

Corporate Governance

Characteristics and system of Corporate Governance

Characteristics of Corporate Governance

We pursue continuous improvement in the value we offer stakeholders that contributes to enhanced corporate value. These concerns make it all the more important for us to comply with laws, regulations and social norms, while also striving to reinforce our corporate governance by improving the soundness and transparency of management through compassionate behavior based on both the Group Philosophy and the Lawson Code of Ethics. It also requires active disclosure in accordance with the “Basic Principles Concerning Information Disclosure.”

Lawson selects people with different specialties and experience as candidates for directorships to assure diversity on the Board of Directors and enable appropriate decision-making and supervision. In addition to the independence standards determined by the Tokyo Stock Exchange, Inc., Lawson has established its own Judgment Criteria Regarding Independence as a basis for selecting several independent officers for purposes of ensuring management transparency and fairness.

As concerns the number of directors, the Articles of Incorporation specify that there shall be no more than 11. Thus, we have constructed a system that enables full consideration and deliberation by the Board of Directors at their meetings without lessening their responsibilities. By introducing the Executive Officer System, meanwhile, we have divided management and supervision from business execution to enable quick decision-making and business execution. It should be noted with respect to the auditors that we elect candidates for the position of corporate auditor based on their possession of the extensive financial, accounting, risk management and/or legal expertise and experience required to fulfill auditors’ duties.

The Company recognizes that the succession plan of the CEO is one of our key management issues; thus, acting as an advisory

body to the Board of Directors in order to augment the impartiality, timeliness, and transparency of the process, discussions are carried out among members of the Nomination and Compensation Advisory Committee, comprised only from part-time officers (six members out of the total seven are independent officers), to which the qualifications and attributes required as the Company’s chief executive as well as the method of nominating the successor are presented by the President and CEO, Representative Director, for approval.

Although Lawson became a consolidated subsidiary of Mitsubishi Corporation on February 15, 2017, from the perspective of protection of minority shareholders, we will continue our efforts to assure appropriate governance as an independent listed company.

Corporate Governance Code

[Five general principles]

1. Rights and equality of shareholders and transparency
2. Appropriate collaboration with stakeholders other than shareholders
3. Ensuring appropriate information disclosure
4. Board of Directors’ responsibilities
5. Dialog with shareholders

The Corporate Governance Code (CG Code) is a set of guidelines applied to listed companies as of June 2015. Lawson implements all five basic rules specified by the Code. Lawson’s efforts are also published in various reports, including corporate governance reports, meeting notices to shareholders and securities reports. Please visit the following site to see the content of disclosure items related to the individual rules in the CG Code.

For details of the Corporate Governance Code:
https://mldata.lawson.jp/en/about/governance/images/governance_2020.pdf

Details of major corporate governance measures implemented since 2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Board of the Directors membership (number)	18	20	8		9						7				9 ^{*1}			8				
Outside directors (number)		2	3		5						3			4		5				3 ^{*2}		
Of which independent officers (number)											1		2					3				
Female directors (number)							1							2				3				
Ensuring transparency of directors’ compensation			2002 – Compensation Advisory Committee established.													2014 – Nomination and Compensation Advisory Committee established.						
								2005 – Directors’ retirement benefit system abolished.														
								2005 – Share-based stock compensation options for directors introduced.														
													2012 – Auditors’ retirement benefit system abolished.									
Ratio of shares held by Mitsubishi Corporation (major movements)		2001 Mitsubishi Corporation becomes largest shareholder.															April 2015	February 2017				
																33.4%		50.1%				

^{*1} The membership of the Board of Directors is as of the close of the General Meeting of Shareholders each year, except for 2014, when there were 9 members up to July 31 and 8 members after August 1.

^{*2} The number of outside directors has been reduced because two no longer satisfy the requirements of outside directors due to the increase in the ratio of shares held by Mitsubishi Corporation. The number of non-business executing members of the Board will remain 5.

