

## Flash Report on the Consolidated result for the year ended February 28, 2010

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

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Date of the Board of Directors Meeting on the Closing of Accounts: April 14, 2010

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

#### (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	%
2009 fiscal year	467,192	33.7	50,275	2.2	49,440	1.3
2008 fiscal year	349,476	16.0	49,186	5.5	48,787	5.5

	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	%	¥	¥	%	%	%
2009 fiscal year	12,562	(47.2)	126.67	126.54	6.5	11.2	10.8
2008 fiscal year	23,807	7.6	240.10	239.89	12.5	11.7	14.1

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

2009 fiscal year: ¥61million

2008 fiscal year: ¥(631)million

#### (2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
2009 fiscal year	448,131	198,135	42.8	1,935.41
2008 fiscal year	436,096	201,166	44.8	1,968.12

Note: Capital adequacy:

2009 fiscal year: ¥191,930million

2008 fiscal year: ¥195,174million

#### (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
2009 fiscal year	40,695	(42,595)	(27,238)	54,843
2008 fiscal year	51,717	(15,647)	(14,911)	83,981

### 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			
2008 fiscal year	¥ —	¥ 80	¥ —	¥ 80	¥ 160	¥ Million 15,866	% 66.6	% 8.3
2009 fiscal year	—	80	—	80	160	15,866	126.3	8.2
2010 fiscal year (Forecast)	—	85	—	85	170		70.8	

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	¥
2010 interim period	225,000	(0.7)	27,900	(7.4)	27,100	(9.0)	13,000	(18.2)
2010 fiscal year	435,000	(6.9)	50,500	0.4	49,100	(0.7)	23,800	89.5

Reference: Forecast net profit per share for the 2009 fiscal year: 239.99yen

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: Yes

(3) The number of the issue stock:

i) The number of the stocks issued in the end of term  
February, 2010: 99,600,000 February, 2009: 99,600,000

ii) The number of treasury shares in the end of term  
February, 2010: 432,190 February, 2009: 432,015

[Reference]

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

(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	%	¥ Million	%
2009 fiscal year	271,513	(1,472,415)	(2.9)	(2.3)	44,997	(4.1)	44,577	(5.8)
2008 fiscal year	279,739	(1,506,312)	3.8	7.4	46,913	3.5	47,321	4.5

	Net profit		Net profit per share	Fully diluted profit per share
	¥ Million	%	¥	¥
2009 fiscal year	20,665	(6.4)	208.38	208.17
2008 fiscal year	22,066	16.8	222.54	222.35

(2) Financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
2009 fiscal year	420,444	200,506	47.6	2,018.39
2008 fiscal year	402,117	195,634	48.6	1,969.99

Note: Capital adequacy:

2009 fiscal year: ¥200,160 million 2008 fiscal year: ¥195,360 million

2. Forecast Non-consolidated Performance for 2009 Fiscal Year (from March 1, 2010, to February 28, 2011)

	Total operating revenues		Operating profit		Recurring profit		Net profit		Net profit per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million
2010 interim period	134,000	(5.3)	24,800	(8.9)	24,300	(10.5)	12,100	(1.5)	122.01
2010 fiscal year	260,000	(4.2)	44,800	(0.4)	43,700	(2.0)	21,900	6.0	220.83

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 2009, the year ended February 28, 2010, the Japanese economy saw recovery trends in some quarters as the benefits of economic stimulus measures worked their way through and exports picked up. Nevertheless, concerns about job security and falling personal incomes caused consumers to exercise more restraint in spending, prolonging the difficult conditions. Deflation added to the economy's ongoing difficulties.

In this operating environment, the LAWSON Group (the "Company") took the following actions with the aim of improving customer satisfaction in CVS operations and other businesses to realize its corporate philosophy of "Happiness and Harmony in Our Community."

#### [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, the Company focused on product development in certain product categories during the fiscal year, namely fried foods, desserts, and cooked noodles. In fried foods, *L Chiki* fried chicken, which went on sale in March 2009, won strong support for its reasonable price and generous volume. Regarding desserts, LAWSON launched a new brand called *Uchi Café Sweets* in September 2009. Products made using fresh cream, such as Premium Whipped Cream Roll, won strong customer support. In cooked noodles, we revamped our pasta lineup and offered customers bona fide fresh pasta like that found in specialty stores by employing a vacuum extrusion production method.

We also sought to reduce costs by integrating purchasing of high-quality ingredients and proposing menus based around those ingredients. To this end, we continued to develop products offering a positive "surprise" to consumers with their high added value relative to price. One example is *Stamina Grilled Beef Bento*, which uses high-quality beef.

In sales promotions, the Company prioritized highly effective campaigns such as the Spring Rilakkuma Fair, and Ponyo Ramen Bowl Present campaign. These promotions were popular with customers.

#### Breakdown of sales at chain stores by merchandise categories

Fiscal period Product group	Previous fiscal year March 1, 2008, to February 28, 2009		Current fiscal year March 1, 2009, to February 28, 2010		YOY Percentage change
	Sales (Millions of yen)	Ratio to total (%)	Sales (Millions of yen)	Ratio to total (%)	
Processed foods	844,324	54.2	902,306	54.2	106.9
Fast foods	332,894	21.4	324,197	19.5	97.4
Daily delivered foods	186,109	11.9	239,088	14.3	128.5
Nonfood products	195,453	12.5	200,544	12.0	102.6
Total	1,558,781	100.0	1,666,136	100.0	106.9

On the services front, the Company's bill settlement services processed approximately 162 million transactions for customers, representing a total transaction value of ¥1,553.8 billion. Meanwhile, ATMs (automatic teller machines) were installed in stores in 3 new prefectures, bringing the total number of prefectures with LAWSON stores that have ATMs to 40. The Company expanded the range of merchandise eligible for bonus points under the LAWSON PASS and MY LAWSON POINT customer loyalty programs, and ran a promotion that enabled card holders to collect more shopping points on certain days of the week, among other initiatives. As a result, the total number of point card members exceeded 11million, reflecting continued support for the Company's customer loyalty programs.

### 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 addition, following the launch of the new ordering system this year, the Company is offering guidance to stores on how to place orders based on customer-generated data, and applying data collected from the loyalty card programs to the creation of merchandise lineups.

The Company also continued to implement the "Mystery Shopper" program, which helps 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.

In terms of store format strategy, the Company leveraged the LAWSON, NATURAL LAWSON and LAWSON STORE100 formats to promote new store openings and store renovations that match customer needs in each location.

Ninety-nine Plus Inc., which is developing a chain of fresh food convenience stores, continued to perform strongly as it responded to increased restraint in consumer spending by providing customers with a range of valuable products at a single fixed price. Going forward, the Company will continue to pursue an integrated business strategy involving Ninety-nine Plus Inc. that seeks to improve LAWSON Group management efficiency and bolster competitiveness.

### Number of LAWSON stores by prefecture (As of February 28, 2010; consolidated subsidiaries only)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	518	Saitama	374	Mie	90	Okayama	123	Saga	60
Aomori	167	Chiba	351	Ishikawa	85	Hiroshima	140	Nagasaki	85
Akita	148	Ibaraki	105	Toyama	111	Yamaguchi	109	Oita	136
Iwate	161	Tokyo	1,255	Fukui	96	Tottori	89	Kumamoto	91
Miyagi	193	Kanagawa	664	Kyoto	245	Shimane	87	Miyazaki	82
Yamagata	59	Shizuoka	173	Shiga	123	Kagawa	97	Kagoshima	107
Fukushima	100	Yamanashi	66	Nara	102	Ehime	156		
Niigata	104	Nagano	133	Wakayama	109	Tokushima	105	<b>Total</b>	<b>9,625</b>
Tochigi	106	Aichi	446	Osaka	954	Kochi	58		
Gunma	65	Gifu	117	Hyogo	541	Fukuoka	339		

As of February 28, 2010, the number of LAWSON stores operated by equity-method affiliate LAWSON Okinawa, Inc. in Okinawa Prefecture was 136.

In overseas operations, SHANGHAI HUALIAN LAWSON CO., LTD., a Chinese equity-method affiliate, was operating 300 stores in Shanghai, China, as of December 31, 2009.

