year
		Amount	Percent age		Amount	Percent age	Percentage
Operating revenues			%			%	
Franchise commissions from franchised stores	177,443			186,927			
Net sales reported by franchised stores							
Previous fiscal year: ¥ 1,311,784 million							
Current fiscal year: ¥ 1,439,682 million							
Total net sales of LAWSON stores including franchised stores							
Previous fiscal year: ¥ 1,415,106 million							
Current fiscal year: ¥ 1,558,781 million							
Other	39,467	216,910	72.0	42,604	229,532	65.7	105.8
Net sales							
Net sales	(84,266)	84,266	(100.0)	(119,943)	119,943	(100.0)	142.3
			28.0			34.3	
Total operating revenues		301,176	100.0		349,476	100.0	116.0
Cost of goods sold	(61,176)	61,176	(72.6)	(88,358)	88,358	(73.7)	144.4
Gross profit on sales	(23,089)		(27.4)	(31,585)		(26.3)	
Operating gross profit		239,999	79.9		261,117		108.8
Selling, general and administrative expenses		193,389	64.2		211,931	60.6	109.6
Operating profit		46,610	15.5		49,186	14.1	105.5

Fiscal period Account item	Previous fiscal year (From March 1,2007 to February 29, 2008)			Current fiscal year (From March 1,2008 to February 28, 2009)			Compared with previous fiscal year
		Amount	Percent age		Amount	Percent age	Percentage
Non-operating income							
Interest received	928			943			
Compensation received for damage	166			138			
Compensation received for removal	336			646			
Other	363	1,795	0.6	328	2,056	0.6	114.6
Non-operating expense							
Interest expense	23			31			
Loss on cancellation of store lease contract	1,686			1,493			
Equity in loss of affiliated companies	200			631			
Other	249	2,160	0.7	299	2,456	0.7	113.7
Recurring profit		46,244	15.4		48,787	14.0	105.5
Special gains							
Gain on sales of fixed assets	—			3			
Gain on sales of investments in securities	—	—	—	91	94	0.0	—
Special losses							
Loss on disposal of fixed assets	5,010			4,053			
Loss on sales of fixed assets	20			112			
Loss on impairment of long-lived assets	2,449			2,013			
<u>Allowance for doubtful accounts</u>	—			<u>1,936</u>			
Other	628	8,109	2.7	494	<u>8,610</u>	<u>2.5</u>	<u>106.2</u>
Income before income taxes and minority interests		38,134	12.7		<u>40,271</u>	<u>11.5</u>	<u>105.6</u>
Income taxes – current	17,493			17,675			
Deferred income taxes	(1,971)	15,522	5.2	(1,124)	<u>16,550</u>	4.7	<u>106.6</u>
<u>Minority interest in net income</u>		493	0.2		<u>(87)</u>	<u>(0.0)</u>	<u>(17.7)</u>
Net profit		22,119	7.3		<u>23,807</u>	<u>6.8</u>	<u>107.6</u>

Consolidated Statement of Changes in Net Assets
(From March 1, 2007 to February 29, 2008)

(Millions of yen)

	Owners' Equity					Valuation and Translation Adjustments					Stock acquisition rights	Minority Interests	Total Net Assets
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Owners' Equity	Net Unrealized Gain on Available-for-Sale Securities	Deferred Gain (loss) on Derivatives under Hedge Accounting	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments			
Balance at the end of previous period	58,506	42,253	95,344	(738)	195,366	319	-	(682)	134	(227)	78	4,276	199,493
Change of items during the fiscal period													
Dividends from surplus			(10,964)		(10,964)								(10,964)
Net profit			22,119		22,119								22,119
Purchase of treasury stock – at cost				(21,000)	(21,000)								(21,000)
Retirement of treasury stock		(709)	(19,108)	19,818									-
Exercise of Stock acquisition rights (treasury stock allotment)		(24)		83	59								59
Net changes of items other than owners' equity – net						(185)	(1)		5	(180)	81	(1,034)	(1,133)
Total change of items during the fiscal period	-	(733)	(7,953)	(1,098)	(9,786)	(185)	(1)	-	5	(180)	81	(1,034)	(10,920)
Balance at the end of the fiscal period	58,506	41,520	87,390	(1,837)	185,579	134	(1)	(682)	140	(408)	159	3,242	188,573

Consolidated Statement of Changes in Net Assets
(From March 1, 2008 to February 28, 2009)

(Millions of yen)

	Owners' Equity					Valuation and Translation Adjustments					Stock acquisition rights	Minority Interests	Total Net Assets
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Owners' Equity	Net Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Land Revaluation Difference	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments			
Balance at the end of previous period	58,506	41,520	87,390	(1,837)	185,579	134	(1)	(682)	140	(408)	159	3,242	188,573
Change of items during the fiscal period													
Dividends from surplus			(13,385)		(13,385)								(13,385)
Net profit			<u>23,807</u>		<u>23,807</u>								<u>23,807</u>
Purchase of treasury stock – at cost				(1)	(1)								(1)
Exercise of Stock acquisition rights (treasury stock allotment)			(1)	126	125								125
Net changes of items other than owners' equity – net						<u>(175)</u>	1	(287)	(81)	<u>(542)</u>	114	<u>2,475</u>	<u>2,048</u>
Total change of items during the fiscal period	—	—	<u>10,420</u>	125	<u>10,545</u>	<u>(175)</u>	1	(287)	(81)	<u>(542)</u>	114	<u>2,475</u>	<u>12,593</u>
Balance at the end of the fiscal period	58,506	41,520	<u>97,811</u>	(1,712)	<u>196,124</u>	<u>(40)</u>	—	(969)	59	<u>(950)</u>	274	<u>5,717</u>	<u>201,166</u>