Special circumstances with the potential to seriously impact corporate governance

Mitsubishi Corporation assumed ownership of 50.1% of Lawson's voting rights through a tender offer conducted during the period from December 2016 to February 2017, and Lawson became a consolidated subsidiary of the Company as of February 15, 2017. Mitsubishi Corporation cooperates with Lawson in human resources exchanges and raw materials procurement as well as in sharing of information on retail properties and other matters based on a comprehensive business alliance. Lawson makes management decisions independently, however, in its capacity as a listed company.

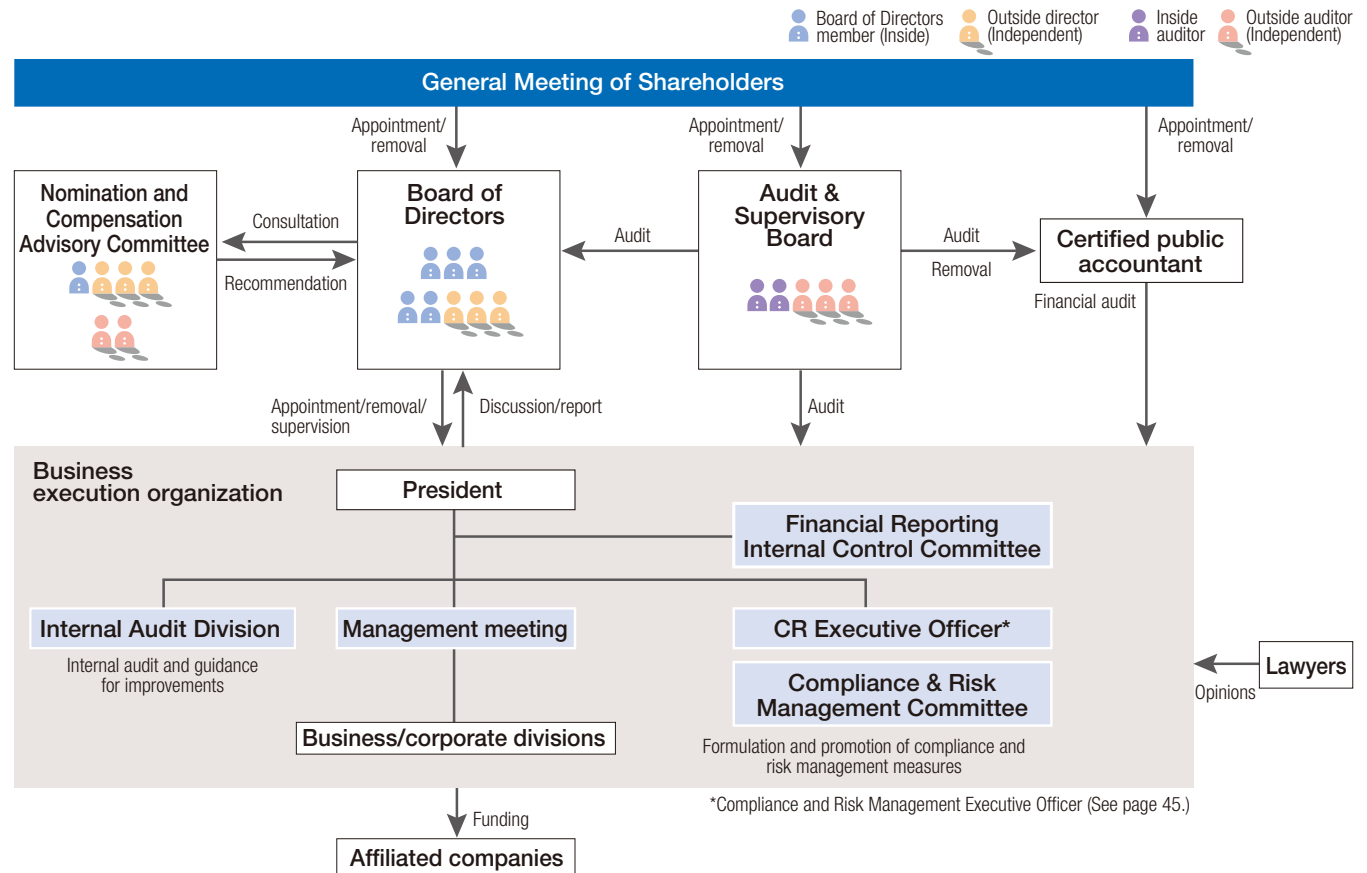
As an independent listed company, Lawson determines the terms and conditions of transactions after comparing and examining the prices offered by other companies, prevailing market prices, etc. even in the transactions with Mitsubishi Corporation, Lawson's parent company, and its group companies, just like in transactions in general, in order not to cause loss to minority shareholders.