### 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.

As part of efforts to help create a low-carbon society, the Company set targets for reducing the CO<sub>2</sub> generated by power consumption at each store, and actively installed energy-saving devices. Moreover,

all new stores opened after June 2009 feature energy-efficient LED lighting for signs and in stores. LAWSON also became the first retailer in Japan to introduce electric vehicles for use in business activities. In a collaborative effort with customers to fight global warming, in April 2008 the Company launched a carbon offset program, which allows customers to contribute to reducing CO<sub>2</sub> by purchasing carbon credits using their accumulated shopping points or cash, or by purchasing products designated for carbon offset. As of February 28, 2010, approximately 13,000 tons of CO<sub>2</sub> had been offset through this program. In recognition of its actions, LAWSON received the 2009 Minister of the Environment Award for Global Warming Prevention Activities. In addition, the LAWSON "Green Fund", active since 1992, in combination with donation drives in regions hit by disasters such as torrential rain, raised a total of approximately ¥230 million in fiscal 2009.

Moving forward, working together with customers, the Company will continue its environmental protection and social contribution activities.

#### Other

On August 24, 2009, the Company concluded a basic agreement on a business alliance with MatsumotoKiyoshi Holdings Co., Ltd., as part of actions the Company is taking to capitalize on the June 1, 2009 amendments to the Pharmaceutical Affairs Law. Based on the business theme that "food is medicine," the two companies will help customers to achieve the healthy and comfortable lifestyles they seek. This will be achieved by providing high-value-added, highly specialized merchandise and services and developing new types of stores.

Regarding CVS operations in Okinawa Prefecture, on December 1, 2009, we transferred 51% of the total outstanding shares of LAWSON Okinawa, Inc., which was established as a wholly owned LAWSON subsidiary, to SAN-A CO., LTD., Okinawa's largest food supermarket operator. Both LAWSON and SAN-A will now jointly manage LAWSON Okinawa. Through LAWSON Okinawa, we aim to further develop the LAWSON chain in Okinawa Prefecture, as well as better create stores that cater to regional needs.

#### [Other Businesses]

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

On July 20, 2009, LAWSON TICKET, INC., which operates the ticket sales business, changed its name to LAWSON ENTERMEDIA, INC. The company recorded a strong performance on the back of rising sales of mainstay concert tickets as well as sporting event tickets.

LAWSON ATM Networks, Inc., which operates a financial services-related business, performed strongly as a result of an increase in the number of ATM machines installed nationwide in LAWSON stores and a rise in the number of transactions.

#### (2) Profit and Loss

Total operating revenues rose ¥117,716 million, or 33.7%, year on year to ¥467,192 million, despite a ¥1,271 million decrease in franchise commissions from franchised stores. The overall increase reflected the first full-year consolidation of Ninety-nine Plus Inc., which became a consolidated subsidiary in the previous fiscal year.

Operating profit rose ¥1,089 million, or 2.2%, to ¥50,275 million, mainly due to a ¥32,351 million increase in operating gross profit.

Recurring profit increased ¥653 million, or 1.3%, to ¥49,440 million.

Income before income taxes and minority interests decreased ¥10,396 million, or 25.8%, to ¥29,874 million, the result mainly of the booking of a ¥12,616 million extraordinary loss relating to the alleged misappropriation of funds by two former directors of consolidated subsidiary LAWSON ENTERMEDIA INC.

As a result of the above, net profit decreased ¥11,245 million, or 47.2%, to ¥12,562 million. Net profit per share was ¥126.67.

### (3) Outlook for Fiscal 2009

During fiscal 2010, although we expect to see a recovery in the Japanese economy as overseas economies improve and emergency economic measures take effect, there is a risk that factors such as worsening employment and deflation will continue to hold the economy back. We also believe that a full-fledged rebound in consumer spending is unlikely. Furthermore, amid the increasingly competitive convenience store industry, we anticipate continued severe conditions.

In this environment, LAWSON is promoting the following management measures with the aim of realizing its corporate philosophy of "Happiness and Harmony in Our Community" by responding to the changing needs of an aging society.

#### 1) Create merchandise assortments and sales spaces based on customer-generated data

Determined to create stores and merchandise assortments that meet the needs of customers in each location, LAWSON will continue to use point card data to develop customer-centric merchandise assortments. Using the next-generation information system introduced in fiscal 2009, we will work to reduce sales opportunity losses and product disposal losses, and improve ordering precision and product development capabilities in store operations.

#### 2) Promote the fresh foods convenience store business

As society ages and households become smaller in Japan, LAWSON will further promote the fresh foods convenience store business, mainly in residential areas, responding to customers who increasingly want to prepare and eat food at home while expanding the customer base.

#### 3) Provide appealing services through introduction of a multi-partner shopping points program

In March 2010, LAWSON joined the Ponta multi-partner shopping points program issued, operated and managed by Loyalty Marketing, Inc., a wholly owned subsidiary of Mitsubishi Corporation. Through the program, LAWSON will pursue broader marketing analysis and sales promotion measures in collaboration with the other participating companies as it works to provide customers with more appealing and convenient services.

#### 4) Respond to demand for OTC drugs and healthcare

Following the June 1, 2009 amendment of the Pharmaceutical Affairs Law, LAWSON will expand OTC drug sales and help customers to achieve the healthy and comfortable lifestyles they seek based on the business theme that "food is medicine." This will be achieved by providing high-value-added, highly specialized merchandise and services and developing new types of stores.

We offer our sincerest apologies for any inconvenience and concern caused by the large loss booked as a result of the alleged misappropriation of funds by two former directors of consolidated subsidiary LAWSON ENTERMEDIA INC. that was announced in February this year. We are treating this matter seriously and have already taken steps aimed at preventing a reoccurrence by strengthening internal management systems and internal checks and balances at LAWSON and subsidiaries alike. We are determined to do our best to regain the trust of shareholders through these actions.

For fiscal 2010, the LAWSON Group is forecasting recurring profit of ¥49.1 billion, 0.7% lower year on year.

### (4) Analysis of Financial Position

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

As of February 28, 2010, total assets stood at ¥448,131 million, a year-on-year increase of ¥12,035 million. In terms of major changes, cash and bank deposits decreased ¥18,468 million, while leased assets increased ¥28,867 million due to the application of accounting standards relating to lease transactions.

Total liabilities increased ¥15,067 million to ¥249,996million. This mainly reflected a ¥24,051 million increase in lease obligations due to the application of accounting standards relating to lease transactions.

Net assets decreased ¥3,031 million to ¥198,135 million. This was mainly attributable to a ¥3,639 million decrease in retained earnings.

[Cash flow analysis]

Net cash provided by operating activities totaled ¥40,695 million, ¥11,021 million lower year on year, due to a ¥16,256 million decrease in accounts payable-other.

Investing activities used net cash of ¥42,595 million, ¥26,948 million more than the previous fiscal year, mainly due to a ¥19,700 million increase in short-term loans receivable.

Financing activities used net cash of ¥27,238 million, ¥12,327 million more year on year. This increase mainly reflected the repayment of lease obligations due to the application of new accounting standards relating to lease transactions.

As a result, cash and cash equivalents at February 28, 2010 were ¥54,843 million

(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 ¥170 applicable to the fiscal year ending February 28, 2011, 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, or any usual weather conditions, 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 quality control from the initial food processing stage to food item sales at its stores, ensuring appropriate labeling of "best by" and expiration dates, product origins, and ingredients. The Group also ensures strict hygiene control and sales data management within its stores. However, in the unlikely event of a serious incident such as food poisoning, the discovery of foreign matter within a food product, or mislabeling of food products, this could 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). 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, as well as 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 is 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. 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, possibly adversely affecting the Group's business performance and financial position.

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

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.

The Group's principal convenience store business plays an important social role. Therefore, even in the event of a major epidemic of a new influenza or other illness, we will continue to operate stores under a business continuity plan. However, in the unlikely event that stores are temporarily closed, 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 could 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, Ninety-nine Plus Inc., listed on the JASDAQ Securities Exchange, operates the price-point store “LAWSON STORE 100” and other stores either by direct management or under the franchise system.
  - \* Ninety-nine Plus Inc. merged on May 1, 2009 with VALUE LAWSON, Inc., which was a consolidated subsidiary of LAWSON at the end of the previous fiscal year. Furthermore, Ninety-nine Plus Inc. on December 1, 2009 merged Ninety-nine Plus Kansai Inc., which was a wholly owned consolidated subsidiary of the former at the end of the previous fiscal year.
- 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.
- An affiliate, LAWSON Okinawa, Inc. engages in the Company’s chain-store development operations in Okinawa Prefecture. This affiliate is a joint venture with SAN-A CO., LTD.

### Ticket sales business

- A subsidiary, LAWSON ENTERMEDIA, INC. is listed on the JASDAQ Securities Exchange. This subsidiary sells tickets for concerts, sporting events, movies, etc. mainly through the Loppi multimedia terminals in LAWSON stores.
  - \* LAWSON ENTERMEDIA, INC. merged on March 1, 2009 with i-Convenience, Inc., which was a LAWSON consolidated subsidiary at the end of the previous fiscal year. Furthermore, LAWSON ENTERMEDIA, INC. changed its name from LAWSON TICKET, INC., on July 1, 2009.