Consolidated Statements of Cash Flows

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2007 to February 29, 2008)	Current fiscal year (From March 1,2008 to February 28, 2009)
	Amount	Amount
Operating activities:		
Income before income taxes	38,134	<u>40,271</u>
Depreciation of property and store equipment	16,630	16,752
Loss from disposal of property and store equipment	2,383	2,038
Loss on impairment of long-lived assets	2,449	2,013
Depreciation of intangible fixed assets	4,815	4,126
Loss from disposal of intangible fixed assets	1,131	221
Increase in provision for allowance for retirement benefits to employees	648	875
Increase (decrease) in allowance for doubtful accounts	136	<u>1,917</u>
Interest received	(928)	(943)
Interest expense	23	31
Equity in loss (gains) of affiliated companies	200	631
Loss on sales of property and store equipment	20	112
Other —net	1,137	1,816
Increase in accounts receivable due from franchised stores	(239)	(9,244)
Decrease (increase) in merchandise inventories	65	(277)
Decrease(increase) in accounts receivable—other	(984)	945
Increase in accounts payable—trade and due to franchised stores	31	10
Increase (decrease) in accounts payable—other	(3,082)	12,025
Increase in deposits received	7,539	<u>4,392</u>
Decrease in lease deposits from franchisee and lessees	(3,494)	(3,394)
Other-net	(874)	<u>(3,759)</u>
Subtotal	65,744	70,565
Interest and dividend income received	918	946
Interest expenses paid	(23)	(31)
Income taxes paid	(10,865)	(19,762)
Net cash provided by operating activities	55,773	51,717

Fiscal period Account item	Previous fiscal year (From March 1,2007 to February 29, 2008)	Current fiscal year (From March 1,2008 to February 28, 2009)
	Amount	Amount
Investing activities:		
Payment for purchase of marketable securities	(28,750)	(25,956)
Proceeds from redemption of marketable securities	40,892	25,900
Proceeds from sales of investments in securities	0	111
Increase in advances to associated company	(5,976)	(49)
Proceeds from acquisition of shares of subsidiary resulting in change in scope of consolidation	—	2,227
Payment for acquisition of subsidiary's stock from minority shareholders	(2,131)	(78)
Decrease (increase) in short-term loans receivable	(11,150)	19,700
Payment for acquisition of property and store equipment	(21,392)	(22,440)
Payment for acquisition of intangible fixed assets	(7,456)	(12,457)
Decrease in lease deposits—net	1,485	769
Increase in long-term loans receivable — net	(1,267)	(1,697)
Increase in long-term prepaid expenses	(1,063)	(2,467)
Other—net	285	792
Net cash used in investing activities	(36,525)	(15,647)
Financing activities:		
Decrease in short-term debt	—	(1,294)
Repayment of long-term debt	—	(307)
Proceeds from issuance of share upon exercise of stock options	59	125
Cash dividends paid	(10,964)	(13,385)
Cash dividends paid to Minority interests	(67)	(47)
Purchase of treasury stock	(21,000)	(1)
Net cash used in by financing activities	(31,973)	(14,911)
Net increase (decrease) in cash and cash equivalents	(12,724)	21,158
Cash and cash equivalents, beginning of year	75,547	62,822
Cash and cash equivalents, end of year	62,822	83,981

《Basis of Presenting the Consolidated Financial Statements》

1. Scope of consolidation

Consolidated subsidiaries: 7

LAWSON TICKET, INC.
i-Convenience, Inc
LAWSON ATM Networks, Inc
BestPractice Inc.
VALUE LAWSON, Inc
Ninety-nine Plus Inc.
Ninety-nine Plus Kansai, Inc.

Ninety-nine Plus Inc. has been included in the scope of consolidation from the fiscal year under review due to the purchase of shares via a public tender on September 5, 2008, which made it a subsidiary.

All subsidiaries have been consolidated.

2. Application of the equity method

Affiliated companies to which the equity method is applied: 1

SHANGHAI HUALIAN LAWSON CO., LTD.

Among share method application companies, it is December 31 on the settling day of SHANGHAI HUALIAN LAWSON CO.,LTD..

When creating the consolidated balance sheets, the Company used balance sheets created by provisional settlement based on the financial data at the end of the most recently settled fiscal quarter and, as required, made adjustments on a consolidated basis to take into account significant transactions that subsequently occurred in the interval until the end of the consolidated term.

LAWSON CS Card, INC. and naturalBeat Co., Ltd. have been excluded from the number of equity-method affiliates due to the sale of shareholdings in these companies.

3. Closing day for settlement of accounts of consolidated subsidiaries

Among equity method application companies, the closing date is March 31 for Ninety-nine Plus Inc. When preparing the consolidated financial statements, the Company used these companies' financial information prepared based on the financial data at the end of the most recently fiscal quarter and, as required, made certain adjustments for significant transactions that subsequently occurred in the intervening period until the end of the consolidation fiscal year.

All other subsidiaries have the same fiscal year-end as LAWSON.

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 net assets.

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 points granted:

The Company provides LAWSON PASS holders and MY LAWSON POINT 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.

(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 net assets.

(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 Goodwill

Concerning goodwill, or goodwill equivalent in the case of affiliates accounted for by the equity method, the amount is amortized on a straight-line basis over a maximum of 20 years, depending on the reason for the occurrence of goodwill.

7. 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 3 months from the acquired date, which are easily convertible into cash with little risk of value fluctuation.

《Notes to Consolidated Financial Statements》
Notes to the Consolidated Balance Sheets

As of February 29, 2008	As of February 28, 2009
1. Investment in affiliated companies	1. Investment in affiliated companies
Investments in securities (stock) ¥6,781 million	Investments in securities (stock) ¥49 million
Other (other equity investments) ¥552 million	Other (other equity investments) ¥482 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. This is in relation to interest swaps entered into by affiliates accounted for by the equity method.	6. _____
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 net assets as land revaluation difference, net of the related tax which is included in deferred tax assets for land revaluation.	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). The resulting revaluation difference for land used for business that is scheduled to be sold has been included in net assets 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.	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.
¥298 million	¥263 million
8. Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Cards, Inc.	8. _____
¥1,650 million	

Notes to Consolidated Statements of Income

(Millions of yen)

