

Flash Report on the Consolidated result

for the first quarter ended February 28, 2011

July 5, 2010

Listed Company Name: LAWSON, INC.

Code No.: 2651

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

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1. Consolidated Performance for the current first quarter period (from March 1, 2010, to May 31, 2010)

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

	Total operating revenues		Operating profit		Recurring profit	
	¥ Million	%	¥ Million	%	¥ Million	%
Current 1st Quarter	106,586	(3.1)	11,201	(8.2)	10,995	(9.1)
Previous 1st Quarter	110,041	-	12,197	-	12,098	-

	Net profit		Net income per share	Fully diluted income per share
	¥ Million	%	¥	¥
Current 1st Quarter	4,081	(31.7)	41.15	41.11
Previous 1st Quarter	5,974	-	60.24	60.19

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	¥ Million	¥ Million	%	¥
Current 1st Quarter	481,213	195,241	39.1	1,896.65
Last fiscal year	448,131	198,135	42.8	1,935.41

Notes: Capital adequacy May, 2010 188,087 million February, 2010 191,930 million

2. Dividends status

	Annual dividends per share				
	1Q	2Q	3Q	Year-end dividend	Total
	¥	¥	¥	¥	¥
2009 fiscal year	—	80.00	—	80.00	160.00
2010 fiscal year	—				
2010 fiscal year (Forecast)		85.00	—	85.00	170.00

Notes: Revision of forecast for dividends in the first quarter: None

3. Forecast Consolidated Performance for 2010 fiscal year (from March 1, 2010, to February 28, 2011)

	Total operating revenues		Operating profit		Recurring profit		Net profit	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
2010 first half	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 2010 first half: 131.09yen

Forecast net profit per share for the 2010 fiscal year: 239.99yen

4. Other

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): None

(2) Adoptions of simplified accounting methods particular to presentation of quarterly financial statements: Yes

(3) Changes in accounting principles, procedures, presentation methods, etc., pertaining to preparation of consolidated financial statements (Those to be stated as significant accounting policies)

1. Changes associated with revision in accounting standards: None

2. Other changes: None

(4) The number of the issue stock:

i) The number of the stocks issued in the end of term

May, 2010: 99,600,000 February, 2010: 99,600,000

ii) The number of treasury shares in the end of term

May, 2010: 432,190 February, 2010: 432,190

iii) Average number of shares during the term

May, 2010: 99,167,810 May, 2009: 99,167,968

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.

1. Review of Operations

(1) Review of Consolidated Operating Results

During the first quarter (March 1 to May 31, 2010) of fiscal 2010, the year ending February 28, 2011, the Japanese economy saw persistent deflationary conditions and sluggish consumer spending, the latter reflecting ongoing concerns about job security and personal income. As a result of these factors, as well as persistently bad weather, the retail industry endured difficult conditions.

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.”

Total operating revenues were 106,586 million yen, recurring profit was 10,995 million yen, and net profit was 4,081 million yen.

(Convenience Store Operations)

On the merchandise front, Premium Whipped Cream Roll, a flagship product of the *Uchi Café Sweets* brand launched in September 2009, won plaudits for a tight focus on quality ingredients, receiving the Gold Quality Award in the Fiscal 2010 Monde Selection Confectionery Division awards.

Furthermore, we continued to roll out products offering a positive “surprise” to customers with their high added value relative to price by proposing menus catering to their needs based on use of high-quality ingredients procured through integrated purchasing

In sales promotions, the Company prioritized campaigns that are highly successful in boosting sales, such as the Spring Rilakkuma Fair and an instant prize campaign featuring EXILE. These promotions were popular with customers.

As for services, the Company’s MY LAWSON POINT and LAWSON PASS customer loyalty programs joined the Ponta multi-partner shopping points program in March 2010. As a result, LAWSON was able to provide customers with more appealing and convenient services by pursuing sales promotion measures such as distributing product vouchers in collaboration with other participating companies. Moving forward, we plan to unveil a new type of entertainment-based point service drawing on the strengths of our subsidiary LAWSON ENTERMEDIA, INC.

In store operations, following the installation of our new ordering system at all stores, the Company offered guidance to stores on how to place orders based on customer-generated data and used data collected from loyalty card programs to create sales areas.

In new store openings the Company worked to develop stores with an emphasis on profitability, by rigorously adhering to proprietary group standards for opening stores.

