

LAWSON

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**Creating Happiness
and Harmony
in Our Communities**

INTEGRATED REPORT 2020

Group Philosophy

Creating Happiness and Harmony in Our Communities

Vision

Our goal is to become the hub of
refreshment in every community.



[Note: ほっ = Whew!]

Lawson's Way (Action Guideline)

1. Create stores filled with the best smile in town.
2. Speak out your ideas to take action.
3. Enjoy your challenge.
4. Value your friends to become one.
5. Act in good faith.

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We will shift our focus from the growth investment undertaken in the
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•Mitsubishi Corporation's strategic cooperate system supports Lawson's efforts toward unique value creation, bringing happiness to the people of the community.

Member of the Board **Yutaka Kyoya**

•Lawson is pursuing creation of a new convenience store model for an era
of intensified demand for added value.

Member of the Board (outside) **Satoko Suzuki**

•I admire Lawson's stance of constructing a solid governance system with
an eye to the next generation.

Corporate Auditor (outside) **Yuko Gomi**



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- Lawson delivers a delicious life through astonishing products.
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- Generating smiles in the community
 - 1 Advancing the theme of “Eat deliciously and improve your health”
 - 2 Supporting a healthy community life
 - 3 Reinforcing support for Franchise stores
 - 4 With Lawson’s Way as the cornerstone, we will build a “Lawson whose person- nel can continue working cheerfully and happily with lively, positive energy”
 - 5 Supporting the activities of the women, children and seniors in our communities

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- Lawson takes up challenges repeatedly in its commitment to participating in the local community and realizing a carbon-free society.
 - 1 Providing the community with convenience, safety and security through our stores
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Integrated Report



ESG

An overview of the Lawson Group’s business activities rooted in local communities and the outlook for sustainable future growth

Financial Section (2020 MD&A)



A report on industry trends and the Lawson Group’s business initiatives and financial position in the relevant years, as well as projected earnings assessments/analyses and the outlook for the next fiscal year

ESG



SDGs Handbook

A guide to realizing our Group philosophy, “Creating Happiness and Harmony in Our Communities,” by determining our Material Issues and Key Performance Indicator (KPI) objectives and incorporating them into efforts to attain the Sustainable Development Goals (SDGs)

Lawson has been adopted as a constituent of the ESG investment stock price index. * Current as of February 2020

Its adoption accords to all three selection indicators for ESG investments made by the Government Pension Investment Fund (GPIF).



“FTSE Russell confirms that Lawson, Inc. has been independently assessed according to the index criteria, and has satisfied the requirements to become a constituent of the FTSE Blossom Japan Index. Created by the global index and data provider FTSE Russell, the FTSE Blossom Japan Index is designed to measure the performance of Japanese companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE Blossom Japan Index is used by a wide variety of market participants to create and assess sustainable investment funds and other products.”

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

The MSCI Japan Empowering Women Index represents the performance of companies that provide leadership in promoting and maintaining gender diversity in their GICS® sector.

2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

The MSCI Japan ESG Select Leaders Index consists of companies with high Environmental, Social and Governance (ESG) performance selected from its parent index, the MSCI Japan IMI Top 700 Index, targeting 50% of the market capitalization of each Global Industry Classification Standard (GICS®) Sector of the parent index.

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*GICS® is the Global Industry Classification Standard, an industry classification system created jointly in 1999 by the U.S.-based Standard and Poor’s credit rating firm and the global financial group Morgan Stanley Capital International.

Our Management Team Is Constructing a New Lawson for a New Era.



Keiko Hayashi
Member of the Board
(outside)

Kazunori Nishio
Member of the Board

Satoshi Nakaniwa
Member of the Board,
Executive Managing Officer,
Chief Financial Officer

Sadanobu Takemasu
President and CEO,
Representative Director
Chairman of the Board

Katsuyuki Imada
Member of the Board
Senior Executive Managing
Officer
Division Director, Corporate
Strategy and Planning Division
Human Resources

Yutaka Kyoya
Member of the Board

Miki Iwamura
Member of the Board
(outside)

Satoko Suzuki
Member of the Board
(outside)



Yuko Gomi
Corporate Auditor
(outside)

Shuichi Imagawa
Standing Corporate Auditor

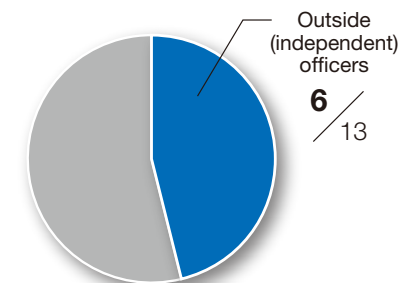
Masakatsu Gonai
Standing Corporate Auditor

Eiko Tsujiyama
Corporate Auditor
(outside)

Keiko Yoshida
Corporate Auditor
(outside)

Reinforced independence through an increased ratio of outside officers

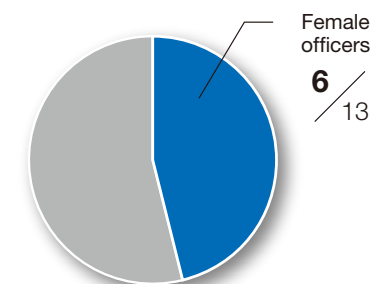
Increasing the ratio of outside officers with diverse backgrounds who bring a high level of expertise to their office has produced a system capable of verifying the appropriateness of business execution and supervising the observance of laws from an independent, objective viewpoint.



● Ratio of outside officers

Active appointment of female officers

Stressing diversity in its management, the Company is proactive in its appointment of female officers. We also pursue continuous efforts to promote career advancement of women other than officers to place more women in management positions.



● Ratio of female officers

Our role is to maintain happiness in our communities, Planning for growth in the post-COVID-19 era with a strong awareness of our mission and responsibility



Sadanobu Takemasu

President and CEO
Representative Director
Chairman of the Board

Lawson has taken up the challenge of defining the future of the convenience store.

Over 45 years have already passed since the birth of Japan's convenience store industry. During this period, the convenience store's role has diversified with changes in social needs, which have gradually transformed it from a quick shopping venue into an indispensable part of the social infrastructure supporting people's lives.

From the opening of its first convenience store in 1975 to the present, Lawson has been exceptionally

responsive to changes in the social environment in accordance with our Group philosophy, "Creating Happiness and Harmony in Our Communities." In 2019, we adopted the New Lawson Declaration, "Hub of refreshment in every community" as our Corporate slogan. The Declaration reflects our efforts to give our customers, as well as the owners and crews of our franchise (FC) stores, a sense of relief stemming from Lawson's presence in their regions.

Efforts to determine the ideal format for convenience store chain operation received heightened attention in fiscal 2019. With the continuing decline in the working-age population, worsening of the labor shortage and rise in labor costs,

Our goal is to become the
"Hub of refreshment in every community"
by offering the three "Whew!" Surprises.

Three Promises



* Machi (literally "town") refers to the communities in which Lawson operates and, by extension, the global village as a whole.

questions arose concerning the propriety of 24-hour operation. Intensifying competition emerged as a major issue as a number of chains implemented strategies aimed at domination. The Ministry of Economy, Trade and Industry responded in February 2020 by releasing a report by the “New Convenience Store Study Group” recommending restructuring of the stores’ business model for the new era.

At Lawson, we have been working to construct an ideal business model for the next-generation convenience store with a focus on reinforcing support for our franchise stores, improving our product offering, strengthening our store capabilities, and supporting our new stores in a manner that makes the store owners and crews as well as everyone at Lawson Headquarters happy. Reinforcing our communication channels to facilitate frank, intimate dialogue with the franchise stores on the front lines of our business has produced steady results.

Rather than adopting a domination strategy, Lawson has opened stores in communities that genuinely need them, extending its operations into every prefecture ahead of other chains and pursuing a transition to multiple-store owner management. We have provided reduced-hour options to conventional 24-hour operation from the onset, moreover, increasing the number of reduced-hour stores from 40 at end February 2019 to 204 on March 1, 2020. We have also experimented with New

Year’s holidays at 102 stores nationwide and with unmanned nighttime operation at two stores.

Continuing to build strength after the emergence of the new COVID-19

Since the beginning of 2020, a major global environmental change in the form of the new COVID-19 pandemic has shaken domestic and foreign economies.

Our primary mission is to respond first and foremost to crises facing the communities in which people live and to support them from beginning to end. We began with efforts to prevent transmission of the disease in order to continue opening stores in response to community demand, even under the state of emergency. We moved quickly to implement measures such as installation of vinyl sheets at checkout counters, provision of information on diversified store hours, thorough store interior ventilation, and installation of alcohol-based hand disinfectant dispensers. We



worked at the same time to expand the number of stores in which self-checkout is available or to which the LAWSON smartphone cash register system was introduced to enable customers to pay for purchases easily by smartphone. Our efforts to expand the number of stores implementing these measures have created an environment in which customers can continue to shop with peace of mind.

Lawson employees responded to the lack of school lunches due to nationwide school closures by personally distributing rice balls to daycare facilities. I deeply appreciate this immediate expression of a desire to help by our business partners and franchise stores. I participated with them in requesting the deliveries, and I shared in the delight inspired by the cheerful, energetic voices of the many grateful children. Other unique initiatives during the pandemic have included sales by LAWSON stores of agricultural products that have lost market opportunities, campaigns to increase consumption of milk, demand for which has plummeted with the discontinuation of school lunches, and increased donations of original Lawson

products to food banks. We have also established a day of appreciation and support for medical professionals at some 320 Hospital Lawson stores nationwide.

The need to shelter at home has led to reduced movement of people in society and changed purchasing trends. The level of consumption has declined in urban areas as more people have turned to supermarkets and convenience stores in residential neighborhoods with growing daytime populations. In addition to reducing loss due to waste, and sharply cutting fixed costs such as labor, utilities and rent expenses, Lawson is providing financial support for stores in city centers whose sales have declined steeply as demand for food products such as lunch boxes has decreased. In residential areas, meanwhile, the good taste of our Machikado Chubu in-store kitchen items, which require time-consuming preparation in the stores, is more popular than ever. Demand for small-portion luxury products and health products is met by NATURAL LAWSON, SEIJO



ISHII, moreover, while daily foods and fresh produce are supplied at reasonable prices by LAWSON STORE 100.