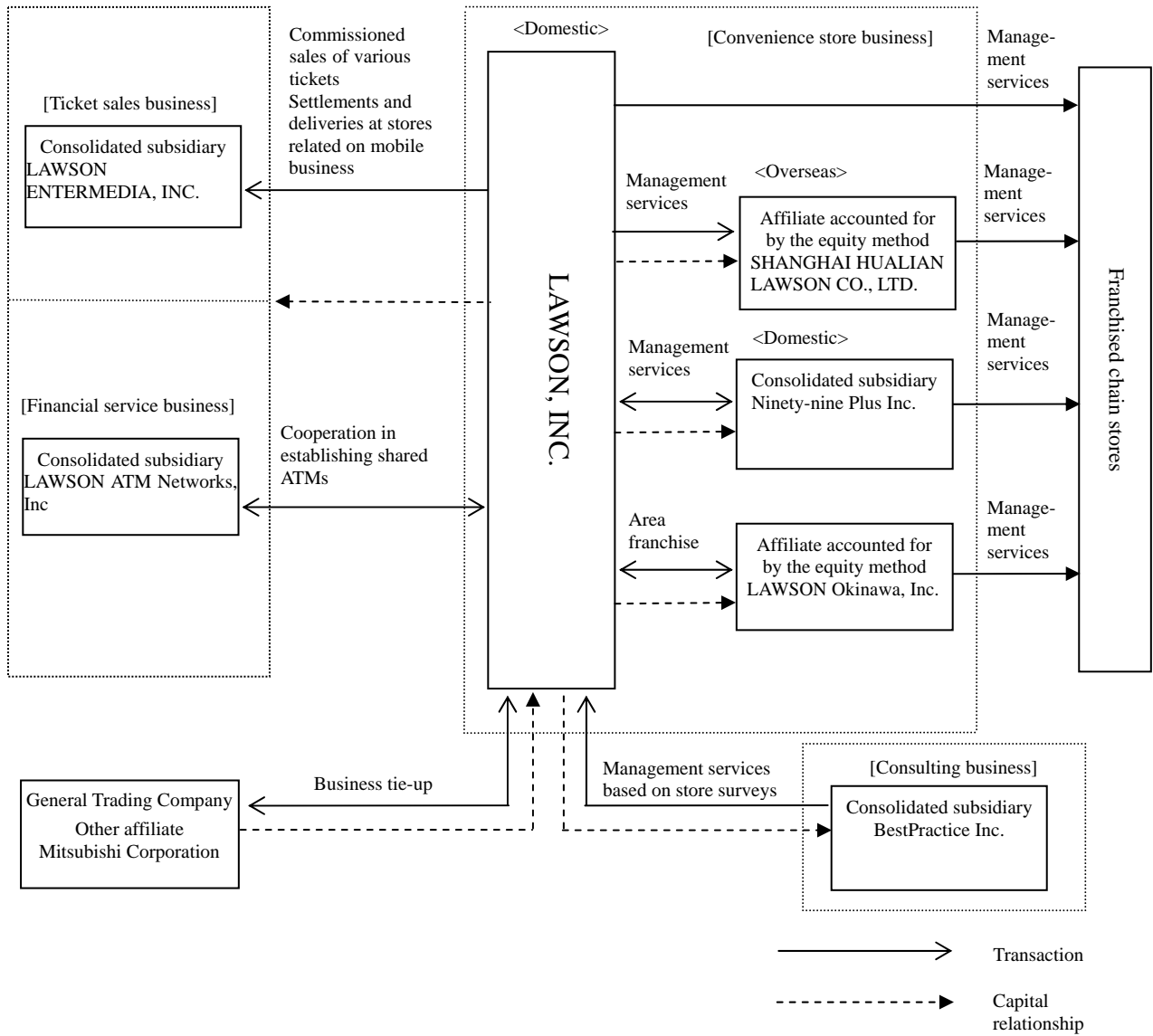
### Financial service business

- 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.

#### 4. Consolidated Financial Statements etc.

(1) Consolidated Balance Sheets (Unaudited)

As of February 28, 2009 and February 28, 2010

(Millions of yen)

	February 28, 2009	February 28, 2010
<b>Current assets:</b>		
Cash and bank deposits	82,486	64,017
Accounts receivable—due from franchised stores	21,376	20,790
Marketable securities	5,299	2,500
Merchandise inventories	5,292	4,446
Prepaid expenses	7,010	6,980
Short-term loans receivable	300	-
Accounts receivable—other	26,692	26,445
Deferred tax assets	4,061	4,587
Other	2,382	2,587
Allowance for doubtful accounts	(140)	(155)
<b>Total current assets</b>	<b>154,760</b>	<b>132,198</b>
<b>Fixed assets:</b>		
<b>Property and store equipment;</b>		
Buildings and structures	173,747	183,841
Accumulated depreciation	(79,425)	(87,388)
Buildings and structures—net	94,321	96,452
Vehicles, tools, furniture and fixtures	61,920	57,241
Accumulated depreciation	(48,462)	(44,383)
Vehicles, tools, furniture and fixtures—net	13,458	12,858
Land	6,899	6,526
Lease assets	-	31,435
Accumulated depreciation	-	(2,567)
Lease assets—net	-	28,867
Construction in progress	320	603
<b>Subtotal</b>	<b>114,999</b>	<b>145,308</b>
<b>Intangible fixed assets;</b>		
Software	12,014	26,259
Software in progress	14,571	3,415
Goodwill	4,851	4,248
Other	464	484
<b>Subtotal</b>	<b>31,902</b>	<b>34,407</b>
<b>Investments and Other;</b>		
Investments in Securities	750	2,053
Long-term loans receivable	27,422	29,724
Long-term prepaid expenses	6,049	5,753
Lease deposits	85,357	83,205
Deferred tax assets	14,469	15,274
Deferred tax assets for land revaluation	180	-
Claims provable in bankruptcy, claims provable in rehabilitation and other	-	13,631
Other	4,546	1,211
Allowance for doubtful accounts	(4,342)	(14,636)
<b>Subtotal</b>	<b>134,433</b>	<b>136,216</b>
<b>Total fixed assets</b>	<b>281,335</b>	<b>315,933</b>
<b>Total assets</b>	<b>436,096</b>	<b>448,131</b>

## Consolidated Balance Sheets (Unaudited) - Continued

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Current liabilities:</b>		
Accounts payable —trade	12,890	11,423
Accounts payable —trade for franchised stores	64,325	61,765
Accounts payable — due to franchised stores	822	1,024
Lease obligations	-	4,641
Long-term debt due within one year	816	-
Accounts payable — other	26,314	21,838
Accounts payable — other for franchised stores	326	295
Income taxes payable	9,455	9,852
Consumption taxes payable	1,039	288
Accrued expenses	2,509	2,426
Deposits received	60,780	65,858
Accrued employees' bonuses	3,199	2,789
Provision for use of points granted	933	2,097
Other	327	194
<b>Total Current liabilities</b>	<b>183,740</b>	<b>184,496</b>
<b>Long-term Liabilities;</b>		
Long-term debt	1,152	-
Long-term lease obligations	-	19,410
Allowance for employees' retirement benefits	5,050	6,206
Allowance for retirement benefits to executive officers and corporate auditors	201	217
Deposits received from franchisees and lessees	42,440	38,710
Accumulated impairment loss on long-term leased assets	480	471
Other	1,863	484
<b>Total Long-term Liabilities</b>	<b>51,188</b>	<b>65,499</b>
<b>Total Liabilities</b>	<b>234,929</b>	<b>249,996</b>
<b>Owners' equity;</b>		
Common stock	58,506	58,506
Capital surplus	41,520	41,520
Retained earnings	97,811	94,171
Treasury stock	(1,712)	(1,713)
<b>Total Owners' equity</b>	<b>196,124</b>	<b>192,485</b>
<b>Valuation and translation adjustments;</b>		
Net unrealized gain on available-for-sale securities	(40)	14
Deferred gains (losses) on hedges	-	-
Land revaluation difference	(969)	(634)
Foreign currency translation adjustments	59	65
<b>Valuation and translation adjustments</b>	<b>(950)</b>	<b>(554)</b>
<b>Stock acquisition rights</b>	<b>274</b>	<b>346</b>
<b>Minority interests</b>	<b>5,717</b>	<b>5,858</b>
<b>Total net assets</b>	<b>201,166</b>	<b>198,135</b>
<b>Total Liabilities and net assets</b>	<b>436,096</b>	<b>448,131</b>

(2) Consolidated Statements of Income (Unaudited)  
For the fiscal year ended February 28, 2009 and 2010