Corporate Governance System

Equipped with an agile decision-making process, Lawson has moved quickly to construct a highly transparent and independent corporate governance system. Independent officers who are considered to have no conflict of interest with the general shareholders have been appointed to comprise at least one third of the directors. Moreover, six women have been appointed to the positions of director or corporate auditor with a view to promoting

diversity with the composition of the executive officers taken into consideration. They are contributing to reinforcing the corporate governance system from various perspectives. Following the voluntary establishment of the Nomination and Compensation Advisory Committee and the Audit and Supervisory Board, the Nomination and Compensation Advisory Committee to express its opinion on the candidates for the positions of director and representative director on the Board of Directors, meanwhile, independent officers

have been selected to fill six of seven positions as Committee members, thus creating a system where opinions can be expressed with a high degree of independence. Going forward, we will continue our efforts to ensure management transparency and independence, and to improve corporate value to meet the expectations of all our stakeholders.



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Basic policy for determining directors' compensation

Lawson's policy is to design its remuneration system in a manner that links directors' compensation with returns to shareholders, while retaining its function as an incentive for enhancement of corporate value, continuous growth and improvement of corporate performance and ensuring a sufficient and appropriate level of remuneration to reward individual directors for the duties they perform. The base compensation includes a variable compensation component linked to the Company's performance, moreover, as well as a fixed compensation component. To reflect the directors' contribution to improving shareholder value more accurately, variable compensation is linked to such earnings indicators as EPS (earnings per share). Share-based stock options—share price-linked compensation—are also incorporated as part of the remuneration to strengthen the linkage with returns to shareholders.

A + B = Directors' compensation

A Base compensation

Consisting of: fixed compensation (about 60%) + variable compensation (about 40%)

Fixed compensation: A fixed amount commensurate with the position determined based on internal rules

Variable compensation: Performance-based remuneration linked to the Company's performance, including EPS (earnings per share), in the fiscal period concerned (To ensure linkage between directors' compensation and shareholders' interests)

B Share-price linked compensation

Stock options offered through allocation of shares

(Recognized as compensation linked to medium- and long-term improvement in corporate value)

- Exercise price per share: 1 yen
- Number of shares allocated: Determined according to the number of shares allocated in accordance with the director's position and the rate of achievement of the EPS target.
- Exercise period: Exercisable only within a predetermined period after leaving the Company (Not exercisable during tenure in office)

Details of directors' compensation

Directors' compensation paid by Lawson consists of (A) base compensation through cash payments and (B) share price-linked compensation through stock option allocations.

Note that no performance-based variable compensation is paid to part-time directors, because they serve the representative directors and Board of Directors in a specialized supervisory and advisory capacity.

Details of auditors' compensation

Auditors' compensation is determined according to a basic policy of paying compensation at a sufficient and appropriate level in consideration of the duties performed by individual auditors. It comprises base compensation (fixed compensation) paid in cash. The amount is determined through consultation with the auditors, with consideration given to such factors as full-time or part-time status and share of the auditing work, within a range approved by the General Meeting of Shareholders.