I consider it Lawson's greatest strength to stock just the right number of products all aligned with individual communities' current needs in all kinds of neighborhoods, whether residential areas, office districts or suburbs. Compared to supermarket customers, who tend to shop for longer periods, LAWSON customers spend an average of about three minutes in the store at a time. The stores are safe places where people can purchase the products they need efficiently close to their home or workplace. Many customers seem to visit stores simply to refresh themselves. Even under current circumstances, it is important for people to find relief in smiles and eye contact, even when wearing masks.

We also seek to respond to what we call "shut-in" demand. Besides such daily necessities as lunch boxes, frozen foods, milk, eggs and seasonings, we have reinforced our offering of sweets to relieve the stress of self-restraint. In August 2019, we formed the first tie-up between a convenience store chain and Uber Eats, and we followed up in August this year by expanding the program to more than 1,000 stores. We also deliver items such as magazines along with food and other daily necessities.

People's lifestyles can be expected to change, even after the pandemic is finally behind us. They will continue to

avoid close contact with others, and working from home will become the norm. We see opportunities to create further demand in the "new normal" that emerges in the post-COVID era by leveraging Lawson's ability to respond quickly to social change. We demonstrated our capability of thinking and acting quickly when faced with such challenges as the Great Hanshin-Awaji Earthquake, the Great East Japan Earthquake and the Kumamoto Earthquake. We are identifying the current requirements of every community this time as well, developing well-considered strategies for individual stores, and supporting the stores' efforts to respond quickly to changes.

Promoting penetration of Lawson's Way to assure success in the retail business

I view our Headquarters and franchise stores together as a family that is seeking stability and growth. There is, however, no denying the severity of the conditions surrounding today's convenience store industry. The insufficient profitability impacting our franchise stores in an environment characterized by chronic labor shortages, increased expenses and sluggish sales threatens to reduce job satisfaction and create anxiety concerning the future. How, then, should Headquarters respond?

Our objective this year is to

concentrate closely on our individual franchise stores to guide them to a V-shaped recovery in the new normal following the COVID-19 crisis. This does not entail a conflict within the convenience store industry but, rather, a victory for every business in the retail industry, including supermarkets and drug stores. I consider success in this well within our power. At a time when business configurations are changing, with supermarkets selling daily necessities in addition to fresh foods and drug stores adding food sections, I think this new model can be realized by creating unique value for LAWSON, and making it an indispensable part of daily life.

An additional facet of our basic policy for fiscal 2020 is "to improve our franchise stores' profits" and "to make LAWSON the most recommended store by Japanese customers." This means that all Headquarters employees should concentrate on and take responsibility for the profitability of our franchise stores. We are promoting this policy as the foundation for the strongest sense of mission and responsibility ever seen at Headquarters.

Lawson's Way, a new action guideline applicable to the entire Lawson Group, was established in March of this year to motivate all our franchise store and Headquarters employees to seek an ideal path to becoming the convenience store of the future.

The contents of the five items

of the Lawson's Way are quite simple. In my view, their very simplicity brings them closer to the essence. Working sincerely to make each and every store a "Hub of refreshment in every community" in accordance with our Group philosophy of "Creating Happiness and Harmony in Our Communities" brings us happiness as well. But what actions should we take to make our communities and ourselves happy? The basic tenets of the path forward are clearly stated in Lawson's Way.

Lawson's Way also presents appropriate roles and action guidelines for everyone involved in the stores, from Headquarters employees to franchise owners and store crews. It comprises such simple, easily understandable contents aimed at grasping the attitudes and changes of our communities and creating stores our customers really need, and being prepared to welcome customers to clean, orderly stores. The first requirement of tomorrow's convenience stores will be to reaffirm, and further refine, their commitment to staying close to the communities,

Lawson's Way (Action Guideline)

- 1. Create stores filled with the best smile in town.**
- 2. Speak out your ideas to take action.**
- 3. Enjoy your challenge.**
- 4. Value your friends to become one.**
- 5. Act in good faith.**

a strategy that will lead to steady growth in the coming era. “A familiar store that brings smiles to faces in the community.” “A place where people can shop for things they want and interact with others.” “A part of the social infrastructure that supports people’s lives, even in times of disaster.” The value of having such an “indispensable place in our communities” will become more apparent than we can imagine with penetration of Lawson’s Way.

Varied challenges faced by Lawson’s franchise owners, our largest group of partners

We will move to improve the stores’ profitability by further strengthening the support that has long been an element of special concern.

There are a number of actions that only Headquarters can take to improve our franchise stores’ profitability. These include working to solve problems facing individual stores from a long-term perspective. Since every store is

unique in terms of the circumstances surrounding its location and customer base, we do not provide uniform nationwide guidance, but instead seek comprehensive solutions to the particular issues facing individual stores. Our franchise stores and Headquarters cannot coexist in mutual prosperity without the continued powerful, unobtrusive support of Headquarters employees.

In another important action, we have established a new support system to encourage multiple store owner management, while continuing to support our single store owners. We also provide contract matching for new store openings and training support for store managers. Going forward, we will continue our efforts to expand multi-store ownership, which now accounts for about 45%.

A continued focus on the “Three Promises” we introduced last year as “indispensable”

Our first promise is “Superior taste.” Lawson is adept at developing products

that attract customers with their delicious taste, as evidenced again last year by such hit products as BASCHEE Basque-style cheesecake and Kinshari onigiri rice balls. Nor is our superior taste limited to foods. It extends to giving optimal value to everything we offer customers, including our product lineup, quality and service. In honoring our second promise, “Human kindness,” we are strengthening our evening and nighttime product offering to enhance its convenience for working mothers and singles. We have also launched foods that are free from salt and chemical seasonings, and cosmetics that contain no additives. Our third promise, “Environmental (Machi) friendliness,” is expressed through our many social infrastructure initiatives that promote coexistence with the local community. These include adopting paper packaging for LAWSON original products to reduce plastic use, food loss reduction programs, and CO₂ emission reduction and other environmental conservation activities.

These efforts have led to the birth of various changes from the inside, as exemplified by our new product development at Headquarters. We eliminated the complicated processes required to realize ideas by creating a team with direct ties to the President, an approach that has engendered such great successes as our Machino Pan (“community bread”) series. Headquarters has responded to this opportunity by becoming remarkably

active. Development lead times have been shortened, creating a tangible stir among customers. And ideas generated by young employees, who are themselves core convenience store customers, can be expected to become even more powerful as Lawson’s Way takes hold beginning this year.

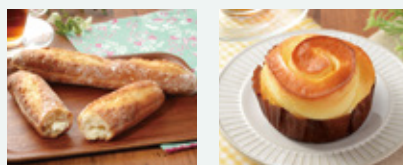
Cultivating job satisfaction among all Headquarters and franchise store employees

What do I mean by job satisfaction?

This begins, of course, with providing appropriate employee benefits, but that is only part of the answer.

It is also essential that we offer social value with tangible benefits that workers appreciate as well as amenable working environments. These are just a few of the responsibilities the Company must reliably meet without reliance on the opinions of individuals.

Besides introducing business chat tools, Lawson Headquarters supplies employees with Company-owned mobile terminals that enable browsing of in-



house documents to support remote work.

We have been working to digitalize our store operations since the advent of the digital era. By now, every store manager knows what products to stock in what quantities depending on the location and daily sales conditions at the store in question. We have installed tablets as well as POS cash registers with multilingual automatic change dispensers that are easy for foreign crew members to use at all the stores. Self-checkout systems and LAWSON smartphone cash registers introduced to reduce the burden on store crews have acquired particular significance during the pandemic due to the reduced interpersonal contact they permit at checkout. We recognize our responsibility for sincerely and reliability ensuring environments in which both workers and customers feel at ease. A fusion of warm hospitality that provides customer relief with digital technologies that support store crews in their jobs is one of our long-standing strengths.

Implementing these detailed



measures has enabled our franchise store crews and Headquarter employees to conduct their daily work with peace of mind, and simultaneously facilitated sharing of the fruits of our foresight with our many stakeholders into the future. I believe that our actions from a long-term perspective will engender job satisfaction in the present for all concerned.

Consideration for the next generation and concern for diversity as the keys to sustainable growth

We continue to pursue our mission of realizing the SDGs in accordance with our position as Japan's leading convenience store chain. The steps we are taking now will lead at the same time to realization of our Group philosophy of "Creating Happiness and Harmony in

Our Communities." Lawson created the SDGs Committee in fiscal 2019 to make proposals for resolution of social issues in its business activities and to put them into practice. In April 2020, for example, we endorsed the TCFD (Task Force on Climate-related Financial Disclosures), which requires companies to analyze and disclose information on the risks associated with climate change that exert a significant impact on their business activities. We are currently preparing our analysis and disclosure information regarding the impacts of climate change.

I received a letter recently from a 14-year-old girl who asked, "Why are convenience stores filled with plastic?" I mentioned some reduction measures we are taking earlier, but these represent only a very small part of the efforts required to deal with this issue. Her letter reminded me that plastic reduction is an

urgent issue for the generations who will inhabit Earth in the future. Conventional thinking will not suffice if we are to fulfill our responsibility to future generations. I believe we must go beyond conventional thinking and sharpen our focus in order to reduce the environmental burden.

There is another important aspect of Lawson's thinking I wish to convey.

I am referring to localization. The conventional standardized convenience store business model with its uniform product lineup in stores throughout Japan and 24-hour operation is already a thing of the past.