From March 1, 2007 to February 29, 2008		From March 1, 2008 to February 28, 2009	
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	8,588	Sales promotion and advertising	12,847
Doubtful debt account	379	Doubtful debt account	154
Salary	28,040	Salary	32,378
Provision for accrued employees' bonuses	2,663	Provision for accrued employees' bonuses	3,199
Retirement benefit costs	1,863	Retirement benefit costs	1,633
Provision for allowance for retirement benefits to directors and corporate auditors	75	Provision for allowance for retirement benefits to directors and corporate auditors	74
Rent account	58,562	Rent account	62,323
Depreciation of fixed assets	16,630	Depreciation of fixed assets	16,752
3. _____		3. Gain on sales of fixed assets	
		Buildings	1
		Furniture, fixtures and equipment	1
		Telephone subscription right	0
4. Distribution of loss on disposal of fixed assets		4. Distribution of loss on disposal of fixed assets	
Buildings and structures	2,576	Buildings and structures	2,585
Furniture, fixtures and equipment	1,302	Furniture, fixtures and equipment	1,253
Software	1,126	Software	2
Software development in progress	1,124	Software development in progress	210
Other	5	Other	1
5. Distribution of loss on sales of fixed assets		5. Distribution of loss on sales of fixed assets	
Buildings	18	Buildings and structures	112
Furniture, fixtures and equipment	0	Furniture, fixtures and equipment	0
Other	1	Telephone subscription right	0

6. Loss on impairment of 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	130
	Osaka	"	427
	Others	"	1,891
Total	—	—	2,449

Category by fixed assets

Buildings and Structure	1,772
Furniture, fixtures and equipment	235
Leased property	425
Other	16

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 6.8% discount rate was applied.

7. _____

6. Loss on impairment of 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	205
	Osaka	"	164
	Others	"	1,644
Total	—	—	2,013

Category by fixed assets

Buildings and Structure	1,457
Furniture, fixtures and equipment	205
Leased property	340
Other	10

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 5.3% discount rate was mainly applied.

7. Allowance for Doubtful Accounts

An allowance for doubtful accounts was provided for estimated unrecoverable money connected with an alleged misappropriation at consolidated subsidiary LAWSON TICKET, INC. (now LAWSON ENTERMEDIA, INC.).

(Notes to the Consolidated Statements of Changes in Net assets)

Previous period (From March 1, 2007 to February 29, 2008)

1. Number of shares of outstanding stock and treasury stock.

	Number of shares at the end of previous period (thousand shares)	Increase during the period (thousand shares)	Decrease during the period (thousand shares)	Number of shares at the end of the period (thousand shares)
Outstanding stock Common stock *1	104,600	—	5,000	99,600
Treasury stock Common stock*2,3	186	5,297	5,021	463

Note: *1. The 5,000 thousand shares decrease in outstanding stock resulted from the retirement of treasury stock.

*2. The 5,297 thousand shares increase in treasury stock resulted from a 5,297 thousand shares increase due to treasury stock acquisition by resolution of a Board of Directors Meeting and a 0 thousand share increase due to the purchase of stock less than a unit share.

*3. The 5,021 thousand shares decrease in treasury stock resulted from a 5,000 thousand shares decrease due to retirement of treasury stock based on profit considerations and a 21 thousand shares decrease due to the exercise of stock options.

2. Stock acquisition rights and treasury stock acquisition rights

Classification	Terms of stock acquisition rights	Class and number of shares subject to stock acquisition rights					Balance at end of the current period (Millions of yen)
		Class	Number (shares)				
			End of the previous period	Increase during the period	Decrease during the period	End of the period	
Submitting company (Parent company)	Stock acquisition rights (ordinary stock options)	—	—	—	—	—	159
Total		—	—	—	—	—	159

3. Dividend

(1) Dividend payment

Date of resolution	Class of shares	Amounts of dividend payment (Millions of yen)	Dividend per shares (yen)	Date recorded for dividend	Effective date
The General meeting of shareholders (May 25, 2007)	Common stock	5,220	50	As of February, 28, 2007	As of May, 28, 2007
Directors' meeting (October 10, 2007)	Common stock	5,743	55	As of August 31, 2007	As of November, 9, 2007

(2) Dividends for which effective date is after Balance sheet date of year-ended, among dividends attributed in the Current period.

Date of resolution	Class of shares	Reserve of Dividend	Amounts of dividend payment (Millions of yen)	Dividend per shares (yen)	Date recorded for dividend	Effective date
The General meeting of shareholders (May 23, 2008)	Common stock	Retained Earnings	5,452	55	As of February, 29, 2008	As of May, 26, 2008

Current period (From March 1, 2008 to February 28, 2009)

1. Number of shares of outstanding stock and treasury stock.

	Number of shares at the end of previous period (thousand shares)	Increase during the period (thousand shares)	Decrease during the period (thousand shares)	Number of shares at the end of the period (thousand shares)
Outstanding stock Common stock	99,600	—	—	99,600
Treasury stock Common stock*	463	0	31	432

Note: * The 0 thousand shares increase in treasury stock was resulted from purchase of stock less than unit share. The 31 thousand shares decrease in treasury stock resulted from provision in relation to exercise of stock option.

2. Stock acquisition rights and treasury stock acquisition rights

Classification	Terms of stock acquisition rights	Class and number of shares subject to stock acquisition rights				Balance at end of the current period (Millions of yen)
		Class	Number (shares)			
			End of the previous period	Increase during the period	Decrease during the period	
Submitting company (Parent company)	Stock acquisition rights (ordinary stock options)	—	—	—	—	274
Total		—	—	—	—	274

3. Dividend

(1) Dividend payment

Date of resolution	Class of shares	Amounts of dividend payment (Millions of yen)	Dividend per shares (yen)	Date recorded for dividend	Effective date
The General meeting of shareholders (May 23, 2008)	Common stock	5,452	55	As of February, 29, 2008	As of May, 26, 2008
Directors' meeting (October 14, 2008)	Common stock	7,933	80	As of August 31, 2008	As of November, 10, 2008

(2) Dividends for which effective date is after Balance sheet date of year-ended, among dividends attributed in the Current period.

Date of resolution	Class of shares	Reserve of Dividend	Amounts of dividend payment (Millions of yen)	Dividend per shares (yen)	Date recorded for dividend	Effective date
The General meeting of shareholders (May 26, 2009)	Common stock	Retained Earnings	7,933	80	As of February, 28, 2009	As of May, 27, 2009

Notes to the Consolidated Statements of Cash Flows

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

	(Millions of yen)	
	As of February 29, 2008	As of February 28, 2009
Cash and bank deposits	62,126	82,486
Marketable securities	4,199	5,299
Time deposits, etc., for which the deposit period exceeds three months	(104)	(4)
Bonds, etc., for which the redemption period exceeds three months	(3,399)	(3,799)
Cash and cash equivalents	62,822	83,981

Breakdown of main assets and liabilities of companies that became consolidated subsidiaries as a result of share purchases.