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Total operating revenues</b>	<b>349,476</b>	<b>467,192</b>
<b>Net sales</b>	<b>119,943</b>	<b>233,693</b>
Cost of goods sold	88,358	173,722
<b>Gross profit on sales</b>	<b>31,585</b>	<b>59,970</b>
<b>Operating revenues:</b>		
Franchise commission from franchised stores	186,927	185,656
Other	42,604	47,842
<b>Operating gross profit</b>	<b>261,117</b>	<b>293,469</b>
Selling, general and administrative expenses	211,931	243,193
<b>Operating profit</b>	<b>49,186</b>	<b>50,275</b>
<b>Non – operating income and expenses:</b>		
<b>Non – operating income;</b>	<b>2,056</b>	<b>1,676</b>
Interest received	943	696
Compensation income for damage	138	81
Compensation income for removal	646	342
Equity in earnings of affiliates	-	61
Other	328	493
<b>Non – operating expenses;</b>	<b>2,456</b>	<b>2,511</b>
Interest expense	31	394
Loss on cancellation of store lease	1,493	1,578
Equity in losses of affiliates	631	-
Other	299	539
<b>Recurring profit</b>	<b>48,787</b>	<b>49,440</b>
<b>Special gains and losses:</b>		
<b>Special gains;</b>	<b>94</b>	<b>2,397</b>
Gain on sales of fixed assets	3	33
Gain on change in equity	-	625
Gain on sales of subsidiaries and affiliates' stock	-	1,628
Gain on sales of investment in securities	91	-
Other	-	110
<b>Special losses;</b>	<b>8,610</b>	<b>21,963</b>
Loss on disposal of fixed assets	4,053	3,898
Loss on sales of fixed assets	112	29
Loss on impairment of long-lived assets	2,013	3,903
Provision of allowance for doubtful accounts	1,936	-
Impropriety-related loss	-	12,616
Other	494	1,514
<b>Income before income taxes and minority interests</b>	<b>40,271</b>	<b>29,874</b>
<b>Income taxes:</b>		
Income taxes - current	17,675	18,392
Deferred income taxes	(1,124)	(1,151)
<b>Minority interests in income</b>	<b>(87)</b>	<b>71</b>
<b>Net profit</b>	<b>23,807</b>	<b>12,562</b>

## (3) Consolidated Statements of Changes in Net Assets (Unaudited)

For the fiscal year ended February 28, 2009 and 2010

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Owners' equity:</b>		
<b>Common stock and preferred stock</b>		
Balance at the end of the previous period	58,506	58,506
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	58,506	58,506
<b>Capital surplus</b>		
Balance at the end of the previous period	41,520	41,520
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	41,520	41,520
<b>Retained earnings</b>		
Balance at the end of the previous period	87,390	97,811
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	23,807	12,562
Disposal of treasury stock	(1)	-
Reversal of land revaluation differences, net of tax	-	(334)
Total changes during the current period	10,420	(3,639)
Balance at the end of the current period	97,811	94,171
<b>Treasury stock</b>		
Balance at the end of the previous period	(1,837)	(1,712)
Changes during the current period		
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	126	-
Total changes during the current period	125	(0)
Balance at the end of the current period	(1,712)	(1,713)
<b>Total Owners' equity</b>		
Balance at the end of the previous period	185,579	196,124
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	23,807	12,562
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	125	-
Reversal of land revaluation differences, net of tax	-	(334)
Total changes during the current period	10,545	(3,639)
Balance at the end of the current period	196,124	192,485

## Consolidated Statements of Changes in Net Assets (Unaudited) - Continued

(Millions of yen)

	February 28, 2009	February 28, 2010
<b>Valuation and translation adjustments:</b>		
<b>Unrealized holding gains on securities, net of tax</b>		
Balance at the end of the previous period	134	(40)
Changes during the current period		
Net changes of items other than owner's equity	(175)	55
Total changes during the current period	(175)	55
Balance at the end of the current period	(40)	14
<b>Deferred gains (losses) on hedges</b>		
Balance at the end of the previous period	(1)	-
Changes during the current period		
Net changes of items other than owner's equity	1	-
Total changes during the current period	1	-
Balance at the end of the current period	-	-
<b>Land revaluation difference, net of tax</b>		
Balance at the end of the previous period	(682)	(969)
Changes during the current period		
Net changes of items other than owner's equity	(287)	334
Total changes during the current period	(287)	334
Balance at the end of the current period	(969)	(634)
<b>Foreign currency translation adjustments</b>		
Balance at the end of the previous period	140	59
Changes during the current period		
Net changes of items other than owner's equity	(81)	6
Total changes during the current period	(81)	6
Balance at the end of the current period	59	65
<b>Total valuation and translation adjustments</b>		
Balance at the end of the previous period	(408)	(950)
Changes during the current period		
Net changes of items other than owner's equity	(542)	395
Total changes during the current period	(542)	395
<b>Balance at the end of the current period</b>	<b>(950)</b>	<b>(554)</b>
<b>Stock acquisition rights</b>		
Balance at the end of the previous period	159	274
Changes during the current period		
Net changes of items other than owner's equity	114	71
Total changes during the current period	114	71
<b>Balance at the end of the current period</b>	<b>274</b>	<b>346</b>
<b>Minority interests</b>		
Balance at the end of the previous period	3,242	5,717
Changes during the current period		
Net changes of items other than owner's equity	2,475	141
Total changes during the current period	2,475	141
<b>Balance at the end of the current period</b>	<b>5,717</b>	<b>5,858</b>
<b>Total net assets</b>		
Balance at the end of the previous period	188,573	201,166
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	23,807	12,562
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	125	-
Reversal of land revaluation difference, net of tax	-	(334)
Net changes of items other than owner's equity	2,048	608
Total changes during the current period	12,593	(3,031)
<b>Balance at the end of the current period</b>	<b>201,166</b>	<b>198,135</b>

## (4) Consolidated Statements of Cash Flows (Unaudited) - Continued

For the fiscal year ended February 28, 2009 and 2010

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Operating activities:</b>		
Income before income taxes	40,271	29,874
Depreciation of property and store equipment	20,879	27,468
Loss from disposal of fixed assets	2,038	1,981
Loss from disposal of intangible fixed assets	221	278
Loss on impairment of long-lived assets	2,013	3,903
Loss (gain) on sales of fixed assets	112	(3)
Increase in provision for allowance for retirement benefits to employees	875	1,155
Increase in allowance for doubtful accounts	1,917	10,309
Gain on sales of stocks of subsidiaries and affiliates	-	(1,628)
Equity in earnings (losses) of an affiliates	631	(61)
Interest received	(943)	(696)
Interest expense	31	394
Other-net	1,816	1,462
Decrease (increase) in accounts receivable due from franchised stores	(9,244)	390
Decrease (increase) in merchandise inventories	(277)	839
Decrease (increase) in accounts receivable—other	945	260
Decrease (increase) in claims provable in bankruptcy, claims provable in rehabilitation	-	(12,636)
Increase (decrease) in accounts payable—trade and due to franchised stores	10	(3,922)
Increase (decrease) in accounts payable—other	12,025	(4,230)
Increase (decrease) in deposits received	4,392	5,196
Increase (decrease) in lease deposits from franchisee and lessees	(3,394)	(3,315)
Other-net	(3,759)	1,103
<b>Subtotal</b>	<b>70,565</b>	<b>58,124</b>
Interest received	946	689
Interest expenses paid	(31)	(395)
Income taxes paid	(19,762)	(17,722)
<b>Net cash provided by operating activities</b>	<b>51,717</b>	<b>40,695</b>

Consolidated Statements of Cash Flows (Unaudited) - Continued

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Investing activities:</b>		
Payments into time deposits	-	(12,584)
Proceeds from withdrawal of time deposits	-	3,414
Payment for purchase of marketable securities	(25,956)	(2,799)
Proceeds from redemption of marketable securities	25,900	4,100
Decrease (increase) in short-term loans receivable	19,700	-
Increase (decrease) in long-term loans receivable – net	(1,697)	(2,040)
Proceeds from sales of investment securities	111	-
Proceeds from sales of stocks of subsidiaries and affiliates	-	3,223
Purchase of stocks of subsidiaries and affiliates	(49)	(110)
Resulting in change in scope of consolidation	2,227	-
Purchase of investments in subsidiaries	(78)	-
Payment for acquisition of property and store equipment	(22,440)	(26,144)
Payment for acquisition of intangible fixed assets	(12,457)	(9,041)
Increase (decrease) in lease deposit –net	769	289
Increase (decrease) in long-term prepaid expenses	(2,467)	(1,386)
Other – net	792	483
<b>Net cash used in investing activities</b>	<b>(15,647)</b>	<b>(42,595)</b>
<b>Financing activities:</b>		
Increase( decrease) in short-term debt	(1,294)	-
Repayment of long-term loans payable	(307)	(1,968)
Repayments of lease obligations	-	(9,149)
Proceeds from disposal of treasury stock	125	-
Cash dividends paid	(13,385)	(15,866)
Cash dividends paid to minority interests	(47)	(61)
Purchase of treasury stock	(1)	-
Other -net	-	(192)
<b>Net cash used in financing activities</b>	<b>(14,911)</b>	<b>(27,238)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>21,158</b>	<b>(29,138)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>62,822</b>	<b>83,981</b>
<b>Cash and cash equivalents at end of period</b>	<b>83,981</b>	<b>54,843</b>

《Notes Concerning Going Concern Assumption》

None

《Basis of Presenting the Consolidated Financial Statements》

1. Scope of consolidation

Consolidated subsidiaries: 4

LAWSON ENTERMEDIA, INC.