You can buy bakery items made from local ingredients by a group of local agricultural high school students at a LAWSON store in Akita, for example, or rice balls unique to the region containing Hakata jidori chicken at a store in Fukuoka. Considering Japan as a whole,

SUSTAINABLE DEVELOPMENT GOALS



we recognize that it is only natural that every community should have its own local culture, values and lifestyle, and that it is equally appropriate that the stores and their product lineups should be different as well. To me, this kind of diversity is extremely attractive. There is also value in the ability to buy products made under the supervision of famous stores that were previously available only in Tokyo at LAWSON stores nationwide. Thus, both limited local specialties and nationwide product availability are worthy concepts, but it is incumbent on Headquarters to consider the opinions of our franchise owners in order to strike a balance. We should continue to promote a style of diversification that places the emphasis on individual stores by taking advantage of regional characteristics. I am convinced that linkage between localization and the digital technologies that support it will be essential to future growth.

Promoting initiatives for coexistence and mutual prosperity with franchise stores nationwide

Lawson is pursuing a variety of new initiatives.

We are also strengthening our products to meet new demand in the wake of the COVID-19 crisis with a focus on entertainment-related businesses and in collaboration with such Group

businesses as NATURAL LAWSON, LAWSON STORE 100 and Seijo Ishii.

As of May this year, points accumulated in KDDI CORPORATION's au WALLET points program have been integrated with Coalition Loyalty Program Ponta. Use of data for the membership base of over 100 million customers made available by integrating these point systems has made the process of predicting consumption trends smoother and provided a broader database for development of attractive products. We are also continuing efforts to deal with the chronic labor shortage by leveraging support from Lawson Staff Co., Ltd. as well as by moving ahead with the use of digital technologies to conduct unmanned store experiments.

As concerns the ideal form of the new convenience store of the future, meanwhile, the location of the community is expected to create a polarization between stores that favor close human interaction and unmanned 24-hour stores in urban centers that make full use of digital technology. We are confident of our ability to advance along both paths simultaneously, however, due to the many measures we have already



put in place and our close ties with our individual franchise owners.

Continuing to maximize the resources of Mitsubishi Corporation into the future

In closing, Lawson recognizes the support of our business partner Mitsubishi Corporation as an extremely valuable asset. We benefit from Mitsubishi Corporation's strengths in our international operations, including our overseas store development, raw materials procurement and collaboration with global brands such as GODIVA. Such Mitsubishi facilities as its strong, stable logistics infrastructure, manufacturing bases and overseas networks provide powerful underpinning for Lawson's business activities in general. Headquarters, which stands at the forefront of our operations, has the responsibility for determining the optimal strategic use of the partnership and for linking it directly to the profitability of our individual stores. In the future as well, we will continue to maintain our unique character as a listed company, while effectively leveraging our partnership with the Mitsubishi Corporate Group and making optimal use of its resources to become our customers' most-recommended franchise chain as a clear route to profitability.

People and businesses worldwide began to suffer from the COVID-19

pandemic just as 2020 began. We see Lawson's most appropriate response as continuing to work resolutely to do what has to be done. All of us at Lawson are treating this social transformation as an opportunity to do everything we can to prepare for the post-pandemic era. Seen in retrospect, the accumulation of actions occurring throughout the Group today will come to be viewed as comprising a major change. All these separate actions will combine to bring about "a new convenience store for a new era."

Lawson will continue to raise one challenge after another as the future unfolds.



We will shift our focus from the growth investment undertaken in the preceding fiscal year to improving the quality of our store opening activities and reorganizing the stores, and to promoting creation of a robust system that can withstand serious crises such as infectious disease pandemics.



Satoshi Nakaniwa
Member of the Board
Executive Managing Officer,
Chief Financial Officer

Consolidated results for fiscal 2019 (to February 2020)

(Unit: Billion yen)

(Fiscal year)	2018	2019	YoY
Gross operating revenues	700,647	730,236	+4.2%
Operating income	60,781	62,943	+3.6%
Ordinary income	57,700	56,346	-2.3%
Net income	25,585	20,108	-21.4%

Fiscal 2019 in review

Looking back on fiscal 2019, we see intensified competition across industrial borders, increased labor shortages and rising labor costs. These were accompanied by numerous other challenges for convenience stores, including reexaminations of the efficacy of 24-hour operations and the relationship between Headquarters and the franchise stores. The operating environment changed considerably, as the consumption tax was raised in October, a reduced tax rate was applied to the convenience store industry, and a cashless return system under which the government returns 2 percent of the amount spent by customers who pay in a form other than cash was instituted for selected stores. Intent on becoming the store of choice for a wide range of customers, we worked intently under these circumstances to strengthen our evening and nighttime business, develop attractive products that meet customer needs, and present clean, cheerful stores with attentive services. Faced by such conditions as the ongoing labor shortage and rising labor costs, meanwhile, we continued to support our franchise stores by optimizing store operations and reducing their workloads and manpower requirements.

Same store sales in the domestic convenience store business rose by 0.1%

from the year before as we expanded our product lineup by reinforcing our evening and nighttime operations, and achieved solid sales of such original Lawson products as desserts, bakery items and enhanced bread products. Customer traffic declined by 1.6% from the previous year in a fiercely competitive environment that extended beyond industry borders. The customer unit price rose by 1.7% from the previous year, meanwhile, impacted by an increase in the price of cigarettes, a rise in evening and nighttime purchases and sales of higher priced products such as desserts.

We concentrated on opening higher quality stores during the year, and worked to create a muscular profit structure by reorganizing underperforming stores. Despite a contraction of the store network by 215 stores accompanying the opening of 554 stores and closure of 769, our strategic reorganization proceeded largely according to plan. As a result, we had 14,444 stores in Japan at end February 2020. The number of overseas stores expanded by 708 to 2,918, meanwhile, due in large part to a significant increase of 639 stores in China.

In our fiscal 2019 consolidated operations, meanwhile, the above-mentioned increase in revenues from the domestic convenience store business was accompanied by strong

performances from Seijo Ishii and our entertainment-related businesses and an increase in the number of overseas stores. Both net sales by all stores in our consolidated network and total consolidated operating revenues improved as a result, with the former registering 2,506.9 billion yen (up 3.4% year-on-year) and the latter 730.2 billion yen (up 4.2%).

Stronger contribution by subsidiaries to the consolidated results

In the area of profitability, Lawson Inc. not only sought to benefit from the effects of its reorganization of underperforming stores, but also to cut disposal losses by the franchise stores and reduce Headquarters' costs. Despite these efforts, increased IT-related expenses stemming from support for the franchise stores and updating of store computers resulted in a decline in operating income of 900 million yen from the previous year to 44.7 billion yen.

Operating income achieved by Lawson's consolidated Group subsidiaries rose to 62.9 billion yen (up 3.6% year-on-year), a result boosted by profits attained by Seijo Ishii and our entertainment-related businesses, both of which recorded strong sales, along with the cost-reduction effect of our financial

sector operations. Profit increased by 2.1 billion yen from the previous year. As concerns consolidated ordinary income and net income, meanwhile, ordinary income registered 56.3 billion yen, a decrease of 1.3 billion yen from the previous year, while net income slipped to 20.1 billion yen, a downturn of 5.4 billion yen owing to the recording of losses in connection with the consolidation of underperforming stores.

Business outlook for 2020

With the new COVID-19 infection spreading worldwide in the current fiscal year, the Japanese government issued a state of emergency that lasted from April to May. This has had a significant impact on the domestic and international business environment. In the domestic convenience store business, daily sales by existing stores fell by 4.8% from the previous year due to a precipitous decline in sales by stores in locations such as business districts as many people abstained from leaving home to work. Buffeted by related costs, Lawson's operating income is expected to decrease by 19.7 billion yen from the preceding year. In its entertainment-related businesses, the Company's first-half sales are expected to suffer a significant decline due to event postponements and cancellations,

with circumstances such as the postponement of movie releases adding to the problems. These factors are expected to result in a downturn in sales of 8.2 billion yen from the preceding year and to consolidated operating income of 35 billion yen (representing a decrease in profit of 27.9 billion yen from the previous year), with estimated consolidated net income registering 5 billion yen (down 15.1 billion yen from the year before).

Despite the unprecedented nature of the surrounding business environment in fiscal 2020, we continue to stress the importance of stable franchise store management and our pursuit of efforts to improve their profitability. Turning our thoughts to "things Lawson can do now," we will conduct business in close cooperation with our franchise stores with the aim of becoming an "indispensable presence in the life of the community."

Cost of capital and financial discipline

Fully conscious of the level of capital costs that reflects our profit expectations, we are raising our ROE (return on equity), an indicator of capital efficiency and an important management index, in an effort to generate profits exceeding our target level and to maximize corporate value over the medium to long term. In our commitment to achieving sustainable growth, meanwhile, we observe financial

discipline by preserving/improving our net debt-to-equity ratio while promoting asset value replacement and improved financial efficiency Groupwide.

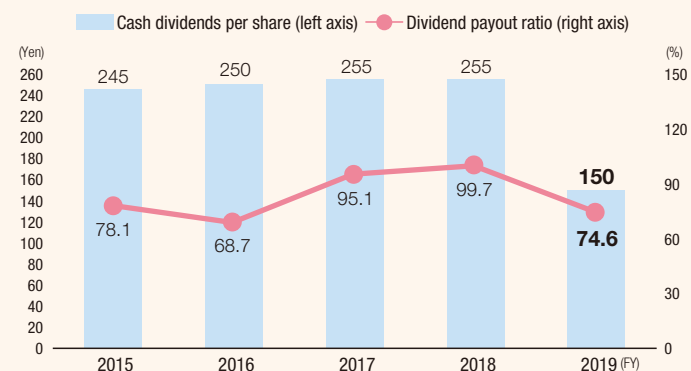
Provision of returns to shareholders with an eye to sustainable growth

Finally, as concerns dividends, we revised our dividend policy in fiscal 2019 by introducing a "consolidated dividend payout ratio." Our focus on returns to shareholders' remains unchanged. We will pay the highest dividend possible within this dividend payout ratio, while continuing to invest in supporting our franchise stores and improving their profits to assure sustainable growth. With this in mind, we have established a minimum annual dividend of 150 yen per share and a return to shareholders

targeting a consolidated dividend payout ratio of 50%." We have accordingly set a dividend of 150 yen per share for fiscal 2019 and an annual dividend in the same amount of 150 yen per share for fiscal 2020. Although the impact of the new COVID-19 pandemic will drive profits down in fiscal 2020, this annual dividend of 150 yen per share is the lower limit for dividends according to our current dividend policy.