The following is a breakdown of the assets and liabilities of Ninety-nine Plus Inc. upon consolidation, as well as the acquisition cost of its shares and net payments for the purchase.

	(Millions of yen)	
	As of February 28, 2009	
Current assets		13,529
Fixed assets		8,099
Goodwill		3,283
Current liabilities		(14,565)
Long-term liabilities		(2,038)
Minority interests		(2,459)
Acquisition cost of new consolidated subsidiary shares		5,848
Cash and cash equivalents of new consolidated subsidiary		8,076
Difference: Income from acquisition of new consolidated subsidiary		2,227

Notes to Lease Contracts

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

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

	(Millions of yen)	
	As of February 29, 2008	As of February 28, 2009
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	19,114	27,191
Accumulated depreciation	9,480	11,696
Accumulated impairment loss	58	86
Leased property	9,576	15,408
Software		
Acquisition cost	734	734
Accumulated depreciation	489	636
Accumulated impairment loss	—	—
Leased property	244	97
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	68,231	48,859
Accumulated depreciation	47,406	28,045
Accumulated impairment loss	510	690
Leased property	20,313	20,123

(2) Obligations under finance leases

Used by Company-operated stores and other:

Furniture, fixtures and equipment

Due within one year	3,455	4,834
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Due after one year	7,213	11,323
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Total	10,668	16,158
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Allowance for impairment loss on leased property	31	333
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Leased to franchised stores:

Furniture, fixtures and equipment

Due within one year	7,701	6,452
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Due after one year	13,542	14,765
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Total	21,244	21,218
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Allowance for impairment loss on leased property	282	350
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(3) Lease payments, depreciation expense, interest expense and impairment loss

Lease payments	18,103	14,434
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Transfer from allowance for impairment loss on leased property	206	377
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Depreciation expense	16,784	13,658
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Interest expense	1,010	1,210
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Impairment loss	425	340
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(4) Computation method of depreciation expense

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

(5) Computation method of interest expense

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

2. Operating lease contracts
Obligations under operation leases

	(Millions of yen)	
	As of February 29, 2008	As of February 28, 2009
Due within one year	687	559
Due after one year	841	461
Total	1,529	1,021

Notes to Market Value Information of Securities

(As of February 29, 2008)

1. Information regarding marketable held-to-maturity debt securities as of February 29, 2008, 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	2,000	2,002	2
	Subtotal	2,000	2,002	2
Securities with book value per consolidated balance sheets exceeding market value	Government and municipal bonds, etc.	—	—	—
	Corporate Bonds	—	—	—
	Other	—	—	—
	Subtotal	—	—	—
Total		2,000	2,002	2

2. Information regarding marketable available-for-sale securities as of February 29, 2008, 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	66	295	299
	Bond certificate	1,199	1,200	0
	Other	—	—	—
	Subtotal	1,266	1,496	239
Securities with book value per consolidated balance sheets exceeding cost Stock	Equity	10	6	(3)
	Bond certificate	799	799	(0)
	Other	499	499	(0)
	Subtotal	1,309	1,305	(3)
Total		2,575	2,802	226

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
0	—	0

4. Available-for-sale securities whose fair value is not readily determinable as of February 29, 2008, were as follows:

Available-for-sale securities	(Millions of yen)
	Book value per consolidated balance sheets
Unlisted shares (excluding OTC securities)	78
Other	145
Total	223

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 29, 2008 by contractual maturity were as follows:

Type	(Millions of yen)	
	1 year or less	Over 1 year to 5years
Government and municipal bonds, etc.	799	—
Corporate Bonds	499	300
Other bonds	2,899	—
Total	4,199	300

(As of February 28, 2009)

1. Information regarding marketable held-to-maturity debt securities as of February 28, 2009, 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	3,000	2,999	(0)
	Subtotal	3,000	2,999	(0)
Total		3,000	2,999	(0)

2. Information regarding marketable available-for-sale securities as of February 28, 2009, 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	1	2	1
	Bond certificate	1,299	1,299	0
	Other	—	—	—
	Subtotal	1,300	1,302	1
Securities with book value per consolidated balance sheets exceeding cost	Equity	60	42	(17)
	Bond certificate	999	999	(0)
	Other	—	—	—
	Subtotal	1,060	1,042	(17)
Total		2,360	2,344	(16)

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
111	91	—

4. Available-for-sale securities whose fair value is not readily determinable as of February 28, 2009, were as follows:

Available-for-sale securities	(Millions of yen)
	Book value per consolidated balance sheets
Unlisted shares (excluding OTC securities)	528
Other	126
Total	655

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 28, 2009 by contractual maturity were as follows:

(Millions of yen)		
Type	1 year or less	Over 1 year to 5years
Government and municipal bonds, etc.	1,999	—
Corporate Bonds	300	—
Other bonds	3,000	—
Total	5,299	—

Note to Derivative Transactions

Previous period (From March 1, 2007 to February 29, 2008)

None of disclosure is required because The company and subsidiaries made no derivative transactions.

Current period (From March 1, 2008 to February 28, 2009)

None of disclosure is required because The Lawson group made no derivative transactions.