[Change in Total Number of Stores]

(Stores)

	LAWSON	NATURAL LAWSON	LAWSON STORE100 and SHOP99	Total
Total stores as of February 28, 2010	8,540	89	996	9,625
Change during fiscal year	34	2	(7)	29
Total stores as of May 31, 2010	8,574	91	989	9,654

As of May 31, 2010, the number of LAWSON stores operated by equity-method affiliate LAWSON Okinawa, Inc. in Okinawa Prefecture was 138.

In overseas operations, 305 stores were being operated by SHANGHAI HUALIAN LAWSON CO., LTD., a Chinese equity-method affiliate, in Shanghai, China, as of March 31, 2010.

LAWSON conducted a share exchange on July 1 that made it the sole parent company of Ninety-nine Plus Inc., which is developing a chain of fresh food convenience stores, in accordance with a Board of Directors' resolution on April 14, 2010. LAWSON will now accelerate efforts to implement an integrated group strategy while working to further improve operational efficiency.

(Other Businesses)

LAWSON conducted a share exchange on July 1 that made it the sole parent company of LAWSON ENTERMEDIA, INC., which operates the ticket sales business, in accordance with a Board of Directors' resolution on April 14, 2010. LAWSON will work to increase the competitiveness and corporate value of the LAWSON Group through improved operational efficiency, while leveraging LAWSON ENTERMEDIA, INC.,'s strengths. This will be achieved through integrated organizational management, fast decision-making and the reallocation of management resources.

LAWSON ATM Networks, Inc., which operates a financial services-related business, recorded higher operating revenues and operating profit as a result of increases in the number of ATM machines installed nationwide in LAWSON stores and in the number of transactions. As of May 31, 2010, the number of ATMs installed nationwide reached 7,210

On March 1, 2010, LAWSON established Cross Ocean Media, Inc. with ASATSU-DK INC. and NTT DOCOMO, INC., entering the advertising business as a new earnings model utilizing LAWSON convenience stores. The new company will develop and operate new high-value-added media such as digital signage.

Sales by product group throughout all Lawson Group stores

Fiscal period Product group	Previous 1st Quarter March 1, 2009 to May 31, 2009		Current 1st Quarter March 1, 2010 to May 31, 2010	
	Sales (Millions of yen)	Percentage of Total (%)	Sales (Millions of yen)	Percentage of Total (%)
	Processed foods	226,454	55.2	217,555
Fast foods	79,628	19.4	75,134	18.7
Daily delivered foods	55,873	13.6	61,775	15.4
Nonfood products	48,311	11.8	47,058	11.7
Total	410,268	100.0	401,524	100.0

Number of stores by prefecture (As of May 31, 2010)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Hokkaido	528	Saitama	370	Gifu	119	Tottori	88	Saga	59
Aomori	167	Chiba	348	Shizuoka	172	Shimane	89	Nagasaki	86
Iwate	161	Tokyo	1,260	Aichi	455	Okayama	122	Kumamoto	91
Miyagi	189	Kanagawa	663	Mie	91	Hiroshima	143	Oita	137
Akita	151	Niigata	105	Shiga	123	Yamaguchi	111	Miyazaki	82
Yamagata	59	Toyama	112	Kyoto	247	Tokushima	104	Kagoshima	107
Fukushima	99	Ishikawa	86	Osaka	950	Kagawa	97	Total	9,654
Ibaraki	106	Fukui	99	Hyogo	541	Ehime	156		
Tochigi	107	Yamanashi	67	Nara	100	Kochi	57		
Gunma	66	Nagano	131	Wakayama	110	Fukuoka	343		

2. Qualitative Information Regarding Changes in Other Consolidated Financial Indicators

(1) Financial Position at the First quarters end

Total Assets, Total Liabilities and Net Assets at First Quarter-End

At May 31, 2010, total assets stood at ¥481,213 million, an increase of ¥33,081 million from February 28, 2010. This mainly reflected a ¥36,360 million increase in cash and bank deposits because of an increase in bill settlement transactions and other factors.

Total liabilities increased ¥35,975 million from February 28, 2010 to ¥285,971 million at May 31, 2010. This mainly reflected a ¥36,544 million increase in deposits received due to higher bill settlement transactions and other factors.

Net assets stood at ¥195,241 million, down ¥2,893 million from February 28, 2010. The decrease was

principally due to a ¥3,851 million decline in retained earnings resulting from the payment of dividends and other factors.

(2) Cash Flows During First Quarter

Cash and cash equivalents at May 31, 2010 were ¥93,803 million, up ¥38,960 million compared with February 28, 2010.

Operating activities provided net cash of ¥54,537 million, an increase of ¥15,147 million from the corresponding period of the previous fiscal year, mainly due to the collection in accounts receivable due from franchised stores.