We consider stable provision of safe, secure products as the proper path to realizing Lawson's Group philosophy of "Creating Happiness and Harmony in Our Communities." With this in mind, our executive officers, employees, and franchise store owners and crews will combine forces to overcome the difficulties posed by the COVID-19 pandemic.

Transitions in cash dividends per share and dividend payout ratio



Creating Happiness in Our Communities (Strategy)

Executive Officer Voices



Yutaka Kyoya
Member of the Board

Satoko Suzuki
Member of the Board (outside)

Yuko Gomi
Corporate Auditor (outside)

Contemplating a wide range of responses as we take up the challenges of our new era

The year 2020 began with our global society and economy in turmoil. The significance of the convenience store, a cornerstone of community infrastructure, was once again brought home to society.

Two main questions have arisen for Lawson's management: How should convenience stores respond at a time when social norms and lifestyles are being questioned; and what direction should Lawson take in pursuit of the happiness of its franchise store owners and crews, customers and communities. We asked three of our Outside Directors to share their opinions concerning these issues.

Mitsubishi Corporation's strategic cooperate system supports Lawson's efforts toward unique value creation, bringing happiness to the people of the community.

Member of the Board **Yutaka Kyoya**
Executive Vice President, Group CEO,
Consumer Industry Group, Mitsubishi Corporation



The business environment in which the convenience store industry operates today is changing at a rate no one could have anticipated when I became a Director eight years ago. We are clearly entering a more turbulent period than we have ever experienced in the past.

The convenience store industry has been particularly responsive to change since its inception, however, consistently serving as a standard bearer for reform. Lawson must therefore be prepared to improve its ability to respond to change and create values of its own. I expect these circumstances to make the role of the Board of Directors, including the independent directors, more important than ever.

The Company's strategic cooperation with Mitsubishi Corporation will be leveraged further as it seeks growth as an independent listed company. Lawson's alliance with KDDI CORPORATION is a good example of its use of Mitsubishi Corporation's resources. These two partners have established a system of pursuing synergies that transcend their industries. We at Mitsubishi Corporation will spare no effort to support Lawson's growth by acting to strengthen its relationships

with companies in other industries—without limitation to those in the supply chain.

My eight years of observing Lawson have shown me that its greatest strength is the relationship of trust it has built with its franchise stores. This year, Lawson introduced a fundamental policy of pursuing unprecedented efforts to increase the franchise stores' profits. This strikes me as perfectly appropriate. The Company is also making steady progress toward realization of such SDG initiatives as reductions in CO₂ emissions and food loss.

The formulation of Lawson's Way has contributed further to its progress, moreover, by making it easier for the franchise stores and other business partners to understand how Lawson thinks and operates. With this clarification of the Company's direction, its various undertakings will advance at an accelerated pace. As a member of the Board of Directors, I will contribute all I can to constructing a new convenience store model that will bring happiness to Lawson's franchise stores and communities.

Lawson is pursuing creation of a new convenience store model for an era of intensified demand for added value.

Member of the Board (outside) **Satoko Suzuki**

Associate Professor, The School of International Corporate Strategy at the Graduate School of Business Administration, Hitotsubashi University



I perceive the format of the Japanese convenience store to be entering a new phase. Whereas easy access and convenience propelled growth in the 1980s and '90s, product appeal and added value will be the motivators of the future. So, how can Lawson set itself apart? I believe the possibilities are enormous.

A year has now passed since I became a member of the Lawson Board of Directors with its free, open atmosphere. The wisdom based on the high-level motivation and intelligence every member brings to our meetings ensures lively discussions. The high ratio of female members enables us to discuss the convenience store business, a living part of the social infrastructure, properly from the perspective of women.

The focus of my own university research and teaching is on design thinking and marketing, and I am drawing on my knowledge in these fields to contribute proposals for Lawson's new value creation. One important concept of design thinking is repetition of an agile, flexible approach from the user's perspective.

If we could always perform small experiments at the stores, which are

our customer contact points, to identify optimal solutions that enable us to respond quickly to social conditions, individual community environments and customer trends, for example, it would enhance the strength of Lawson as a whole. This will require more detailed support in terms of human and financial resources and information-sharing.

Lawson's efforts are extremely admirable, moreover, in these times of heightened concern for corporate social responsibility. Even in the midst of the COVID-19 pandemic, we have continued to pursue social support activities one after another in an ongoing effort to realize our Group philosophy of creating happiness in our communities.

However popular online shopping may be, people will continue to patronize actual stores to enjoy exciting shopping experiences. The question we are asking is, how much added value can the stores provide? I have high expectations for Lawson's sincere, faithful efforts to create the convenience store of tomorrow.

I admire Lawson's stance of constructing a solid governance system with an eye to the next generation.

Corporate Auditor (outside) **Yuko Gomi**

Lawyer (Partner)
T. Kunihiro & Co. Attorneys-at-Law



This year is my second as an Outside Corporate Auditor at Lawson. Every meeting of the Board of Directors has a free, open atmosphere. President Takemasu's policy, reflecting his characteristic openness, is to allow us independent officers with our diverse backgrounds to draw on our varied expertise to offer honest opinions, even if harsh, identify good proposals and contribute to decision-making through participation in essential constructive discussions. I consider this approach to governance to be highly effective.

My own role as an attorney is to help guarantee the quality of management decisions by ensuring that the decision-making process is functional and that potential risks are considered. Even where Mitsubishi Corporation is concerned, we rigorously investigate the decision-making concerning individual projects from the perspective of profitability for Lawson, a Mitsubishi Corporation subsidiary, and its shareholders. While maintaining independence, Lawson is currently pursuing various initiatives with its parent company in a spirit of positive collaboration.

I might add that Lawson's risk management systems are firmly established. The Company has reported

only minor risk issues despite its membership in the retail industry, which is constantly encountering new risks stemming from its close interactions with customers. I am reassured and highly appreciative of the positive attitude Lawson has shown by sharing negative information quickly, responding calmly and promptly, and taking measures to prevent future recurrences.

I had a good opinion of Lawson even before becoming an Outside Auditor. I was impressed by its unique product development in accordance with new values and lifestyles, and with the warm customer service provided by its store crews. As a LAWSON customer as well, I expect great things of its product development and its creation of unique stores suited to particular communities. Lawson will further strengthen its partnerships with its franchise stores in the future. In this connection, setting target values for increasing the profits of the franchise stores is an especially positive initiative. Today's fiercely competitive business environment and social situation may conceal the numbers, but I anticipate excellent results from Lawson's flexible attitude toward change and its open, positive corporate culture.

From being the handyman in the community to being a role of social infrastructure, Lawson strives becoming a “Hub of refreshment in every community”

— Lawson's history of continuous innovations and challenges, responses to which include incorporating community voices to achieve its Group philosophy —

Since its establishment, Lawson has responded proactively to changes in society, regularly identified customer needs, and developed new products and services.

Lawson, which started as a handyman in the community, is now a component of infrastructure in the society.

To ensure its position as an essential part of the community that provides support for residents, Lawson is determined to continue pursuing and advancing the “Hub of refreshment in every communities” from the customer's perspective.

LAWSON

1975

Opened the first LAWSON store in Sakurazuka, Toyonaka-city, Osaka



1977

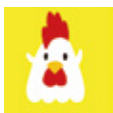
Started 24-hour/day operations

1983

Started copying and printing services

1986

Launched “Kara-age-kun (fried chicken nuggets)”



からあげくん

1989



Started third-party bill settlement services for the payment of electricity and gas bills

1991



Started third-party bill settlement services for the payment of electricity and water bills

1996

Launched “Lawson Ticket” service

1996

Opened the first overseas store in Shanghai, China

1998

Introduced “Loppi” multimedia terminals to all stores



2001

Started automated teller machine (ATM) service
Established a joint ATM management company “Lawson ATM Networks, Inc.”

2001

Opened first “NATURAL LAWSON” store



2002

Launched “Onigiriya” - the new rice ball brand

2003

Established “post boxes” in LAWSON stores nationwide



2004

Started Yu-Pack; Japan Post's domestic parcel delivery service

2005

Opened the first “LAWSON STORE 100” store



Handyman in the community

Started social and environmental activities

Lawson as social infrastructure

Started the challenges to reduce food waste, plastic use, and CO₂ emissions

1992

Set up store donation activity



1995

The Great Hanshin-Awaji Earthquake

1994

Joined “Arakawa River clean Aid”



1998

ISO 14001 certification (Shifted to the operation under a voluntary environmental management system in December 2019)

1999

Stopped including chopsticks, spoon, or fork in boxed meals

2000

Mt. Fuji forest improvement project



2003

- First Comprehensive regional agreement with Wakayama Prefecture in Japan
- Opened the first store offering prescription medicines

2006

- Started recycling waste oil in all stores
- Launched school afforestation projects

2007

Started “Bring Your Own Bag campaign”



1975
Commencement of the Shinkansen service to Hakata

1980
Takenokozoku dancers

1983
Middle Japan Sea Earthquake

1989 Era name change (from Showa to Heisei)
Introduction of consumption tax

1991
Gulf War

1995
Great Hanshin-Awaji Earthquake

1997
Consumption tax increase: 3% to 5%

2009
Launched "L-Chiki (fried chicken)"

2010
Launched the Coalition Loyalty Program Ponta



2010
Established the LAWSON Farm



2011
Established Lawson HMV Entertainment, Inc. (currently Lawson Entertainment, Inc.)

2014
Seijo Ishii



Acquired supermarket chain SEIJO ISHII CO., LTD.

2014
UNITED CINEMAS



Acquired United Entertainment Holdings Co., Ltd. via Lawson HMV Entertainment, Inc.