Note to Retirement Benefits

From March 1, 2007 to February 29, 2008

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	(11,222)
b	Plan assets	5,566
c	Projected benefit obligation in excess of plan assets (a + b)	(5,656)
d	Unrecognized prior service cost	1,054
e	Unrecognized actuarial differences	427
f	Reported amount on the consolidated balance sheets, net (c + d + e)	(4,174)

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

3. Net periodic benefit cost		(Millions of yen)
a	Service cost	1,137
b	Interest cost	212
c	Amortization of prior service cost	175
d	Amortization of actuarial differences	89
e	Net periodic benefit cost(a+b+c+d)	1,614
f	Contribution to defined contribution plan	249
g	Total (= e + f)	1,863

Notes: 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, 2008 to February 28, 2009

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	(12,226)
b Plan assets	5,574
c Projected benefit obligation in excess of plan assets (a + b)	(6,652)
d Unrecognized prior service cost	878
e Unrecognized actuarial differences	722
f Reported amount on the consolidated balance sheets, net (c + d + e)	5,050

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

3. Net periodic benefit cost	(Millions of yen)
a Service cost	872
b Interest cost	222
c Amortization of prior service cost	175
d Amortization of actuarial differences	97
e Net periodic benefit cost(a+b+c+d)	1,368
f Contribution to defined contribution plan	265
g Total (= e + f)	1,633

Notes: 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:

	(Millions of yen)	
	As of February 29, 2008	As of February 28, 2009
Deferred tax assets		
Enterprise taxes payable	954	901
Accrued employees' bonuses	1,083	1,301
Excess of depreciation	4,218	4,969
Excess of amortization of software	687	793
Allowance for employees' retirement benefits	3,963	4,323
Allowance for doubtful accounts	1,102	<u>1,414</u>
Impairment loss	1,617	2,165
Tax loss carryforward	1,615	2,215
Loss on replacement of computer system	896	841
Other	2,015	2,434
Subtotal of deferred tax assets	<u>18,154</u>	<u>21,362</u>
Valuation allowances	<u>(1,620)</u>	<u>(2,831)</u>
Total deferred tax assets	16,534	<u>18,530</u>
Deferred tax liabilities		
Net unrealized gain on available-for-sale securities	(92)	—
Total deferred tax liabilities	<u>(92)</u>	—
Deferred tax assets-net	16,442	—

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

(As of February 29, 2008) (As of February 28, 2009)

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 29, 2008) (As of February 28, 2009)

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

3. Overseas sales

(From March 1, 2007 to February 29, 2008) (From March 1, 2008 to February 28, 2009)

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

Related Party Transactions

(As of February 29, 2008)

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 —	One director of the Company	Outsourcing of a card service etc	Increase in short-term loans receivable	11,150	Short-term loans receivable	20,000
								Interest received	102	Accrued interest receivable	0
								Guarantee for bank borrowings	1,650	—	
								Receipts of guarantee fee	20	—	

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%	—	Vendor	Purchases for the Company-operated stores	6,191	Accounts payable-trade	444
					Indirect —			(Purchases for the franchised stores)	(84,086)	Accounts payable-trade for franchised stores	5,838
	Food Service Network Co.,Ltd	Chuo-ku, Tokyo	2,000	Sales of fast foods and daily delivered foods	(Ownership) Direct —	—	Vendor	Purchases for the Company-operated stores	14,734	Accounts payable-trade	1,141
					Indirect —			(Purchases for the franchised stores)	(209,631)	Accounts payable-trade for franchised stores	15,792
	SAN-ESU INC.	Adachiku, Tokyo	2,600	Confectionary wholesale business	(Ownership) Direct —	—	Vendor	Purchases for the Company-operated stores	1,897	Accounts payable-trade	182
					Indirect —			(Purchases for the franchised stores)	(30,102)	Accounts payable-trade for franchised stores	2,753

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, 2009)

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	—	—	Outsourcing of a card service etc	Decrease in short-term loans receivable	20,000	—	—
								Interest received	37		

Transaction conditions and the principles on the decision thereof :

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

2. Transactions between LAWSON and LAWSON CS Card, INC. are transactions from March 1, 2008

through April 30, 2008 because LAWSON sold all shares it held in LAWSON CS Card, INC. on April 30, 2008.

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%	—	Vendor	Purchases for the Company-operated stores	5,774	Accounts payable-trade	416
					Indirect —			(Purchases for the franchised stores)	(85,856)	Accounts payable-trade for franchised stores	6,155
	Food Service Network Co.,Ltd	Chuo-ku, Tokyo	2,000	Sales of fast foods and daily delivered foods	(Ownership) Direct —	—	Vendor	Purchases for the Company-operated stores	14,711	Accounts payable-trade	1,045
					Indirect —			(Purchases for the franchised stores)	(212,886)	Accounts payable-trade for franchised stores	15,395
	SAN-ESU INC.	Adachiku, Tokyo	2,600	Confectionary wholesale business	(Ownership) Direct —	—	Vendor	Purchases for the Company-operated stores	2,013	Accounts payable-trade	173
					Indirect —			(Purchases for the franchised stores)	(31,452)	Accounts payable-trade for franchised stores	2,756

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.

Non-consolidated Balance Sheets

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
(Assets)		%		%	
Current assets					
Cash and bank deposits	51,450		64,068		12,617
Accounts receivable—due from franchised stores	11,949		21,170		9,220
Marketable securities	2,000		3,000		1,000
Merchandise inventories	1,432		1,484		51
Prepaid expenses	5,716		6,142		425
Short-term loans receivable	22,400		3,100		(19,300)
Accounts receivable—other	24,187		23,064		(1,123)
Deferred tax assets	3,545		4,590		1,044
Other	1,778		1,384		(394)
Allowance for doubtful accounts	(102)		(2,868)		(2,766)
Total current assets	124,358	32.3	125,134	31.1	775
Fixed assets					
Property and store equipment-at net book value used by company – operated stores and other					
Buildings	12,851		13,099		
- Accumulated depreciation	4,824	8,027	5,449	7,649	(377)
Structures	996		875		
- Accumulated depreciation	549	446	543	332	(114)
Furniture, fixtures and equipment	8,118		8,783		
- Accumulated depreciation	6,414	1,703	6,698	2,084	381
Land		2,462		2,317	(145)
Construction in progress		948		320	(628)
Total		13,588		12,704	(884)
Used by franchised stores					
Buildings	112,518		120,705		
- Accumulated depreciation	48,025	64,492	52,672	68,032	3,539
Structures	27,965		29,692		
- Accumulated depreciation	15,485	12,480	17,671	12,020	(459)
Furniture, fixtures and equipment	50,277		49,773		
- Accumulated depreciation	38,603	11,674	39,635	10,138	(1,535)
Land		3,381		4,581	1,199
Total		92,028		94,772	2,744
Total property and store equipment— net		105,616		107,477	1,860