Investing activities used net cash of ¥4,820 million, a decrease of ¥4,776 million from the corresponding period of the previous fiscal year, mainly due to a decrease in payment for acquisition of property and store equipment, and proceeds from the withdrawal of time deposits.

Financing activities used net cash of ¥10,756 million, an increase of ¥880 million over the corresponding period of the previous fiscal year, mainly due to an increase in repayments of lease obligations.

3. Other

(1) Change in important subsidiaries during the period (Changes in certain specified subsidiaries resulting in revised scope of consolidation): None

(2) Adoptions of simplified accounting methods and accounting methods particular to presentation of quarterly financial statements:

① Adoption of simplified accounting methods

Regarding property and store equipment to which the declining-balance method is applied, the amount of depreciation is calculated by apportioning depreciation equally during the period.

② Accounting methods particular to presentation of quarterly financial statements: None

(3) Changes in accounting principles, procedures, presentation methods, etc., pertaining to preparation of consolidated financial statements (Those to be stated as significant accounting policies):

Compensation income, which was included in “Other” under “Non-operating income” in the first quarter of the fiscal year ended February 28, 2010, has been shown separately from the first quarter of the fiscal year ending February 28, 2011 due to an increase in materiality. The amount of Compensation income included in “Other” under “Non-operating income” in the first quarter of the fiscal year ended February 28, 2010 was ¥51 million.

4. Consolidated Financial Statements etc.

(1) Consolidated Balance Sheets (Unaudited)

As of May 31, 2010 and February 28, 2010

(Millions of yen)

	May 31, 2010	February 28, 2010
Current assets:		
Cash and bank deposits	100,377	64,017
Accounts receivable—due from franchised stores	14,246	20,790
Marketable securities	2,500	2,500
Merchandise inventories	4,400	4,446
Accounts receivable—other	26,258	26,445
Deferred tax assets	2,520	4,587
Other	9,337	9,567
Allowance for doubtful accounts	(132)	(155)
Total	159,547	132,198
Fixed assets:		
Property and store equipment		
Buildings and structures	185,175	183,841
Accumulated depreciation	(89,760)	(87,388)
Buildings and structures—net	95,414	96,452
Vehicles, tools, furniture and fixtures	57,294	57,241
Accumulated depreciation	(44,835)	(44,383)
Vehicles, tools, furniture and fixtures—net	12,459	12,858
Other	46,080	38,565
Accumulated depreciation	(3,857)	(2,567)
Other—net	42,222	35,997
Subtotal	150,097	145,308
Intangible fixed assets;		
Software	30,062	29,674
Goodwill	4,135	4,248
Other	485	484
Subtotal	34,683	34,407
Investments and Other;		
Long-term loans receivable	30,538	29,724
Lease deposits	82,917	83,205
Deferred tax assets	15,460	15,274
Deferred tax assets for land revaluation	14,646	13,631
Other	9,027	9,018
Allowance for doubtful accounts	(15,704)	(14,636)
Subtotal	136,884	136,216
Total	321,665	315,933
Total assets	481,213	448,131

(Millions of yen)

	May 31, 2010	February 28, 2010
Current liabilities:		
Accounts payable —trade	81,551	73,189
Accounts payable— due to franchised stores	1,555	1,024
Income taxes payable	1,783	9,852
Deposits received	102,403	65,858
Accrued employees' bonuses	1,338	2,789
Provision for use of points granted	1,584	2,097
Other	26,007	29,684
Total	216,225	184,496
Long-term Liabilities;		
Allowance for employees' retirement benefits	6,483	6,206
Allowance for retirement benefits to executive officers and corporate auditors	180	217
Deposits received from franchisees and lessees	38,462	38,710
Other	24,620	20,365
Total	69,746	65,499
Total Liabilities	285,971	249,996
Owners' equity;		
Common stock	58,506	58,506
Capital surplus	41,520	41,520
Retained earnings	90,319	94,171
Treasury stock	(1,713)	(1,713)
Total Owners' equity	188,633	192,485
Valuation and translation adjustments;		
Net unrealized gain on available-for-sale securities	18	14
Land revaluation difference	(634)	(634)
Foreign currency translation adjustments	70	65
Valuation and translation adjustments	(545)	(554)
Stock acquisition rights	348	346
Minority interests	6,805	5,858
Total net assets	195,241	198,135
Total Liabilities and net assets	481,213	448,131

(2) Consolidated Statements of Income(Unaudited)

For the first quarter of the fiscal year ending May 31, 2009 and 2010 (March 1, 2010—May 31, 2010)

(Millions of yen)