LAWSON ATM Networks, Inc

BestPractice Inc.

Ninety-nine Plus Inc.

Because LAWSON ENTERMEDIA, INC. merged on March 1, 2009 with i-Convenience, Inc., which was a LAWSON consolidated subsidiary at the end of the previous fiscal year, i-Convenience, Inc. has been excluded from the number of LAWSON's consolidated subsidiaries.

Because Ninety-nine Plus Inc. merged on May 1, 2009 with VALUE LAWSON, Inc., which was a consolidated subsidiary of LAWSON at the end of the previous fiscal year, VALUE LAWSON, Inc. has been excluded from the number of LAWSON's consolidated subsidiaries. Furthermore, since Ninety-nine Plus Inc. on December 1, 2009 merged Ninety-nine Plus Kansai Inc., which was a wholly owned consolidated subsidiary of the former at the end of the previous fiscal year, Ninety-nine Plus Kansai Inc. has also been excluded from the number of consolidated subsidiaries. In all cases, income statements were consolidated up until the merger dates.

2. Application of the equity method

Affiliated companies to which the equity method is applied: 2

LAWSON Okinawa, Inc.

SHANGHAI HUALIAN LAWSON CO., LTD.

LAWSON Okinawa, Inc. was established as a wholly owned LAWSON subsidiary on October 9, 2009, but became an equity-method affiliate following the transfer of 51% of total outstanding shares of the company to SAN-A CO., LTD. on December 1, 2009.

The Company does not apply the equity method to one affiliated company (Live Asia, Inc. and KOBE HOT DELI Co., LTD.), because the financial figures such as net income, retained earnings, and others are negligibly insignificant in comparison with the Company's consolidated financial statements.

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.

3. Closing day for settlement of accounts of consolidated subsidiaries

Of the consolidated subsidiaries, Ninety-nine Plus Inc. changed its fiscal year-end from March 31 at the end of the previous fiscal year to February 28 at its ordinary general meeting of shareholders on June 25, 2009. As a result of this change, the number of months included in the fiscal year under review is 14, representing the period from January 1, 2009 through February 28, 2010.

#### 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:

Effective from the first quarter of the fiscal year ending February 28, 2010, the Company has adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 (July 5, 2006) and has calculated inventories at cost, cost being determined by the retail method (the book value on the balance sheet is written down based on a decline in profitability) in accordance with this standard. In the past, the Company has principally accounted for inventories at cost determined by the retail method. Therefore, this change had no effect on earnings.

##### (2) Depreciation method of depreciable assets

###### Property and store equipment (except for lease assets):

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 (except for lease 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.

###### Lease assets:

Previously, these leases were accounted for as rental transactions. Furthermore, in terms of the depreciation method for leased assets related to finance leases that do not transfer ownership of leased property, the Company applies the straight-line method using the lease term as the useful life and a residual value of zero.

However, the Company has continued to treat as rental transactions finance leases that do not transfer ownership of leased property and that commenced before the first fiscal year in which the new accounting standard was applied.

###### 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) 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, 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.

#### Accounting Standard for Leases

Effective from the first quarter of the fiscal year ending February 28, 2010, the Company has adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 (June 17, 1993 (First Committee of the Business Accounting Council), revised March 30, 2007)) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 (January 18, 1994 (Accounting Committee of Japanese Institute of Certified Public Accountants), revised March 30, 2007). As a result, the Company now accounts for finance leases that do not transfer ownership as ordinary sale and purchase leases.

As a result, compared with the previous method, the Company recorded leased assets of ¥28,867 million under fixed assets, and lease obligations of ¥4,641 million and ¥19,410 million under current liabilities and long-term liabilities, respectively, on the consolidated balance sheets. The impact on earnings was negligible.

However, the Company has continued to treat as rental transactions finance leases that do not transfer ownership of leased property and that commenced before the first fiscal year in which the new accounting standard was applied.

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

As of February 28, 2009	As of February 28, 2010
1. Investment in affiliated companies	1. Investment in affiliated companies
Investments in securities (stock) ¥49 million	Investments in securities (stock) ¥1,541 million
Other (other equity investments) ¥482 million	Other (other equity investments) ¥ 500 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. 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.	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 has been included in net assets as land revaluation difference.
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.
¥263 million	¥232 million

## Notes to Consolidated Statements of Income

(Millions of yen)

From March 1, 2008 to February 28, 2009		From March 1, 2009 to February 28, 2010	
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	12,847	Sales promotion and advertising	10,070
Doubtful debt account	154	Doubtful debt account	13
Salary	32,378	Salary	47,019
Provision for accrued employees' bonuses	3,199	Provision for accrued employees' bonuses	2,789
Retirement benefit costs	1,633	Retirement benefit costs	1,800
Provision for allowance for retirement benefits to directors and corporate auditors	74	Provision for allowance for retirement benefits to directors and corporate auditors	65
Rent account	62,323	Rent account	70,570
Depreciation of fixed assets	16,752	Depreciation of fixed assets	21,053
3. Gain on sales of fixed assets		3. Gain on sales of fixed assets	
Buildings and Structures	1	Buildings and Structures	9
Furniture, fixtures and equipment	1	Furniture, fixtures and equipment	1
Telephone subscription right	0	Land	22
		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	2,588	Buildings and structures	3,067
Furniture, fixtures and equipment	1,250	Furniture, fixtures and equipment	638
Software	2	Software	145
Software development in progress	210	Software development in progress	27
Other	1	Other	20
5. Distribution of loss on sales of fixed assets		5. Distribution of loss on sales of fixed assets	
Buildings	112	Buildings	26
Furniture, fixtures and equipment	0	Furniture, fixtures and equipment	0
Other	0	Other	2

#### 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 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.).

#### 8. \_\_\_\_\_

#### 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	427
	Osaka	"	191
	Others	"	2,784
Others	—	Goodwill	500
Total	—	—	3,903

#### Category by fixed assets

Buildings and Structure	2,125
Furniture, fixtures and equipment	273
Land	395
Goodwill	500
Leased property	442
Other	166

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 4.9% discount rate was mainly applied.

#### 7. \_\_\_\_\_

#### 8. Impropriety-related Loss

Impropriety-related Loss was provided for estimated unrecoverable money connected with an alleged misappropriation at consolidated subsidiary LAWSON ENTERMEDIA, INC.

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

Previous 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	End of 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

Current period (From March 1, 2009 to February 28, 2010)

#### 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*	432	0	—	432

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

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)	—	—	—	—	—	346
Total		—	—	—	—	—	346

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 26, 2009)	Common stock	7,933	80	As of February, 28, 2009	As of May, 27, 2009
Directors' meeting (October 8, 2009)	Common stock	7,933	80	As of August 31, 2009	As of November, 10, 2009

(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 25, 2010)	Common stock	Retained Earnings	7,933	80	As of February, 28, 2010	As of May, 26, 2010

## Notes to the Consolidated Statements of Cash Flows

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

	(Millions of yen)	
	As of February 28, 2009	As of February 28, 2010
Cash and bank deposits	82,486	64,017
Marketable securities	5,299	2,500
Time deposits, etc., for which the deposit period exceeds three months	(4)	(9,174)
Bonds, etc., for which the redemption period exceeds three months	(3,799)	(2,500)
Cash and cash equivalents	83,981	54,843

## Notes to Lease Contracts

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

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

	(Millions of yen)
	As of February 28, 2010
Furniture, fixtures and equipment	
Acquisition cost	53,955
Accumulated depreciation	29,056
Accumulated impairment loss	1,148
Leased property	23,749

(2) Obligations under finance leases

Furniture, fixtures and equipment	
Due within one year	8,944
Due after one year	16,909
Total	25,853
Allowance for impairment loss on leased property	452