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composi tion ratio	Amount	Composi tion ratio	Amount
Intangible fixed assets					
Goodwill	383		1,148		764
Right of leasehold	65		83		18
Right of trademark	66		61		(5)
Right of telephone	292		293		1
Software	8,582		7,990		(592)
Software development in progress	6,649		14,552		7,902
Other	2		2		(0)
Total intangible fixed assets	16,042	4.2	24,132	6.0	8,089
Investments and other					
Investments in securities	525		259		(266)
Investment in subsidiaries and affiliated company	12,256		16,843		4,587
Investment in affiliated limited private company	438		438		—
Long-term loans receivable	25,646		27,355		1,708
Long-term prepaid expenses	3,730		5,313		1,583
Lease deposits for Company- operated stores and others	9,483		9,895		412
Lease deposits for franchised stores	72,984		71,593		(1,391)
Deferred tax assets	14,125		13,746		(378)
Deferred tax assets for land revaluation	467		180		(287)
Other	2,061		2,128		66
Allowance for doubtful accounts	(2,403)		(2,381)		21
Total investments and other	139,316	36.1	145,373	36.2	6,056
Total fixed assets	260,976	67.7	276,982	68.9	16,005
Total Assets	385,335	100.0	402,117	100.0	16,781

(Millions of yen)

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)		Current fiscal year (As of February 28, 2009)		Increase (Decrease)
	Amount	Composit ion ratio	Amount	Composi tion ratio	Amount
(Liabilities)		%		%	
Current liabilities					
Accounts payable—trade for Company-operated stores	3,512		3,385		(127)
Accounts payable—trade for franchised stores	61,234		62,951		1,716
Accounts payable— due to franchised stores	2,201		764		(1,436)
Accounts payable — Other	11,459		22,753		11,293
Accounts payable — Other for franchised stores	177		318		141
Income taxes payable	11,014		8,439		(2,575)
Consumption taxes payable	1,360		675		(684)
Accrued expenses	1,902		1,746		(155)
Deposits received	49,908		51,862		1,954
Accrued employees' bonuses	2,552		3,065		513
Provision for use of points granted	792		928		136
Other	80		68		(11)
Total current liabilities	146,195	37.9	156,960	39.0	10,764
Long-term liabilities					
Allowance for employees' retirement benefits	4,104		4,963		858
Allowance for retirement benefits to executive officers and corporate auditors	140		147		7
Deposits received from franchisees and lessees	45,809		42,434		(3,375)
Allowance for impairment loss on leased property	314		352		38
Other	1,623		1,623		—
Total long-term liabilities	51,993	13.5	49,521	12.3	(2,471)
Total Liabilities	198,188	51.4	206,482	51.3	8,293

Fiscal period Account item	Previous fiscal year (As of February 29, 2008)			Current fiscal year (As of February 28, 2009)			Increase (Decrease)
	Amount		Composi tion ratio	Amount		Composi tion ratio	Amount
(Net assets)							
Owners' equity							
Common stock		58,506	15.2		58,506	14.5	—
Capital surplus							
Additional paid-in capital	41,520			41,520			
Total capital surplus		41,520	10.8		41,520	10.3	—
Retained earnings							
Legal reserve	727			727			
Other legal reserve							
General reserve	50,000			50,000			
Earned surplus brought forward	38,618			47,298			
Total retained earnings		89,345	23.2		98,025	24.4	8,680
Treasury stock-at cost		(1,837)	(0.5)		(1,712)	(0.4)	125
Total Owners' equity		187,534	48.7		196,339	48.8	8,805
Valuation and translation adjustments							
Net unrealized gain (loss) on available-for-sale securities		133	0.0		(10)	(0.0)	(144)
Land revaluation difference		(682)	(0.2)		(969)	(0.2)	(287)
Total Valuation and translation adjustments		(548)	(0.2)		(979)	(0.2)	(431)
Stock acquisition rights		159	0.1		274	0.1	114
Total net assets		187,146	48.6		195,634	48.7	8,488
Total Liabilities, net assets		385,335	100.0		402,117	100.0	16,781

Non-consolidated Statements of Income

(Millions of yen)

Fiscal period Account item	Previous fiscal year (From March 1,2007 to February 29, 2008)			Current fiscal year (From March 1,2008 to February 28, 2009)			Compared with previous fiscal year
	Amount		Percentage	Amount		Percentage	Percentage
Operating revenues			%			%	
Franchise commissions from franchised stores	177,443			186,548			
Net sales reported by franchised stores							
Previous fiscal year: ¥ 1,331,784 million							
Current fiscal year: ¥ 1,434,166 million							
Total net sales of LAWSON stores including franchised stores							
Previous fiscal year: ¥ 1,402,786 million							
Current fiscal year: ¥ 1,506,312 million							
Other	21,137	198,580	73.7	21,045	207,593	74.2	104.5
Net sales			(100.0)			(100.0)	
Net sales	(71,001)	71,001	26.3	(72,145)	72,145	25.8	101.6
Total operating revenues		269,582	100.0		279,739	100.0	103.8
Cost of goods sold							
Inventory at beginning of year	1,491			1,432			
Purchase amount	50,688			51,811			
Total	52,179			53,244			
Inventory at end of year	1,432			1,484			
Cost of goods sold	(50,746)	50,746	(71.5)	(51,760)	51,760	(71.7)	102.0
Gross profit on sales	(20,254)		(28.5)	(20,385)		(28.3)	100.6
Operating gross profit		218,835	81.2		227,978	81.5	104.2
Selling, general and administrative expenses		173,500	64.4		181,065	64.7	104.4
Operating profit		45,334	16.8		46,913	16.8	103.5