2018
Lawson Bank

Launched the operation of Lawson Bank, Inc.



2018
Introduction of the LAWSON smartphone cash register



2018
Introduction of POS cash registers with automatic change dispensers



2019
Started tie-up with Uber Eats



2019
Started the operation of fully customer-operated new-type POS cash registers



New Lawson Declaration

Lawson strives becoming a
“Hub of refreshment
in every community”
for everyone by offering
the three “Whew!” Surprises.

Three Promises

Superior
taste

Human
kindness

Environmental
(Machi)
friendliness

Building stores meeting
community needs

Full-scale initiatives for
SDGs

Started health initiatives

2010
Opened first eco-friendly model store

2008
Set own action targets for reducing CO₂ emissions

2012

- Launched bran bread that contains grain husks
- Started mobile sales of food products and daily necessities

2011
Set up “Support Dreams Fund” (Scholarship Program for victims of the Great East Japan Earthquake)

2015
Selected for the 2015 Health & Productivity Stock Selection (three consecutive years 2015–2017)

2014
Selected as a Nadeshiko Brand (five consecutive years 2014–2018)

2017
Set up the “Support Dreams Fund” (Scholarship Program for children from single-parent families)

2016
Obtained the Resilience Certification

2019

- Established the “SDGs Committee” for the promotion of the SDGs
- Set up the “Dream classes” Fund to communicate the importance of having dreams to elementary and junior high school students

Lawson’s Way (Action Guideline)

1. Create stores filled with the best smile in town.
2. Speak out your ideas to take action.
3. Enjoy your challenge.
4. Value your friends to become one.
5. Act in good faith.

2008
Great Recession

2011.3.11
Great East Japan Earthquake

2014
Consumption tax increase: 5% to 8%

2019
Consumption tax increase: 8% to 10%

2020
Spread of COVID-19

Evolving with our communities by responding to their needs from diversified perspectives

Throughout the 45 years since Lawson's birth, the Company has evolved continuously with the happiness of its communities as its first priority. Lawson's unique customer-oriented business model is characterized by "responsiveness to the needs of everyday life," "advanced store productivity" and "small commercial area-based manufacturing and retailing." Linkage of this model with execution of appropriate management strategies has created numerous strengths that are linked, in turn, to sustainable improvement of its corporate value. Lawson will continue to execute this pattern of response and reformation, encouraged by the voices of customers saying, "Thank goodness for LAWSON," or "I want to shop there because it's a LAWSON store."

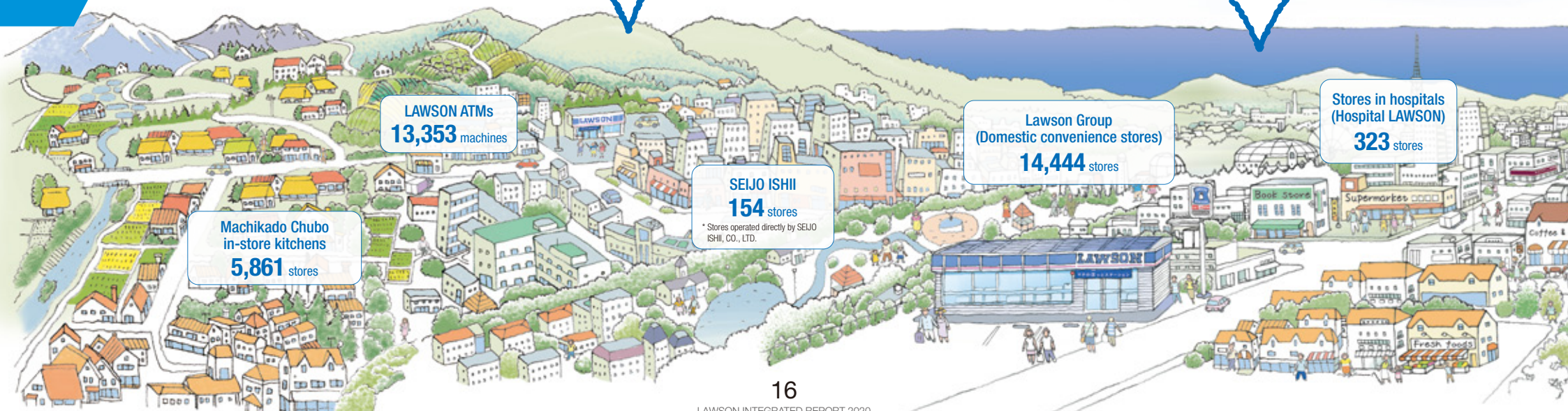
Offering the requisite diversity and spirit of challenge to respond quickly to changing social needs

Besides varying our store format development to suit the characteristics of our communities, we pursue businesses in industries ranging from the entertainment to financial industries. Committed to improving customer convenience, we embody an attitude of taking up challenges quickly and flexibly, as seen in the leadership we displayed by becoming the first convenience store in Japan to offer Uber Eats services and then actively expanding this program.



A philosophy and culture that value the community and its people

We share our Group philosophy with our franchise stores, our closest partners, and cooperate closely with them by creating various opportunities for dialogue to create happiness in our communities. We will contribute to the health of our communities by providing them with lively, energetic stores. Another key factor is the willingness of our employees themselves to take the initiative in considering what they can do for the communities and to act accordingly. This attitude generates social support in the event of disasters or emergencies, and a deep awareness of environmental issues.



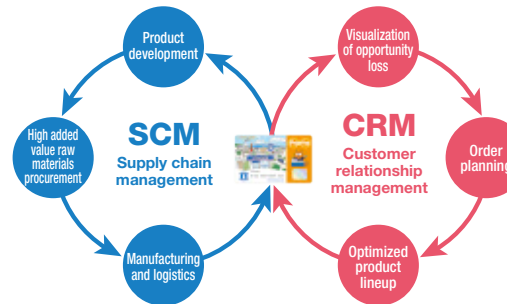
Offering original safe, healthful and delicious products and services

Lawson's selection of delicious, high-quality sweets made convenience store sweets popular in Japan. We also boast highly developed capabilities in provision of delicious, healthful foods containing reduced salt, sugar and additives. We helped to pioneer convenience store sales of OTC drugs as well. Other innovations include stores inside hospitals with appropriate products and services and stores with community support facilities such as nursing care centers.



Use of our Ponta membership base and digital technologies for statistical analysis of customer needs

The Lawson SCM-CRM model is employed to conduct statistical analysis of the purchasing behavior of Ponta point club members and other customers, and to deploy it for product development that meets customer needs as well as for planned ordering at every store. The model's many effects include a more accurate awareness of people's needs, labor saving in the stores and reductions in food loss. It has also served as a driving force for profit expansion.



Extending community happiness across national borders

The communities benefiting from Lawson's concern are not limited to Japan. We are continuously extending the range of our store openings, especially in various regions of China.

Other markets in which we are expanding our store network outside Japan include Thailand, Indonesia, the Philippines and Hawaii, U.S.A. At end February 2020, our overseas network numbered 2,918 stores.

LAWSON stores selling Over-the-counter (OTC) drug
222 stores

Stores with nursing care consultation desks for seniors (Care-focused LAWSON)
24 stores

HMV
56 stores

UNITED CINEMAS
389 screens

* Figures for Lawson services are as of end February 2020.



Lawson contributes to happiness and harmony in its communities by creating added value through its customer-oriented business model.

Social challenges Lawson is tackling

Declining labor force (Employed people aged 15 to 64)

Projected rate of decline by 2025 compared with 1990 **Approx. 20% decrease**

Source: "Population Census," Ministry of Internal Affairs and Communications for data up to 2015 (excluding people of unknown age); "Future Population Projections of Japan (projection as of January 2012)" (projection of medium variant births (deaths)), National Institute of Population and Social Security Research for data after 2020

Rapidly aging society (Increase in the population of residents aged 75 or older)

Projected rate of increase by 2025 compared with 1990 **Approx. 3.6 times**

Source: "Population Census," Ministry of Internal Affairs and Communications for data up to 2010; "Population Projection for Japan," Ministry of Internal Affairs and Communications for 2015 data

Empowerment of women (Increase in the number of double-income households)

Compared to 1991 **Approx. 1.4 times**

Source: "Annual Report on Health, Labour and Welfare," Ministry of Health, Labour and Welfare, "White Paper on Gender Equality," Cabinet Office, "Special Survey of the Labour Force," Ministry of Internal Affairs and Communications, "Labor Force Survey (detailed tabulation)," Ministry of Internal Affairs and Communications

Rise in medical expenses

Projected rate of increase by 2025 compared with 1990 **Approx. 2.9 times**

Sources: "Annual Report on Health, Labour and Welfare 2011," Ministry of Health, Labour and Welfare for data up to 2009; "Future Outlook for Medical Expenses and Estimate of Financial Impact," Health Insurance Bureau, Ministry of Health, Labour and Welfare (October 25, 2010) for data after 2015

Worsening food and plastic waste problems

Food waste in 2016 **6.43 million tons** Plastic waste in 2013 **9.4 million tons**

Source: Announcements by the Ministry of the Environment: Estimated Food Waste in Japan in fiscal 2016 (April 2019) and Plastics Smart Campaign (January 2019)

Rise in average global temperatures

(Long-term global goals determined by the Paris Agreement of December 2015) Compared with the pre-industrial era **2°C or less**

Inputs

Human capital (human resources)

Employees' collective skills and capabilities, personal motivation and organizational experience that contribute to sustainable corporate growth

Financial capital (funds)

Capital raised to fund business activities through sales of shares and borrowing

Manufacturing capital (IT and infrastructure)

Necessary tangible assets for conducting business activities, generally referred to as "infrastructure," including land, buildings, machinery and IT

Intellectual capital (technologies and brands)

Lawson's combined intangible assets, including brands, appraisals, expertise, purchasing data, intellectual property and software

Social capital (resources and social norms)

Natural resources, social norms, and relationships of trust established with stakeholders

Business Model

Vision

Our goal is to become the hub of refreshment in every community.