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

Lease payments	11,697
Transfer from allowance for impairment loss on leased property	512
Depreciation expense	11,161
Interest expense	912
Impairment loss	439

(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 28, 2010</u>
Due within one year	782
Due after one year	1,606
Total	2,388

**Notes to Market Value Information of Securities**

(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 Stock	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 Stock	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
<b>Total</b>	<b>655</b>

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

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

(As of February 28, 2010)

1. Information regarding marketable held-to-maturity debt securities as of February 28, 2010, 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	2,500	2,501	1
	Other	2,500	2,501	1
	Subtotal	—	—	—
Securities with book value per consolidated balance sheets exceeding market value	Government and municipal bonds, etc.	—	—	—
	Corporate Bonds	—	—	—
	Other	—	—	—
	Subtotal	—	—	—
<b>Total</b>		<b>2,500</b>	<b>2,501</b>	<b>1</b>

2. Information regarding marketable available-for-sale securities as of February 28, 2010, 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	5	5	0
	Bond certificate	—	—	—
	Other	—	—	—
	Subtotal	5	5	0
Securities with book value per consolidated balance sheets exceeding cost	Equity	51	37	(13)
	Bond certificate	—	—	—
	Other	—	—	—
	Subtotal	51	37	(13)
<b>Total</b>		<b>56</b>	<b>43</b>	<b>(12)</b>

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	—	2

4. Available-for-sale securities whose fair value is not readily determinable as of February 28, 2010, were as follows:

Available-for-sale securities	(Millions of yen)
	Book value per consolidated balance sheets
Unlisted shares (excluding OTC securities)	355
Other	112
<b>Total</b>	<b>468</b>

5. Available-for-sale securities with maturities and held-to-maturity debt securities as of February 28, 2010 by contractual maturity were as follows:

(Millions of yen)		
Type	1 year or less	Over 1 year to 5years
Government and municipal bonds, etc.	—	—
Corporate Bonds	—	—
Other bonds	2,500	—
<b>Total</b>	<b>2,500</b>	<b>—</b>

#### **Note to Derivative Transactions**

(As of February 28, 2009) (As of February 28, 2010)

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

## Note to Retirement Benefits

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.	

From March 1, 2009 to February 28, 2010

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	(12,528)
b Plan assets	5,576
c Projected benefit obligation in excess of plan assets (a + b)	(6,952)
d Unrecognized prior service cost	702
e Unrecognized actuarial differences	43
f Reported amount on the consolidated balance sheets, net (c + d + e)	(6,206)

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

3. Net periodic benefit cost	(Millions of yen)
a Service cost	972
b Interest cost	242
c Amortization of prior service cost	175
d Amortization of actuarial differences	136
e Net periodic benefit cost(a+b+c+d)	1,527
f Contribution to defined contribution plan	271
g Total (= e + f)	1,799

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 28, 2009	As of February 28, 2010
Deferred tax assets		
Enterprise taxes payable	901	906
Accrued employees' bonuses	1,301	1,135
Excess of depreciation	4,969	5,371
Excess of amortization of software	793	919
Allowance for employees' retirement benefits	4,323	4,797
Allowance for doubtful accounts	1,414	5,807
Impairment loss	2,165	2,396
Tax loss carryforward	2,215	1,523
Loss on replacement of computer system	841	412
Other	2,434	3,668
Subtotal of deferred tax assets	21,362	26,937
Valuation allowances	(2,831)	(7,076)
Total deferred tax assets	18,530	19,861
Deferred tax liabilities		
Net unrealized gain on available-for-sale securities	—	—
Total deferred tax liabilities	—	—
Deferred tax assets-net	—	—

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

(As of February 28, 2009)

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.

(As of February 28, 2010)

The reconciliation between the statutory tax rate	40.7%
(Adjustments)	20.5%
Increase of Valuation allowances	(5.8%)
Tax loss carryforward	1.3%
Residents' tax	0.6%
Permanent difference in entertainment expenses	0.4%
the effective tax rate for previous and current fiscal year	57.7%

(Business Combinations-Related)

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

None.

Current period (From March 1, 2009 to February 28, 2010)

Details have been omitted due to immateriality.

## Segment Information

### 1. Business segment information

(From March 1, 2008 to February 28, 2009) (From March 1, 2009 to February 28, 2010)

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

(From March 1, 2008 to February 28, 2009) (From March 1, 2009 to February 28, 2010)

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, 2008 to February 28, 2009) (From March 1, 2009 to February 28, 2010)

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

## Related Party Transactions

(As of February 28, 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	Increase 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.

Subsidiaries of an affiliated company of the 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.

(As of February 28, 2010)

Companies with the Same Parent as the Company Submitting Consolidated Financial Statements and Other Subsidiaries of Affiliates of the Company Submitting Consolidated Financial Statements

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	4,893	Accounts payable-trade	284
					Indirect —			(Purchases for the franchised stores)	(81,065)	Accounts payable-trade for franchised stores	5,525
	Food Service Network Co.,Ltd	Chuo-ku, Tokyo	2,000	Sales of fast foods and daily delivered foods	(Ownership) Direct — Indirect —	—	Vendor	Purchases for the Company-operated stores  (Purchases for the franchised stores)	13,127  (208,461)	Accounts payable-trade  Accounts payable-trade for franchised stores	822  15,632
	SAN-ESU INC.	Adachiku, Tokyo	2,600	Confectionary wholesale business	(Ownership) Direct — Indirect —	—	Vendor	Purchases for the Company-operated stores  (Purchases for the franchised stores)	1,786  (29,430)	Accounts payable-trade  Accounts payable-trade for franchised stores	132  2,670

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.

Companies with the Same Parent as the Company Submitting Consolidated Financial Statements and Other Subsidiaries of Affiliates of the Company Submitting Consolidated Financial Statements

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	61,444	Accounts payable-trade	4,056
					Indirect —			(Purchases for the franchised stores)	11,125	Accounts payable-trade for franchised stores	496

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, consolidated subsidiary acts as an alternative payer, not as direct party of purchase.

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

1. In accordance with a Board of Directors' resolution on April 14, 2010, LAWSON concluded a share exchange agreement on the same day that will make it the wholly owning parent company and Ninety-nine Plus Inc. a wholly owned subsidiary, with the aims of further improving the operational efficiency and strengthening the competitiveness of the LAWSON Group as a whole.

An overview of the share exchange is as follows.

(1) Details of Share Exchange

The share exchange will make Ninety-nine Plus Inc. a wholly owned subsidiary of LAWSON, the wholly owning parent company.

(2) Effective Date of Share Exchange

July 1, 2010 (Scheduled)

(3) Share Exchange Method

LAWSON will issue new common stock for allotment to shareholders registered or recorded in Ninety-nine Plus Inc.'s shareholders register on the day before the effective date of the share exchange in exchange for all Ninety-nine Plus Inc. common stock held by said shareholders.

Company	LAWSON, INC. (Wholly Owing Parent Company)	Ninety-nine Plus Inc. (Wholly Owned Subsidiary)
Details of allotment for share exchange	1	33
No. of new shares to be issued for share exchange	Common stock : 1,318,647 shares (Planned)	

2 . In accordance with a Board of Directors' resolution on April 14, 2010, LAWSON concluded a share exchange agreement on the same day that will make it the wholly owning parent company and LAWSON ENTERMEDIA INC. a wholly owned subsidiary, with the aims of further improving the operational efficiency and strengthening the competitiveness of the LAWSON Group as a whole.

An overview of the share exchange is as follows.

(1) Details of Share Exchange

The share exchange will make LAWSON ENTERMEDIA INC. a wholly owned subsidiary of LAWSON, the wholly owning parent company.

(2) Effective Date of Share Exchange

July 1, 2010 (Scheduled)

(3) Share Exchange Method

LAWSON will issue new common stock for allotment to shareholders registered or recorded in LAWSON ENTERMEDIA INC.'s shareholders register on the day before the effective date of the share exchange in exchange for all LAWSON ENTERMEDIA INC. common stock held by said shareholders.