Fiscal period Account item	Previous fiscal year (From March 1,2007 to February 29, 2008)		Current fiscal year (From March 1,2008 to February 28, 2009)		Compared with previous fiscal year	
	Amount	Percentage	Amount	Percentage	Percentage	
Non-operating income						
Interest received	809		836			
Compensation received for damage	166		138			
Compensation received for removal	316		646			
Other	571	1,864	520	2,141	0.7	114.9
Non-operating expense						
Loss on cancellation of store lease contract	1,651		1,459			
Other	248	1,900	273	1,733	0.6	91.2
Recurring profit		45,298		47,321	16.9	104.5
Special gains						
Gain on sales of fixed assets	—		3			
Gain on sales of investments in securities	—		91			
Gain on sales of investments in subsidiaries and affiliated company	—	—	25	120	0.1	—
Special losses						
Loss on disposal of fixed assets	4,989		3,586			
Loss on sales of fixed assets	29		112			
Loss on impairment of long-lived assets	2,449		1,980			
Loss on write-down of investment in affiliated company	3,422		605			
Provision of allowance for doubtful account	—		2,800			
Loss on liquidation of subsidiary	1,611		—			
Other	540	13,042	419	9,505	3.4	72.9
Income before income taxes		32,256		37,936	13.6	117.6
Income taxes – current	16,779		16,436			
Deferred income taxes	(3,422)	13,357	(566)	15,869	5.7	118.8
Net profit		18,899		22,066	7.9	116.8

Non-consolidated Statement of Changes in Net Assets
(From March 1, 2007 to February 29, 2008)

(Millions of yen)

	Owners' Equity									
	Common Stock	Capital Surplus			Legal Reserve	Retained Earnings			Treasury Stock	Total Owners' Equity
		Additional Paid-in Capital	Other Capital Surplus	Total Capital Surplus		Other Legal Reserve		Total Retained Earnings		
						General Reserve	Earned Surplus Brought Forward			
Balance at the end of previous period	58,506	41,520	733	42,253	727	50,000	49,792	100,519	(738)	200,541
Change of items during the interim period										
Dividends from surplus							(10,964)	(10,964)		(10,964)
Net profit							18,899	18,899		18,899
Purchase of treasury stock – at cost									(21,000)	(21,000)
Retirement of treasury stock – at cost			(709)	(709)			(19,108)	(19,108)	19,818	-
Exercise of stock acquisition rights (treasury stock allotment)			(24)	(24)					83	59
Net changes of items other than owners' equity – net										
Total change of items during the fiscal period	–	–	(733)	(733)	–	–	(11,173)	(11,173)	(1,098)	(13,006)
Balance at the end of the fiscal period	58,506	41,520	–	41,520	727	50,000	38,618	89,345	(1,837)	189,564

	Valuation and Translation Adjustments			Stock acquisition rights	Total Net Assets
	Net Unrealized Gain on Available-for-Sale Securities	Land Revaluation Difference	Total Valuation and Translation Adjustments		
Balance at the end of previous period	319	(682)	(362)	78	200,257
Change of items during the interim period					
Dividends from surplus					(10,964)
Net profit					18,899
Purchase of treasury stock – at cost					(21,000)
Retirement of treasury stock – at cost					—
Exercise of stock acquisition rights (treasury stock allotment)					59
Net changes of items other than owners' equity – net	(185)		(185)	81	(104)
Total change of items during the fiscal period	(185)	—	(185)	81	(13,111)
Balance at the end of the fiscal period	133	(682)	(548)	159	187,534

Non-consolidated Statement of Changes in Net Assets
(From March 1, 2008 to February 28, 2009)

(Millions of yen)

	Owners' Equity									
	Common Stock	Capital Surplus			Legal Reserve	Retained Earnings			Treasury Stock	Total Owners' Equity
		Additional Paid-in Capital	Other Capital Surplus	Total Capital Surplus		Other Legal Reserve		Total Retained Earnings		
						General Reserve	Earned Surplus Brought Forward			
Balance at the end of previous period	58,506	41,520	—	41,520	727	50,000	38,618	89,345	(1,837)	189,564
Change of items during the interim period										
Dividends from surplus							(13,385)	(13,385)		(13,385)
Net profit							22,066	22,066		22,066
Purchase of treasury stock – at cost									(1)	(1)
Exercise of stock acquisition rights (treasury stock allotment)							(1)	(1)	126	125
Net changes of items other than owners' equity – net										
Total change of items during the fiscal period	—	—	—	—	—	—	8,680	8,680	125	8,805
Balance at the end of the fiscal period	58,506	41,520	—	41,520	727	50,000	47,298	98,025	(1,712)	196,339

	Valuation and Translation Adjustments			Stock acquisition rights	Total Net Assets
	Net Unrealized Gain on Available-for-Sale Securities	Land Revaluation Difference	Total Valuation and Translation Adjustments		
Balance at the end of previous period	133	(682)	(548)	159	187,534
Change of items during the interim period					
Dividends from surplus					(13,385)
Net profit					22,066
Purchase of treasury stock – at cost					(1)
Exercise of stock acquisition rights (treasury stock allotment)					125
Net changes of items other than owners' equity – net	(144)	(287)	(431)	114	(316)
Total change of items during the fiscal period	(144)	(287)	(431)	114	8,488
Balance at the end of the fiscal period	(10)	(969)	(979)	274	195,634

《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 net assets. 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 points granted:

The Company provides LAWSON PASS holders and MY LAWSON POINT 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.

5. Lease

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

6. Accounting for consumption tax

Consumption tax is accounted for using the tax exclusion method.

Notes to the Non-consolidated Balance Sheets

As of February 29, 2008	As of February 28, 2009
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.Principal assets due to the affiliated company Short-term loans receivable	5.Principal assets due to the affiliated company Short-term loans receivable
¥22,400 million	¥2,800 million
6.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 net assets 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.	6. 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). The resulting revaluation difference for land used for business that is scheduled to be sold has been included in net assets 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.
¥298 million	¥263 million
7.Contingent liabilities Guarantee for bank loan borrowed by the affiliated company. LAWSON CS Card, Inc.	7. _____
¥1,650 million	

Notes to Non-consolidated Statements of Income

		(Millions of yen)	
From March 1, 2007 to February 29, 2008		From March 1, 2008 to February 28, 2009	
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	8,267	Sales promotion and advertising	12,442
Doubtful debt account	379	Doubtful debt account	114
Salary	24,524	Salary	25,083
Provision for accrued employees' bonuses	2,552	Provision for accrued employees' bonuses	3,065
Retirement benefit costs	1,814	Retirement benefit costs	1,585
Provision for allowance for retirement benefits to directors and corporate auditors	38	Provision for allowance for retirement benefits to directors and corporate auditors	40
Rent account	57,985	Rent account	60,474
Depreciation of fixed assets	16,502	Depreciation of fixed assets	16,203
3. _____		3. Gain on sales of fixed assets	
		Buildings	1
		Structures	0
		Furniture, fixtures and equipment	1
		Telephone subscription right	0
4.Distribution of loss on disposal of fixed assets		4.Distribution of loss on disposal of fixed assets	
Buildings	2,269	Buildings	2,247
Structures	293	Structures	316
Furniture, fixtures and equipment	1,301	Furniture, fixtures and equipment	812
Software development in progress	1,124	Software development in progress	210
5.Distribution of loss on sales of fixed assets		5.Distribution of loss on sales of fixed assets	
Buildings	18	Buildings	103
Furniture, fixtures and equipment	9	structures	8
Telephone subscription right	1	Furniture, fixtures and equipment	0
		Telephone subscription rights	0