Disclosure method for directors' compensation

Total amounts of officers' compensation are listed in the Company's securities reports and business reports.

●Details of officers' compensation (fiscal 2019)

Total compensation, total amounts by type of compensation and number of eligible officers per company officer category

(Millions of yen)

Category	Total compensation	Total by type of compensation		Number of eligible officers
		Base compensation	Stock options	
Directors	211	171	39	8
(of which outside directors)	(34)	(30)	(4)	(3)
Auditors	74	74	—	5
(of which outside auditors)	(50)	(50)	(—)	(4)
Total	285	245	39	13

(Note) There were 8 directors and 5 auditors as of end February 2020.

Status of internal control system development

The construction and maintenance of an internal control system is considered an important issue for management to ensure healthy, sustainable business growth. In accordance with the provisions of the Financial Instruments and Exchange Act, in addition to the Companies Act and Ordinance for Enforcement of the Companies Act, a Basic Policy for Maintaining the Internal Control System is determined each fiscal year (see page 46).

These policies are subject to frequent revision in accordance with changes in the business environment in order to ensure the effectiveness, efficiency and appropriateness of business. Efforts to develop an effective, rational internal control system contribute to maintaining and increasing corporate value.

Policy on nomination and standards for appointment and independence of candidates for director

Lawson has established criteria for appointing officers and for making judgments regarding independence. The voluntarily established Nomination and Compensation Advisory Committee serves as an advisory body, moreover, that expresses its opinion to the Board of Directors regarding nominations of candidates for the positions of director and representative director. Since six of seven members are currently independent officers, this system also enables the Committee to express its opinion with a high degree of independence. It should be noted with respect to candidates for auditor that they are individuals with the financial, accounting, risk management and/or legal experience and expertise required to fulfill the duties of auditors whose candidacy is approved by the Audit & Supervisory Board.

<Appointment criteria for officers>

- Persons whose views resonate deeply with the Lawson Group's Corporate Philosophy, "Creating Happiness and Harmony in Our Communities."

- Persons who can contribute to sustainable growth of the Lawson Group and enhance its corporate value.
- Persons with good mental and physical health that will not interfere with pursuit of their corporate duties.
- Respected persons with dignity and high ethical standards who comply conscientiously with laws and regulations.
- Persons capable of making objective judgments, and endowed with excellent foresight and insight.
- Persons possessed of a wealth of experience and expertise in corporate management or specialized fields.
- Persons who are able to ensure sufficient time to conduct their duties.
- Persons to whom none of the grounds for disqualification specified in the Companies Act apply.
- As concerns independent officers, persons in compliance with the Judgment Criteria Regarding Independence stipulated by Lawson.

<Judgment criteria regarding independence>

- A major business partner of the Lawson Group or its business executors: A group of business partners that provides products or services to the Lawson Group, the amount of which group's transactions with the Lawson Group in the previous business year exceeds 2% of the consolidated sales of the group of business partners concerned.
- A major business partner of the Lawson Group or its business executors: A group of business partners to which the Lawson Group provides products or services, the amount of the Lawson Group's transactions with which business group in the previous business year exceeds 2% of the consolidated sales (gross operating revenues) of the Lawson Group.
- Consultants, accounting experts and legal experts who have received large sums of money and other assets other than executive compensation from the Lawson Group: Consultants, accounting specialists such as CPAs and legal specialists such as attorneys who receive money and assets other than executive compensation from the Lawson

Group, and whose remuneration from the Lawson Group has amounted to 5 million yen or more annually for the past two years.

- Major shareholders of Lawson (in cases in which the major shareholder in question is a corporation, the corporation's business executors).
- Close relatives of the business executors of the Lawson Group.
- Close relatives of non-business executing members of the Board or accounting advisors of the Lawson Group (in the case of outside corporate auditors).
- Outside directors and outside auditors whose tenure at the time of reappointment exceeds eight years and 12 years, respectively, in the aggregate.