Company	LAWSON, INC. (Wholly Owing Parent Company)	LAWSON ENTERMEDIA INC. (Wholly Owned Subsidiary)
Details of allotment for share exchange	1	21
No. of new shares to be issued for share exchange	Common stock : 287,238shares (Planned)	

## 5. Non-Consolidated Financial Statements etc.

(1) Non-Consolidated Balance Sheets (Unaudited)

As of February 28, 2009 and February 28, 2010

(Millions of yen)

	February 28, 2009	February 28, 2010
<b>Current assets:</b>		
Cash and bank deposits	64,068	53,862
Accounts receivable—due from franchised stores	21,170	20,767
Marketable securities	3,000	2,500
Merchandise inventories	1,484	1,063
Prepaid expenses	6,142	6,339
Short-term loans receivable	3,100	-
Accounts receivable—other	23,064	21,484
Deferred tax assets	4,590	3,188
Other	1,384	2,280
Allowance for doubtful accounts	(2,868)	(74)
<b>Total current assets</b>	<b>125,134</b>	<b>111,412</b>
<b>Fixed assets:</b>		
<b>Property and store equipment;</b>		
Buildings	133,804	140,995
Accumulated depreciation	(58,122)	(63,151)
Buildings — net	75,682	77,843
Structures	30,568	32,306
Accumulated depreciation	(18,215)	(20,337)
Structures — net	12,353	11,968
Vehicles, tools, furniture and fixtures	58,556	53,653
Accumulated depreciation	(46,333)	(41,944)
Vehicles, tools, furniture and fixtures — net	12,222	11,708
Land	6,899	6,526
Lease assets	-	27,057
Accumulated depreciation	-	(1,880)
Lease assets — net	-	25,177
Construction in progress	320	603
<b>Subtotal</b>	<b>107,477</b>	<b>133,828</b>
<b>Intangible fixed assets;</b>		
Goodwill	1,148	786
Right of leasehold	83	83
Right of trademark	61	81
Right of telephone	293	291
Software	7,990	23,226
Software in progress	14,552	3,336
Other	2	2
<b>Subtotal</b>	<b>24,132</b>	<b>27,807</b>
<b>Investments and Other;</b>		
Investments in Securities	259	294
Stocks of subsidiaries and affiliates	16,843	18,301
Investments in affiliated limited	438	438
Long-term loans receivable	27,355	29,670
Long-term prepaid expenses	5,313	5,201
Lease deposits	81,489	79,338
Deferred tax assets	13,746	14,424
Deferred tax assets for land revaluation	180	-
Other	2,128	1,705
Allowance for doubtful accounts	(2,381)	(1,979)
<b>Subtotal</b>	<b>145,373</b>	<b>147,395</b>
<b>Total fixed assets</b>	<b>276,982</b>	<b>309,031</b>
<b>Total assets</b>	<b>402,117</b>	<b>420,444</b>

## Non-Consolidated Balance Sheets (Unaudited) - Continued

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Current liabilities:</b>		
Accounts payable —trade	3,385	2,505
Accounts payable —trade for franchised stores	62,951	61,765
Accounts payable — due to franchised stores	764	905
Lease obligations	-	3,751
Accounts payable — other	22,753	17,207
Accounts payable — other for franchised stores	318	295
Income taxes payable	8,439	8,812
Consumption taxes payable	675	-
Accrued expenses	1,746	1,778
Deposits received	51,862	55,999
Accrued employees' bonuses	3,065	2,629
Provision for use of points granted	928	2,095
Other	68	17
<b>Total Current liabilities</b>	<b>156,960</b>	<b>157,764</b>
<b>Long-term Liabilities;</b>		
Long-term lease obligations	-	16,298
Allowance for employees' retirement benefits	4,963	6,095
Allowance for retirement benefits to executive officers and corporate auditors	147	201
Deposits received from franchisees and lessees	42,434	38,735
Accumulated impairment loss on long-term leased assets	352	452
Other	1,623	390
<b>Total Long-term Liabilities</b>	<b>49,521</b>	<b>62,173</b>
<b>Total Liabilities</b>	<b>206,482</b>	<b>219,937</b>
<b>Owners' equity;</b>		
Common stock	58,506	58,506
Capital surplus		
Additional paid-in capital	41,520	41,520
Total capital surplus	41,520	41,520
Retained earnings		
Legal reserve	727	727
Other legal reserve		
General reserve	50,000	50,000
Earned surplus brought forward	47,298	51,762
Total retained earnings	98,025	102,490
Treasury stock	(1,712)	(1,713)
<b>Total Owners' equity</b>	<b>196,339</b>	<b>200,803</b>
<b>Valuation and translation adjustments;</b>		
Net unrealized gain on available-for-sale securities	(10)	(8)
Land revaluation difference	(969)	(634)
<b>Valuation and translation adjustments</b>	<b>(979)</b>	<b>(643)</b>
<b>Stock acquisition rights</b>	<b>274</b>	<b>346</b>
<b>Total net assets</b>	<b>195,634</b>	<b>200,506</b>
<b>Total Liabilities and net assets</b>	<b>402,117</b>	<b>420,444</b>

(2) Non-Consolidated Statements of Income (Unaudited)  
For the fiscal year ended February 28, 2009 and 2010

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Total operating revenues</b>	<b>279,739</b>	<b>271,513</b>
<b>Net sales</b>	<b>72,145</b>	<b>65,834</b>
Cost of goods sold		
Inventory at beginning of year	1,432	1,484
Purchase amount	51,811	46,625
Total	53,244	48,109
Inventory at end of year	1,484	1,063
Cost of goods sold	51,760	47,046
<b>Gross profit on sales</b>	<b>20,385</b>	<b>18,788</b>
<b>Operating revenues:</b>		
Franchise commission from franchised stores	186,548	183,566
Other	21,045	22,112
<b>Operating gross profit</b>	<b>227,978</b>	<b>224,467</b>
Selling, general and administrative expenses	181,065	179,469
<b>Operating profit</b>	<b>46,913</b>	<b>44,997</b>
<b>Non – operating income and expenses:</b>		
<b>Non – operating income;</b>	<b>2,141</b>	<b>1,518</b>
Interest received	836	621
Dividends income	-	189
Compensation income for damage	138	81
Compensation income for removal	646	294
Other	520	331
<b>Non – operating expenses;</b>	<b>1,733</b>	<b>1,939</b>
Interest expense	0	264
Loss on cancellation of store lease	1,459	1,382
Other	273	292
<b>Recurring profit</b>	<b>47,321</b>	<b>44,577</b>
<b>Special gains and losses:</b>		
<b>Special gains;</b>	<b>120</b>	<b>1,769</b>
Gain on sales of fixed assets	3	33
Gain on sales of investment in securities	91	-
Gain on sales of subsidiaries and affiliates' stock	25	1,671
Other	-	64
<b>Special losses;</b>	<b>9,505</b>	<b>7,874</b>
Loss on disposal of fixed assets	3,586	3,863
Loss on sales of fixed assets	112	29
Loss on impairment of long-lived assets	1,980	2,867
Loss on valuation of stocks of subsidiaries and affiliates	605	174
Provision of allowance for doubtful accounts	2,800	-
Other	419	939
<b>Income before income taxes and minority interests</b>	<b>37,936</b>	<b>38,471</b>
<b>Income taxes:</b>		
Income taxes - current	16,436	16,903
Deferred income taxes	(566)	902
<b>Net profit</b>	<b>22,066</b>	<b>20,665</b>

## (3) Non-Consolidated Statements of Changes in Net Assets

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Owners' equity:</b>		
<b>Common stock and preferred stock</b>		
Balance at the end of the previous period	58,506	58,506
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	58,506	58,506
<b>Capital surplus common stock and preferred stock</b>		
Balance at the end of the previous period	41,520	41,520
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	41,520	41,520
<b>Total capital surplus</b>		
Balance at the end of the previous period	41,520	41,520
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	41,520	41,520
<b>Retained earnings</b>		
<b>Legal earnings reserve</b>		
Balance at the end of the previous period	727	727
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	727	727
<b>Other earned surplus</b>		
<b>Special reserve fund</b>		
Balance at the end of the previous period	50,000	50,000
Changes during the current period		
Total changes during the current period	-	-
Balance at the end of the current period	50,000	50,000
<b>Earned surplus carried forward</b>		
Balance at the end of the previous period	38,618	47,298
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	22,066	20,665
Disposal of treasury stock	(1)	-
Reversal of land revaluation differences, net of tax	-	(334)
Total changes during the current period	8,680	4,464
Balance at the end of the current period	47,298	51,762
<b>Total retained earnings</b>		
Balance at the end of the previous period	89,345	98,025
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	22,066	20,665
Disposal of treasury stock	(1)	-
Reversal of land revaluation differences, net of tax	-	(334)
Total changes during the current period	8,680	4,464
Balance at the end of the current period	98,025	102,490