	May 31, 2009	May 31, 2010
Operating revenues	58,510	58,559
Franchise commission from franchised stores	46,501	48,026
Other	12,009	12,251
Net sales	51,530	48,026
Total operating revenues	110,041	106,586
Cost of goods sold	38,335	35,544
Operating gross profit	71,705	71,042
Selling, general and administrative expenses	59,508	59,840
Operating profit	12,197	11,201
Non – operating income and expenses;		
Non – operating income;	371	501
Interest received	165	163
Other	206	338
Non – operating expenses;	470	706
Interest expense	45	220
Loss on cancellation of store lease	317	350
Other	107	136
Recurring profit	12,098	10,995
Special gains and losses;		
Special gains;	628	—
Gain on change in equity	625	—
Other	2	—
Special losses;	2,816	3,172
Loss on disposal of fixed assets	834	747
Loss on impairment of long-lived assets	1,354	2,180
Other	627	244
Income before income taxes and minority interests	9,909	7,823
Income taxes;	3,558	3,567
Income taxes - current	3,251	1,685
Deferred income taxes	307	1,881
Minority interests in net income	377	174
Net profit	5,974	4,081

(3) Consolidated Statements of Cash Flows (Unaudited)

For the first quarter of the fiscal year ending May 31, 2009 and 2010 (March 1, 2010—May 31, 2010)

	(Millions of yen)	
	May 31, 2009	May 31, 2010
Operating activities;		
Income before income taxes	9,909	7,823
Depreciation of fixed assets	5,751	7,640
Increase in provision for allowance for retirement benefits to employees	255	276
Interest received and dividend income received	(165)	(163)
Interest expense	45	220
Loss on impairment of long-lived assets	1,354	2,180
Loss from disposal of fixed assets	600	400
Other-net	(1,229)	(1,674)
Increase in accounts receivable due from franchised stores	(4,755)	6,544
Decrease in accounts receivable—other	2,277	189
Increase in accounts payable—trade and due to franchised stores	6,772	9,013
Decrease in accounts payable—other	(8,179)	(6,199)
Increase in deposits received	35,391	36,425
Decrease in lease deposits from franchisee and lessees	(1,208)	(248)
Other-net	1,339	2,394
Subtotal	48,159	64,822
Interest and dividend income received	164	162
Interest expenses paid	(44)	(220)
Income taxes paid	(8,889)	(10,227)
Net cash flows provided by operating activities	39,390	54,537
Investing activities;		
Payments into time deposits	(1,500)	(400)
Proceeds from withdrawal of time deposits	—	3,000
Payment for purchase of marketable securities	(299)	—
Proceeds from redemption of marketable securities	800	—
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	455
Payment for acquisition of property and store equipment	(5,416)	(4,941)
Increase in short-term loans receivable	(218)	—
Payment for acquisition of intangible fixed assets	(2,314)	(2,402)
Increase in advances to associated company	(100)	—
Other – net	(547)	(532)
Net cash used in investing activities	(9,596)	(4,820)

Financing activities;		
Repayment of long-term loans payable	(154)	—
Repayments of lease obligations	(1,747)	(2,801)
Cash dividends paid	(7,933)	(7,933)
Other	(40)	(21)
Net cash used in financing activities	(9,875)	(10,756)
Net increase in cash and cash equivalents	19,917	38,960
Cash and cash equivalents, beginning of year	83,981	54,843
Cash and cash equivalents at end of period	103,899	93,803

Adoption of Accounting Standards Concerning Quarterly Financial Statements

Effective from the fiscal year ending February 28, 2010, the Company has adopted “Accounting Standard for Quarterly Financial Statements” (Accounting Standards Board of Japan (ASBJ) Statement No. 12) and “Implementation Guidance for Accounting Standards for Quarterly Financial Statements” (ASBJ Guidance No. 14). The quarterly consolidated financial statements have been prepared in accordance with the “Regulations for Quarterly Consolidated Financial Statements.”

(4) Notes to Going Concern

Not Applicable

(5) Segment Information

1. Business segment information

(From March 1, 2010 to May 31, 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 current 1st Quarter, therefore information by industry segment is omitted.

2. Geographic segment information

(From March 1, 2010 to May 31, 2010)

Because net sales in Japan account for more than 90% of total net sales, LAWSON has omitted geographical segment information.

3. Overseas sales

(From March 1, 2010 to May 31, 2010)

Overseas sales account for less than 10% of consolidated sales at all segments for current 1st Quarter, therefore overseas sales information is omitted.

(6) Notes to Significant Changes in Shareholders' Equity

Not Applicable