6. Loss on impairment of 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	130
	Osaka	"	427
	Others	"	1,891
Total	—	—	2,449

Category by fixed assets

Buildings	1,512
Structure	259
Furniture, fixtures and equipment	235
Leased property	425
Other	16

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 6.8% discount rate was applied.

7. _____

8. Loss on liquidation of subsidiary

This resulted from management decision to liquidate at NATURAL LAWSON, Inc. consolidated subsidiary. The breakdown of Loss on liquidation of subsidiary is as follows:

Loss on write-down of investment in subsidiary	104
Loss on loans receivable	1,506
Total	1,611

6. Loss on impairment of 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	174
	Osaka	"	163
	Others	"	1,642
Total	—	—	1,980

Category by fixed assets

Buildings	1,224
Structure	203
Furniture, fixtures and equipment	202
Leased property	340
Other	9

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 5.3% discount rate was applied.

7. Provision for allowance for doubtful accounts

A provision for allowance for doubtful accounts has been made for loans receivable to LAWSON consolidated subsidiary VALUE LAWSON, Inc.

8. _____

Notes to the Non - consolidated Statements of Changes in Net assets

Previous period (From March 1, 2007 to February 29, 2008)

Number of shares of treasury stock.

	Number of shares at the end of previous period (thousand shares)	Increase during the current period (thousand shares)	Decrease during the current period (thousand shares)	Number of shares at the end of the current period (thousand shares)
Common stock	186	5,297	5,021	463
Total	186	5,297	5,021	463

Note: The 5,297 thousand share increase in treasury stock resulted from a 5,297 thousand share increase due to treasury stock acquisition by resolution of a Board of Directors Meeting and a 0 thousand share increase due to the purchase of stock less than a unit share.

The 5,021 thousand share decrease in treasury stock resulted from a 5,000 thousand share decrease due to retirement of treasury stock based on profit considerations and a 21 thousand share decrease due to the exercise of stock options.

Current period (From March 1, 2008 to February 28, 2009)

Number of shares of treasury stock.

	Number of shares at the end of previous period (thousand shares)	Increase during the current period (thousand shares)	Decrease during the current period (thousand shares)	Number of shares at the end of the current period (thousand shares)
Common stock	463	0	31	432

Note: The 0 thousand shares increase in treasury stock was resulted from purchase of stock less than unit share.

The 31 thousand shares decrease in treasury stock resulted from provision in relation to exercise of stock option.

Notes to Lease Contracts

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

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

(Millions of yen)

	As of February 29, 2008	As of February 28, 2009
Used by Company-operated stores and other:		
Furniture, fixtures and equipment		
Acquisition cost	9,138	6,319
Accumulated depreciation	6,270	3,062
Accumulated impairment loss	58	86
Leased property	2,808	3,170
Leased to franchised stores:		
Furniture, fixtures and equipment		
Acquisition cost	68,231	47,880
Accumulated depreciation	47,406	27,364
Accumulated impairment loss	510	690
Leased property	20,313	19,825

(2) Obligations under finance leases

Used by Company-operated stores and other:

Furniture, fixtures and equipment

Due within one year 1,316 837

Due after one year 1,689 2,476

Total 3,006 3,314

Allowance for impairment loss on leased property 31 41

Leased to franchised stores:

Furniture, fixtures and other

Due within one year 7,701 6,285

Due after one year 13,542 14,624

Total 21,244 20,910

Allowance for impairment loss on leased property 282 311

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

Lease payments 16,041 11,112

Transfer from allowance for impairment loss on leased property 206 302

Depreciation expense 14,830 10,520

Interest expense 811 849

Impairment loss 425 340

(4) Computation method of depreciation expense

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

(5) Computation method of interest expense

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

2. Operating lease contracts

Obligations under operation leases

	(Millions of yen)	
	<u>As of February 29, 2008</u>	<u>As of February 28, 2009</u>
Due within one year	687	559
Due after one year	841	461
Total	1,529	1,021

Notes to Marketable Securities and Investments in Securities

(February 29,2008)

Investment in subsidiaries and affiliated companies whose fair value is readily determinable as of February 29,2008 were as follows:

(Millions of yen)			
	Book value per non-consolidated balance sheets	Fair value	Difference
Investment in subsidiary	3,348	5,909	2,560
Investment in affiliated company	5,974	3,145	(2,829)

(February 28,2009)

Investment in subsidiaries and affiliated companies whose fair value is readily determinable as of February 28, 2009 were as follows:

(Millions of yen)			
	Book value per non-consolidated balance sheets	Fair value	Difference
Investment in subsidiary	15,165	14,874	(291)
Investment in affiliated company	—	—	—

Notes to Accounting for income taxes

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

	(Millions of yen)	
	As of February 29, 2008	As of February 28, 2009
Deferred tax assets		
Enterprise taxes payable	912	786
Accrued employees' bonuses	1,038	1,247
Reversal of write-off investments in securities	2,055	801
Excess of depreciation	4,189	4,848
Excess of amortization of software	685	729
Allowance for employees' retirement benefits	3,935	4,287
Allowance for doubtful accounts	1,102	1,748
Impairment loss	1,617	1,870
Loss on replacement of computer system	896	841
Other	1,940	2,018
Total deferred tax assets	18,373	19,181
Valuation allowances	(610)	(844)
Deferred tax assets-net	17,762	18,336
Deferred tax liabilities		
Available-for-sale securities	(91)	—
Total deferred tax liabilities	(91)	—
Deferred tax assets-net	17,670	—

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