## Non-Consolidated Statements of Changes in Net Assets - Continued

	(Millions of yen)	
	February 28, 2009	February 28, 2010
<b>Treasury stock</b>		
Balance at the end of the previous period	(1,837)	(1,712)
Changes during the current period		
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	126	-
Total changes during the current period	125	(0)
Balance at the end of the current period	(1,712)	(1,713)
<b>Total owners' equity</b>		
Balance at the end of the previous period	187,534	196,339
Changes during the current period		
Cash dividends paid	(13,385)	(15,866)
Net income	22,066	20,665
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	125	-
Reversal of land revaluation differences, net of tax	-	(334)
Total changes during the current period	8,805	4,463
<b>Valuation and translation adjustments:</b>		
<b>Unrealized holding gains on securities, net of tax</b>		
Balance at the end of the previous period	133	(10)
Changes during the current period		
Net changes of items other than owners' equity	(144)	2
Total changes during the current period	(144)	2
Balance at the end of the current period	(10)	(8)
<b>Land revaluation difference, net of tax</b>		
Balance at the end of the previous period	(682)	(969)
Changes during the current period		
Net changes of items other than owners' equity	(287)	334
Total changes during the current period	(287)	334
Balance at the end of the current period	(969)	(634)
<b>Total valuation and translation adjustments</b>		
Balance at the end of the previous period	(548)	(979)
Changes during the current period		
Net changes of items other than owners' equity	(431)	336
Total changes during the current period	(431)	336
<b>Balance at the end of the current period</b>	<b>(979)</b>	<b>(643)</b>
<b>Stock acquisition rights</b>		
Balance at the end of the previous period	159	274
Changes during the current period		
Net changes of items other than owners' equity	114	71
Total changes during the current period	114	71
<b>Balance at the end of the current period</b>	<b>274</b>	<b>346</b>
<b>Total net assets</b>		
Balance at the end of the previous period	187,146	195,634
Changes during the current period		
Issuance of new stocks	(13,385)	(15,866)
Net income	22,066	20,665
Purchase of treasury stock	(1)	(0)
Disposal of treasury stock	125	-
Reversal of land revaluation difference, net of tax	-	(334)
Net changes of items other than owner's equity	(316)	408
Total changes during the current period	8,488	4,871
<b>Balance at the end of the current period</b>	<b>195,634</b>	<b>200,506</b>

《Notes Concerning Going Concern Assumption》

None

《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:

Effective from the first quarter of the fiscal year ending February 28, 2010, the Company has adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 (July 5, 2006) and has calculated inventories at cost, cost being determined by the retail method (the book value on the balance sheet is written down based on a decline in profitability) in accordance with this standard. In the past, the Company has principally accounted for inventories at cost determined by the retail method. Therefore, this change had no effect on earnings.

Merchandise inventories Retail method applied on an annual average cost basis

3. Depreciation method of depreciable assets

Property and store equipment(except lease assets):

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:(except lease 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.

Lease assets:

Previously, these leases were accounted for as rental transactions. Furthermore, in terms of the depreciation method for leased assets related to finance leases that do not transfer ownership of leased property, the Company applies the straight-line method using the lease term as the useful life and a residual value of zero.

However, the Company has continued to treat as rental transactions finance leases that do not transfer ownership of leased property and that commenced before the first fiscal year in which the new accounting standard was applied.

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. Accounting for consumption tax

Consumption tax is accounted for using the tax exclusion method.

#### 6. Accounting Standard for Leases

Effective from the first quarter of the fiscal year ending February 28, 2010, the Company has adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 (June 17, 1993 (First Committee of the Business Accounting Council), revised March 30, 2007)) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 (January 18, 1994 (Accounting Committee of Japanese Institute of Certified Public Accountants), revised March 30, 2007). As a result, the Company now accounts for finance leases that do not transfer ownership as ordinary sale and purchase leases.

As a result, compared with the previous method, the Company recorded leased assets of ¥25,177 million under fixed assets, and lease obligations of ¥3,751 million and ¥16,298 million under current liabilities and long-term liabilities, respectively, on the consolidated balance sheets. The impact on earnings was negligible.

However, the Company has continued to treat as rental transactions finance leases that do not transfer ownership of leased property and that commenced before the first fiscal year in which the new accounting standard was applied.

**Notes to the Non-consolidated Balance Sheets**

As of February 28, 2009	As of February 28, 2010
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	5. _____
Short-term loans receivable	
¥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.	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 has been included in net assets as land revaluation difference.
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.	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	Date of revaluation: February 28, 2002
The difference between book value and market value of the revalued land as of balance sheet date.	The difference between book value and market value of the revalued land as of balance sheet date.
¥263 million	¥232 million

## Notes to Non-consolidated Statements of Income

(Millions of yen)

From March 1, 2008 to February 28, 2009		From March 1, 2009 to February 28, 2010	
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	12,442	Sales promotion and advertising	9,113
Doubtful debt account	114	Doubtful debt account	
Salary	25,083	Salary	25,191
Provision for accrued employees' bonuses	3,065	Provision for accrued employees' bonuses	2,629
Retirement benefit costs	1,585	Retirement benefit costs	1,748
Provision for allowance for retirement benefits to directors and corporate auditors	40	Provision for allowance for retirement benefits to directors and corporate auditors	54
Rent account	60,474	Rent account	63,897
Depreciation of fixed assets	16,203	Depreciation of fixed assets	18,653
3. Gain on sales of fixed assets		3. Gain on sales of fixed assets	
Buildings	1	Buildings	8
Structures	0	Structures	1
Furniture, fixtures and equipment	1	Furniture, fixtures and equipment	1
Telephone subscription right	0	Land	22
		Telephone subscription right	0
4.Distribution of loss on disposal of fixed assets		4.Distribution of loss on disposal of fixed assets	
Buildings	2,247	Buildings	2,737
Structures	316	Structures	310
Furniture, fixtures and equipment	812	Furniture, fixtures and equipment	625
Software development in progress	210	Software	143
		Software development in progress	27
		Others	20
5.Distribution of loss on sales of fixed assets		5.Distribution of loss on sales of fixed assets	
Buildings	103	Buildings	24
structures	8	structures	2
Furniture, fixtures and equipment	0	Furniture, fixtures and equipment	0
Telephone subscription rights	0	Telephone subscription rights	2

#### 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.

#### 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	191
	Osaka	"	127
	Others	"	2,549
Total	—	—	2,867

#### Category by fixed assets

Buildings	1,567
Structure	269
Furniture, fixtures and equipment	203
Land	395
Leased property	418
Other	14

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 4.9% discount rate was applied.

#### 7.

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

Previous 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.

Current period (From March 1, 2009 to February 28, 2010)

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	432	0	—	432

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

## Notes to Lease Contracts

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

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

(Millions of yen)

As of February 28, 2010

Furniture, fixtures and equipment	
Acquisition cost	34,491
Accumulated depreciation	18,287
Accumulated impairment loss	1,047
Leased property	15,156
(2) Obligations under finance leases	
Furniture, fixtures and equipment	
Due within one year	5,422
Due after one year	11,177
Total	16,599
Allowance for impairment loss on leased property	452
(3) Lease payments, depreciation expense, interest expense and impairment loss	
Lease payments	7,290
Transfer from allowance for impairment loss on leased property	319
Depreciation expense	7,140
Interest expense	518
Impairment loss	418

(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 28, 2010</u>
Due within one year	782
Due after one year	1,605
<u>Total</u>	<u>2,388</u>

**Notes to Marketable Securities and Investments in Securities**

(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)

(February 28, 2010)

Investment in subsidiaries and affiliated companies whose fair value is readily determinable as of February 28, 2010 were as follows:

			(Millions of yen)
	Book value per non-consolidated balance sheets	Fair value	Difference
Investment in subsidiary	15,335	21,409	6,073

## Notes to Accounting for income taxes

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

	As of February 28, 2009	(Millions of yen) As of February 28, 2010
Deferred tax assets		
Enterprise taxes payable	786	764
Accrued employees' bonuses	1,247	1,069
Reversal of write-off investments in securities	801	1,931
Excess of depreciation	4,848	5,296
Excess of amortization of software	729	875
Allowance for employees' retirement benefits	4,287	4,749
Allowance for doubtful accounts	1,748	634
Impairment loss	1,870	2,169
Loss on replacement of computer system	841	412
Other	2,018	2,333
Total deferred tax assets	19,181	20,237
Valuation allowances	(844)	(2624)
Deferred tax assets-net	18,336	17,613
Deferred tax liabilities		
Available-for-sale securities	—	—
Total deferred tax liabilities	—	—
Deferred tax assets-net	—	—

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

(As of February 28, 2009)

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.

(As of February 28, 2010)

The reconciliation between the statutory tax rate	40.7%
(Adjustments)	
Increase of Valuation allowances	4.6%
Permanent difference in entertainment expenses	0.4%
Permanent difference in dividends income	(0.2%)
Residents' tax	0.4%
Others	0.3%
the effective tax rate for previous and current fiscal year	46.3%