Business Policy (Three Promises)



Personally rewarding/active Lawson's Way (action guidelines) for franchise stores and employees

Business basis

- Coexistence and mutual prosperity with franchise stores
- Respect for human rights in the supply chain
- Reinforced corporate governance
- Thorough risk management and compliance

Creating Happiness and Harmony in Our Communities

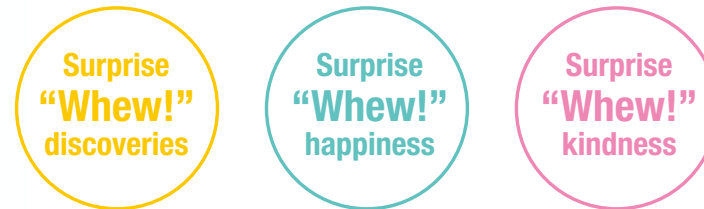
Outputs

-  Nurturing human resources who are self-motivated and innovative to satisfy local community needs appropriately
-  Investment determined according to capital discipline to meet the expectations of the equity market
-  Leveraging the full supply chain to develop products that meet local community needs
-  Cultivating innovation based on prompt perception of changes in local communities
-  We will protect the social environment by such means as working to form a carbon-free society.

Outcomes



Lawson wants to join you in creating excitement by becoming your “Hub of refreshment in every community” with a three “Whew!” surprises. A new LAWSON for a new era.



Contributing to the SDGs

– Determining Material Issues / goals (KPIs) and implementing sustainable initiatives –

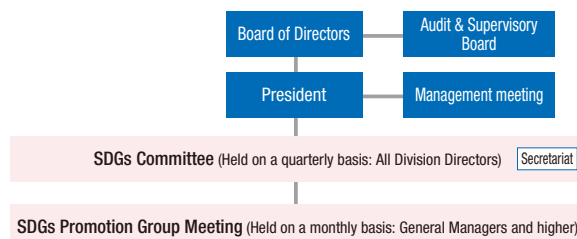
Based on our Group philosophy, “Creating Happiness and Harmony in Our Communities,” we promote customer-oriented business activities aiming to become the hub of refreshment in every community. Believing that striving to realize the “Three Promises” eventually promotes the Sustainable Development Goals (SDGs), we aggressively address our challenges.

Sharing issues faced and progress made toward their solution at the SDGs Committee

In March 2019, we established the “SDGs Committee” aiming to realize a sustainable society through Lawson's business activities, and have conducted initiatives leading to solutions for social issues one by one through a step by step approach. While each division spontaneously works to realize the “Three Promises” through their business activities, we promote initiatives linked to SDGs, and periodically come up with solutions for challenges and report on progress through the SDGs Committee. While the committee takes the initiative in fulfilling our social responsibility by taking steps to solve social issues, we continue striving to enhance our corporate value and achieve sustainable growth.



● SDGs Committee Organization



● Steps toward realizing the SDGs

Lawson has been working to realize the SDG vision since 2019. We are advancing these efforts step by step, from STEP 1: promoting understanding of the SDGs to STEP 5: reporting and communicating our initiatives, and continually taking up challenges to achieve the KPIs (key performance indicators).

STEP 1 Promoting understanding the SDGs

- Companywide employee e-learning
- New employee training
- Awareness-raising activities such as Lawson seminars / exhibitions for franchise owners
- Information dissemination through company newsletters
- Study sessions at the various headquarters

STEP 2 Prioritizing the issues

- Position our business in the value chain, and identify the social issues facing it.
- Link the positive and negative impacts of our operations-related social issues with the SDG goals.
- Score the magnitude of the impacts exerted on our company and society.
- Place high-impact issues in a matrix.
- Determine Material Issues.

STEP 3 Setting performance goals

- Select the Material Issues for which you can set targets for 2030.
- Consider the contents of the target candidates selected by the supervising department.
- Obtain approval of the target contents (target year, numerical values, etc.) by the Board of Directors.
- Determine the KPIs.

STEP 4 Integrating the program into management

- Addition of “SDGs Initiatives” to the positive items for organizational performance evaluation
- Managing progress forward goals (KPIs) / pursuit of Material Issues management items
- Addition of SDG items to the employee award system
- Call for opinions and suggestions from employees

STEP 5 Reporting and communicating

- Issuance of the “Integrated Report” and “SDGs Handbook” / dissemination on websites, etc.
- Participation in initiatives such as TCFD (See box at right.)
- Promotion of dialogue with stakeholders



Goals for 2030 (KPI)

We are pursuing steady efforts to achieve the KPIs we determined in fiscal 2019 with respect to the issues and conditions faced in the social environment.

● Reducing food waste

Reduce by **50%**
V. 2018 levels

● Reducing plastic

Plastic for containers and packaging
Reduce by **30%**
V. 2017 levels

Lawson's original products
Eco-friendly materials
50% used

Plastic shopping bags

Reduce by **100%**

● Reducing CO₂ emissions

CO₂ emissions per store
Reduce by **30%**
V. 2013 levels

Lawson's Vision 2050

Take on more difficult challenges!! Lawson Blue Challenge 2050! Save our blue planet!

We take on difficult challenges to achieve higher goals so that we can create a carbon-free society and contribute to the ideal world that the SDGs aim to realize.

● Reducing food waste

Reduce by **100%**

● Reducing plastic (for containers and packaging)

Lawson's original products
Eco-friendly materials

100% used

● Reducing CO₂ emissions

CO₂ emissions per store

Reduce by **100%**

We examine and discuss what we should do now by focusing on “Lawson's Vision 2050,” and looking back on what we have done so far to steadily proceed with our material issues and KPIs for the SDGs (Sustainable Development Goals to be achieved by 2030).



Lawson endorsed the Task Force on Climate-related Financial Disclosures (TCFD) in April 2020. We will respond to the intensifying challenges posed by climate change by analyzing climate-related risks and opportunities, grasping the impact on our business strategies, considering countermeasures and actively disclosing information.

Lawson's Material Issues

We classify our activities with respect to the value chain into six categories based on the "Three Promises" to customers enumerated in our business policy, and in consideration of pertinent social issues and circumstances. We make decisions from the customer's point of view, with the primary emphasis on the safety and security of retailers and on social infrastructure initiatives for the retail industry. We will not change our Material Issues before 2030, but will continue to increase our contribution to realizing the SDGs by improving and eliminating major initiatives and services through such means as discarding some that have already been completed and adding new ones.

Business Policy	Applicable SDGs	Material Issues (Materiality)	Major Initiatives and Services
<p>Superior taste</p> <p>Surprise "Whew!" discoveries</p>		<p>Providing Safety/Security-oriented Overwhelmingly High Value-Added Products and Services Friendly to Society and the Environment</p>	<ul style="list-style-type: none"> ● Providing high value-added private brand products (rice, frozen foods, and fast foods) ● Deployment of Machikado Chubo in-store kitchens ● Planning and developing locally-produced products for local consumption, and spontaneously utilizing domestic ingredients ● Developing and selling products under consideration of the society and the environment (MACHI café, NATURAL LAWSON brand, etc.) ● Deployment of LAWSON Farm agricultural products (Nakashima-method/ GAP certification) ● Developing and operating a stable supply chain including manufacturing and distribution ● Conducting fair trade with suppliers (raw materials procurement, purchasing management optimization)
<p>Human kindness</p> <p>Surprise "Whew!" happiness</p>		<p>Supporting Health Promotion for All People Through Products and Stores</p> <p>Providing Comfortable Work Environments Leading to Job Satisfaction</p>	<ul style="list-style-type: none"> ● Developing low-salt, low-carb, and additive-reduced products ● No use of preservatives and artificial colors ● Changeover to easily understandable nutrition facts ● Creation of a pharmaceutical product sales system ● Expansion of NATURAL LAWSON and HealthCare LAWSON ● Executing health promotion agreements with local governments ● Supporting and subsidizing health initiatives for store owners and crews ● Promoting health and productivity management (promoting employees' challenge for health) ● Creating a comfortable work environment for store crew (Introducing new facilities, changing the work process, etc.) ● Training and retention of store crews (Fantasista qualification system, use of early-stage educational materials) ● Introduction of an owner support system (support for franchise owners to allow vacations) ● Promoting the MO system for multiple-store management ● Enhancing communication with franchise stores (establishment of the Franchise Store Advisory Committee and owner hotline) ● Promotion of work-style diversification (examination of remote work systemization) ● Development and expanded use of leaves for maternity, childcare, nursing, long-term care, etc. (operation of nursery school)
<p>Environmental (Machi) friendliness</p> <p>Surprise "Whew!" kindness</p>		<p>Supporting Women and Seniors as well as Children's Growth</p> <p>Coexisting Synergistically with Communities by Serving as Part of the Social Infrastructure</p> <p>Sustainable Environment Preservation Activities Toward a Carbon-Free Society</p>	<ul style="list-style-type: none"> ● Maintaining Scholarship program for children from single-parent families ● Promoting fund-raising programs for children's futures (school afforestation activities, "Dream Classes", etc.) ● Children's learning support (Kyoto Student City, acceptance of work experience, on-site lessons, etc.) ● Donation of products to facilities that require food support ● Promoting mobile sales and delivery services including home delivery. ● ATM services of Lawson Bank ● Government certificate issuance services ● Executing comprehensive regional agreements with the local governments ● Reviewing of the Business Continuity Plan (BCP) ● Collaboration with national and local governments to support stricken areas in the event of disaster ● Promoting energy efficient stores (CO₂ reduction) (Introducing and operating energy efficient equipment) ● Utilizing and spreading renewable energy (solar power, etc.) ● Efficiency enhancement of distribution and promotion of changeover to environment-friendly trucks (CO₂ reduction) ● Promoting food waste reduction (food recycling, etc.) ● Reducing plastic used for plastic shopping bags and containers and packaging

Constant pursuit of innovations leading to ongoing change in the convenience store industry

Convenience stores are the innovators in the retail and distribution sectors. This is especially visible in the significantly accelerated transfer to the retail industry in general over the past 20 years of improvements in efficiency and labor-saving mechanisms making full use of IT technologies that were first disseminated among convenience store chains. Lawson, a leader in the development and introduction of such systems as the semi-automatic ordering system and POS cash register with automatic change dispenser, has been working actively to improve efficiency and productivity in the face of a serious labor shortage.