Note that even a person who fits any of the above criteria can be selected as a candidate for independent outside officer if the Board of Directors determines that said person is virtually independent. In such case, the reason is explained and disclosed at the time of the candidate's appointment as outside officer.

Board of Directors and Audit & Supervisory Board meetings held and attendance rates

	Board of Directors	Audit & Supervisory Board
Number of meetings held	13 times	19 times
Attendance rate	Outside directors	92.3%
	Outside auditors	100%

Related sites

For details of Basic Principles Concerning Information Disclosure
<https://www.lawson.jp/en/ir/disclose.html>

For details concerning purchasing policies
https://www.lawson.jp/en/about/purchasing_policy/

Assessment of the Board of Directors' Effectiveness

In order to further enforce the effectiveness and functions of the Board of Directors, the Company conducted a "self-assessment on the effectiveness of the Board of Directors," mainly consisting of a document survey to be completed by all directors and corporate auditors. Responses to the survey were submitted by all 12 members, or eight directors and four corporate auditors (as of the date of the survey), and compiled and analyzed by an external organization. As a result, it was observed that the current Board of Directors of the Company is enforcing effectiveness through its role in the resolution of important management matters and the appropriate monitoring of business execution, which contents were shared and discussed at the meeting of the Board of Directors. Moreover, in the above survey, in order

to further reinforce effectiveness, constructive opinions on the further expansion of the discussion on the digital transformation (DX) policy and management strategy and the enhancement of information sharing for the monitoring by the Board of Directors were presented, which also were discussed at the meeting of the Board of Directors. Moving forward, we will endeavor to make improvements to further enhance the effectiveness of the Board of Directors, as well as ensure that the opinions discussed are considered. The above self-assessment had been compiled and analyzed only internally in the past. In the future, however, we will use an external organization probably once in three years in order to ensure the objectivity of the results of the analysis.

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Directors and Corporate Auditors (As of May 28, 2020)

Name	Position	Outside Officers	Independent Officers	Nomination and Compensation Advisory Committee *The double circle, ⊙, indicates the chair.	Number of years in current position	Other positions held concurrently	Main area of experience and expertise					
							Corporate management	Corporate finance/accounting	Legal affairs	Marketing	IT	Franchise and retail business
Members of the Board												
Sadanobu Takemasu	President and CEO, Representative Director				6	Chief Health Officer (CHO)	●					●
Katsuyuki Imada	Member of the Board Senior Executive Managing Officer				3	Division Director, Corporate Strategy and Planning Division Human Resources						●
Satoshi Nakaniwa	Member of the Board, Executive Managing Officer				3	Chief Financial Officer (CFO)		●				●
Yutaka Kyoya	Member of the Board			○	7	Executive Vice President and Group CEO, Consumer Industry Group, Mitsubishi Corporation	●					●
Keiko Hayashi	Member of the Board	○	○	○	4	CEO, DoCLASSE Co., Ltd.	●			●		●
Kazunori Nishio	Member of the Board				4	Senior Vice President and Division COO, Retail Division, Mitsubishi Corporation						●
Miki Iwamura	Member of the Board	○	○	○	2	Vice President, APAC Marketing, CMO Japan, Google Japan G. K.				●	●	
Satoko Suzuki	Member of the Board	○	○	○	0	Associate Professor, The School of International Corporate Strategy at the Graduate School of Business Administration, Hitotsubashi University				●		●
Auditors												
Masakatsu Gonai	Standing Corporate Auditor				3	—						●
Shuichi Imagawa	Standing Corporate Auditor				0	—						●
Eiko Tsujiyama	Corporate Auditor	○	○	⊙	9	Professor Emeritus, Waseda University		●				
Yuko Gomi	Corporate Auditor	○	○	○	1	Lawyer (Partner) T. Kunihiro & Co. Attorneys-at-Law			●			
Keiko Yoshida	Corporate Auditor	○	○	○	0	Representative, C.P.A., SHIBA Accounting Service Office		●				