Today, we are committed to continuing this tradition of change. We believe that next-generation convenience stores should take various forms, depending on the community in which they are located and the makeup of their customers. The store crews and customers will also demand technologies that are not only more advanced, but also more diverse. In a notable response, Lawson established the Open Innovation Center in May 2017 to investigate the future of convenience stores from multiple directions, and to pursue new innovations applying leading-edge digital technologies.

The Center's mission is to determine what actions we should take, now and in the future, that are difficult to implement under the existing organizational structure, and to collaborate with domestic and overseas corporations and government bodies in conducting experiments and verifications in connection with Lawson's digital transformation. Our use of a laboratory inside the Center that mirrors an actual store to repeat a cycle of "introductory examination → laboratory verification → actual store experiment" over and over helps to facilitate fast, smooth deployment of technologies in the stores. The Center has also tested walk-through checkout, real-time inventory management and register-free checkout systems with

biometric authentication in actual stores. Other innovations under consideration include the deployment of robots in stores and the use of drones for home deliveries.

These efficiency enhancement efforts stem first and foremost from our desire to serve people. Introducing leading-edge technologies enables us to acquire an accurate grasp of customer needs and reduce the burden on workers, facilitating provision of more detailed services and increasing value for customers by welcoming them to pleasant, convenient stores designed to delight community residents. We ourselves take great pleasure in the days spent in research for this purpose.



Kunitsugu Makino
General Manager, Open Innovation Center



Lawson Go Shinkawasaki store
Customers gain entrance to the store by holding the QR code displayed on a dedicated smartphone app over the gate.

Use of digital technologies for enhanced efficiency and labor savings

The chronic labor shortage and soaring labor costs have emerged as major issues for the convenience store industry. Lawson has strengthened support for its stores by making full use of various IT technologies to save labor in daily store operations and to create comfortable work environments for seniors and foreign nationals. Automation of checkout operations using innovations such as POS cash registers with automatic change dispensers and LAWSON smartphone cash registers has reduced the burden on store crews and shortened waiting times for customers at the checkout counter. In 2019, we speeded up the introduction of self-checkout services that enable electronic payment to all the stores. We also installed new computers in all the stores, improving work efficiency by accelerating processing speeds. We provide strong support for multiple-store owner management by leveraging an owner portal function that permits checking of management and other information for any store, and a remote login function that enables multiple-store managers to place and receive orders remotely. We are experimenting at the same time with a system in which stores are open for business without staff during five late-night hours. Customers unlock the door with a dedicated smartphone app and conduct self-checkout or LAWSON smartphone checkout when they finish shopping. Experiments are also underway with cashier-less stores that employ biometric sensors on product shelves to enable customers to make payments simply by picking up products and exiting the store with them. We will make active use of the results of these and other experiments, including shelf stocking by robots and product management using electronic tags, in stores that need them.

Ongoing efforts in pursuit of a digital transformation

Further deployment of digital technologies is indispensable to Lawson's efforts to increase the profit margins of the franchise stores and ensure job satisfaction while seeking to become our community residents' "No.1 most recommended store" by constructing the next-generation convenience store model. Looking ahead to future changes in the market and working environment, Lawson is deploying a digital transformation to implement Companywide system reforms and changes in a committed pursuit of medium-to-long-term strategies to effect convenience store innovations for the fast-emerging new era.

During the current fiscal year, Lawson established the Digital Transformation Promotion Committee under the direct control of the President and charged it with the responsibility indicated by the slogan "Digital IT Strategy 2020." Structural reform employing digital technologies, restructuring of the Headquarters organization and culture, and corresponding reinforced penetration of IT human resources strategies and development are all on the agenda. We are also pursuing a steady approach to realizing the SDGs through application of IT technology. As concerns the various core systems that support Lawson's IT, meanwhile, we will sort out currently existing complications, strictly review the IT cost structure, and conduct planned investment to promote a gradual reduction in IT costs.

Steps to improve efficiency and productivity by utilizing digital technologies



Superior taste

Lawson delivers a delicious life through astonishing products.

1 Original products with continuously evolving rich, delicious taste



Tomato hamburger with 16-grain rice



Cajun chicken with 16-grain rice

We are working every day at Lawson to plan and develop assorted original foods and daily necessities that add richness and good taste to daily life through our familiar community stores. Our product developers take their lead from analyses of point card purchasing data and consumer input collected on social media. We deliver “superior taste” suited to LAWSON community lifestyles with our original products, which currently account for about 40% of the stores’ total sales.

We are especially particular about the quality and taste of our food product ingredients. We have developed a colorful chilled box lunch product group that makes optimal use of the ingredients’ taste. We augmented our standard lunch boxes in 2020, for example, by launching the new 16DELI series that blends rice with 16 grains in addition to meat and vegetables in an optimal balance. Our Machi-no Pan (“community bread”) series has produced one hit product after another through its focus on superior-tasting bread dough and added ingredients aimed at creating “post-convenience store bag breads.” The new “GOODDOG” hotdog with tasty toppings has become especially popular with hungry customers.

Since leading the way among convenience stores with the launch of the Premium Roll Cake in 2009, moreover, LAWSON has constantly attracted attention with its commitment to sweets. Such sensational new products as our BASCHEE Basque-style cheesecake with its unprecedented texture and taste owe their immense

popularity to product development with strict attention to texture, appearance and ingredients. We continue to release hit products, including our Dora-motchi sweet cakes with their superb tastes and textures and our CUPKE cake-in-a-cup series.

Machikado Chubo in-store kitchens are now operating in approximately 6,000 LAWSON stores nationwide (as of end August 2020). The kitchens offer foods such as white rice, thick-sliced, deep-fried pork loin cutlets, and other delicacies, all freshly cooked right on the premises with delicious taste born of the extra effort exerted in their preparation.

In spring of 2020, we divided our Lawson Select brand products into two series, “L basic” and “L marche,” customers can enjoy at home. The brand logos and packaging have been renewed with the cooperation of the nendo design office.



Machi-no Pan French bread with milk and butter



Machi-no Pan 2 pieces of French toast



GOODDOG Tomato and onion



BASCHEE – Basque-style cheesecake –



Dora-motchi (red bean paste & whipped cream)



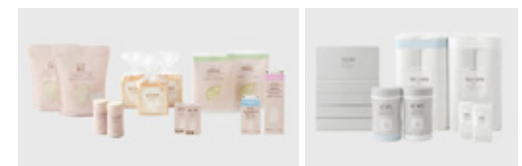
CUPKE Melted cream and strawberry shortcake



Machikado Chubo in-store kitchen delicacies



Charcoal-grilled pork rice bowl



L basic



L marche



2 Foods that bring vibrant color to the dining table

With more people eating at home due to the COVID-19 pandemic, demand for frozen foods that are easy to cook, delicious and reasonably priced is ascending to new heights. LAWSON's frozen foods are environmentally friendly products that create little waste by remaining unsold. The extremely rich lineup of original frozen foods includes noodle and rice dishes, side dishes that can be eaten just as they are, and cut vegetables. Frozen products are also available under the NATURAL LAWSON and Seijo Ishii brands.

In addition to our greatest hit Kara-age-kun chicken nuggets, which have garnered sales of over 3.4 billion servings, the fast-food window at a LAWSON counter sells fried foods, yakitori, oden and other popular side dishes for dinner and snacks to accompany drinks. We added Tokekoro "melted" croquettes and Afure Menchi minced-meat croquettes to the menu in January this year and followed up with GU-BO crispy snack pies, which became an immediate hit upon their launch in March. Other innovations include the newly added Cup Delica small-volume cold side dishes that are perfect for sheltering at home. We have also expanded our lineups of whole vegetables and fresh-cut vegetables to make the vegetables customers need available at a nearby store. They appreciate the ability to purchase potatoes, cucumbers, carrots and other vegetables in small quantities as well.



Mixed salad



Simmered mackerel with miso



Soft natto (fermented soybeans) with reduced odor



Salt-flavored stir-fried noodles with shrimp and 6 vegetables



Coarse-ground wieners



Tokekoro "melted" croquettes Afure Menchi minced-meat croquettes



GU-BO hot snack series



Nuts and half-day portion green & yellow vegetable salad



Message

Strategic product development anticipating emerging needs in the medium to long term

Launch of new systems that meet challenges with free thinking

Lawson established the new Merchandising Concept Development Dept. in March 2020 to specialize in developing and cultivating strategic products that respond to medium- to long-term trends. The department's mission is to grasp the latest trends, respond to customers' emerging values and needs, and move quickly and continuously to create delicious products that stimulate excitement as only Lawson can. Every day is spent on developing products for the convenience store industry, where every week brings the birth of new products. In a workflow unlike those observed by merchandisers in the various regular product departments, we conduct thorough investigations in careful consideration of strategic products and series for the future.

Every Product Concept Development Department member is expected to ascertain the movements of society and changes in the latent and actual needs of customers, formulate hypotheses based on free thinking without limitation by preexisting values, and generate strong concepts. The goal of this process is to strengthen 11 categories of original products. We direct particular attention to Lawson's strengths in desserts and fast-food counter items in order to enhance its reputation further. Besides conducting marketing training and workshops for our team members, we seek to solve any problems that emerge through cooperation with our manufacturers and vendors and to offer customers attractive product series they will love far into the future. Our primary goal is to make our franchise stores and our many customers happy. Going forward, we will continue to take up the challenge of fulfilling Lawson's Three Promises.



Nobuhiro Tomonaga

Deputy Division Director, Merchandising Division
General Manager, Merchandising Concept Development Dept.

3 Unique LAWSON store development responding to the demands of the community



Contributing to more beautiful, healthy and relaxed lifestyles

The NATURAL LAWSON chain, which has expanded to 146 stores nationwide (as of end August 2020), attracts customers who insist on “health and beauty,” “seasonality” and “safety and reliability” in daily life. Its agreeable interiors offer a reliably relaxed shopping experience. Customers rely on NATURAL LAWSON for carefully selected delicious, healthful foods and environmentally friendly detergents and cosmetics. They find that its commitment to excellence provides them with exceptional value.



Dandelion coffee jelly (decaffeinated)



Sweet bean paste gyoza



Providing good value centered on 100-yen food products

LAWSON STORE 100 is a convenience store-sized mini-supermarket with a stress on fresh foods. It provides safe, secure, superior-quality fruits and vegetables that are procured and presented with fastidious care for freshness and quality to meet daily dietary needs. The 687 stores in operation nationwide (as of end August 2020) are patronized by customers ranging from children to seniors, and especially by singles and housewives.



Fried chicken



Shredded cabbage



Pure-brewed soy sauce



A high-end supermarket offering a complete assortment of specialty foods

Seijo Ishii offers a selection of high-appeal products from Japan and around the world, all produced with strict attention to delicious taste. Seijo Ishii's 162 stores nationwide,* mainly in the Tokyo Metropolitan Area (as of end August 2020), come in a variety of configurations, including roadside stores and stores in station buildings, department stores and shopping centers. The “grocerant,” a new-concept in-store eatery that fuses dining with shopping, has proved highly popular. Most notably, Seijo Ishii's extensive lineup of imported foods, carefully selected fresh foods, prepared foods and processed meat products manufactured by skilled cooks in its central kitchen, along with its many original products brimming with unique delicious taste, have received the support of customers who care about high-quality food.

* Figures for Seijo Ishii include only directly managed stores.



Le Bar à Vin 52



Entrance to a Seijo Ishii “grocerant”

SMARI

A new cashier-free shipping service that enables easy, speedy package shipping with no face-to-face contact



LAWSON SMARI is a new socially distanced package shipping service that permits customers to return rental or e-commerce products without conducting shipping or acceptance procedures at the store counter. Instead, customers conduct the simple procedures on their own and place their packages in the store's SMARI box to be picked up by a delivery truck on its return trip. Since its launch at a few Tokyo stores in April 2019, the service has been introduced to more than 2,000 stores in the Tokyo Metropolitan and

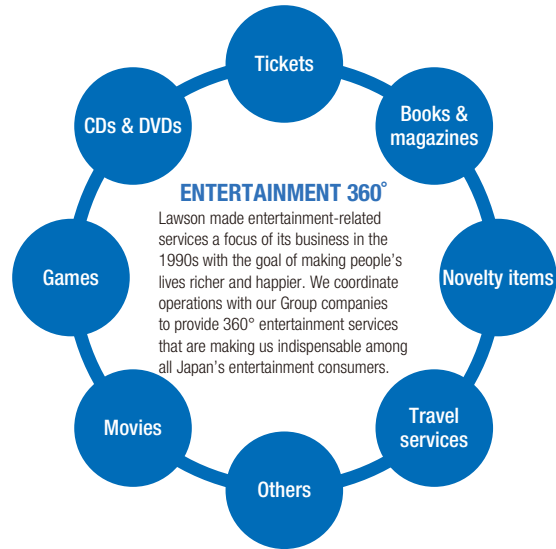
Kinki areas. Customers using LAWSON stores' e-shipping service to ship items sold on auction sites or flea market apps were formerly required to hand their packages to a crew member after completing the Loppi multimedia terminal and cash register procedures. Now they can simply follow the easy SMARI preparation procedures at a store offering the service and place their packages in a dedicated SMARI box for collection by Japan Post.

Uber Eats

Bring your meals home without going to the store!
The first initiative of its kind offered by a Japanese convenience store

In a new last mile initiative to deliver products to customers' homes, LAWSON has become the first convenience store in Japan to offer the Uber Eats service at some of its stores. We handle some 300 types of products unique to convenience stores, including boxed meals, rice balls, deep-fried foods prepared fresh at the store and desserts as well as daily necessities and magazines. In the year since Uber Eats was first introduced in August 2019, the number of stores offering the service has expanded to over 1,000.





4 Fun life support / Entertainment 360°



Enhancing the movie-viewing experience

UNITED CINEMAS, Japan's third-largest cinema complex provider, operates 43 theaters with 389 screens nationwide (as of August 2020). We offer community residents various new ways to enjoy movies besides standard screenings, beginning with the state-of-the-art IMAX Laser*¹ screening system introduced in Okinawa Prefecture in June 2019 and including the 4DX*² and SCREENX*³ film formats. We are also pursuing various avenues toward leveraging cooperation among Lawson Group companies to use our theaters for purposes such as screening of video content other than movies, or as venues for promotional and marketing activities.

*1 A screening system that adds 4K laser projection and advanced 12-channel sound to the IMAX movie experience

*2 A technology that transmits movements, sights and smells reflecting on-screen content to provide a cinematic experience that transforms "watching" to "experiencing"

*3 A panoramic multi-projection movie screening system that uses the theater's side walls as well as its screen



Providing new experiences through real-world retail store shopping

Lawson Entertainment operates 57 stores nationwide (as of end August 2020), beginning with HMV, one of Japan's largest-scale music and video software specialty stores, which includes a composite store specializing in books and a record specialty store. Besides housing the permanent hmv museum exhibition space, the stores host "seasonal" events presenting contents such as music, movies, art and animation, thus providing a venue for entertainment experiences that can be enjoyed nowhere else.

Lawson Entertainment also conducts a diverse range of other businesses such as the HMV flat-rate music-streaming service, operates its own music label, invests in anime and movie production, and develops and produces entertainment-themed merchandise.



Issuing tickets any time of day at LAWSON stores

This innovative ticketing service provider occupies a major share of Japan's play guide industry, selling tickets for concerts, sporting events, theaters, cinemas and leisure facilities through its Loppi multimedia terminals in LAWSON stores nationwide and its l-tike.com EC (e-commerce) site. We are currently working to expand our business domain further to include planning and production of live events, a paid membership business, a fan club enrollment agency, and entertainment tour planning and sales.

Convenient, value-added financial services

Your most accessible bank, with ATMs right in the store



Lawson Bank

ATMs installed at LAWSON stores nationwide accept the ATM cards of nearly any financial institution. In fiscal 2020, besides services that permit customers to charge smartphone payment apps from their bank accounts using our ATMs and ATM payment network, we introduced the ATM Charge service that enables them to charge the balance of payment apps with cash from an ATM and the Smartphone ATM that permits deposits and withdrawals via financial institutions' apps without a card. Lawson Bank's easy-to-use services are making life increasingly convenient for everyone.

As an added bonus, customers who shop with their Lawson Ponta Plus credit card receive preferential treatment with Ponta points.



The LAWSON Ponta Plus credit card system

Human kindness

Generating smiles in the community

1 Advancing the theme of “Eat deliciously and improve your health”

● Evolution with health needs

2000
Early period

NATURAL LAWSON
(established 2001)

2010
Period of creation

Launch of bran bread
(2012 onward)



Launch of onigiri rice balls with sticky barley
(2012 onward)



Launch of smoothie series
(2015 onward)



2018
Period of growth

Launch of Motto! Yasai
("more vegetables") series (2018 onward)






Lawson has established 11 unique themes, including “Eat more vegetables,” “Get your protein” and “Enjoy low calories” as action strategies aimed at realizing its three keywords for health: “Lower salt,” “Lower carbs” and “Reduced additives.” We are implementing these strategies by developing a variety of products that contribute to our customers’ health. With the advent of the rapidly aging society, increase in lifestyle-related diseases and reported growth of the burden of medical expenses, extending people’s healthy life expectancy has become a social concern. As the need for ready-to-eat meals has increased due to the home-centered lifestyles dictated by the COVID-19, meanwhile, we recognize our responsibility to create smiles in our communities by providing an assorted lineup of prepared foods that families can enjoy with peace of mind.

We began by conducting new product demonstration experiments at about 140 NATURAL LAWSON stores nationwide, and then expanded the program to LAWSON stores across Japan. This approach has been applied not only to developing products for customers concerned with sugar intake, but also to renewing our widely popular bran bread, onigiri rice balls with sticky barley, and smoothie series with even more of the delicious taste customers love. Healthful frozen foods with their dietary fiber and sugar contents indicated on the packaging are among other popular new products.

● Lawson’s Three Essentials for Health

- Lifestyle diseases (excessive carbohydrate or salt consumption)
- Needs for healthy life extension

Lawson’s Three Essentials for Health

<p>Low salt</p>	<p>Low carbs</p>	<p>Low additives</p>
 <p>30% (max.) reduced salt content centered on main normal diet staples</p>	 <p>Use of bran (grain husks) to control carbohydrate intake</p>	 <p>Chemical flavoring-free frozen foods (selected products)</p>

We are now working to add more products to our healthful foods category, which has seen sales escalate from about 20% of total sales in fiscal 2015 to about 30% in fiscal 2019. Efforts to expand this product lineup will continue in the future. As concerns low-salt products, we are pursuing such initiatives such as introducing new technologies to maintain superior taste by applying our know-how in bringing out the delicious flavors inherent in the soup stock, other ingredients and seasonings we use. We employ soybean meat in products as appropriate.

Beginning in fiscal 2020, moreover, we have taken up the challenge of developing seasonings without salt or chemicals that will change the conventional view of convenience store foods. We followed our successful launch of dal and coconut chicken curry with brown rice at NATURAL LAWSON in March with the release of dal and cashew chicken curry with brown rice at LAWSON stores in the Tokyo Metropolitan Area in June. We optimized the superior taste of the ingredients in these new curry products without the use of salt or chemical seasonings.

The conventional image of convenience store boxed meals has changed dramatically as consumers have come to consider LAWSON’s boxed meals reliably superior. We will continue to take on challenges to assure the health and safety of everyone in our communities.



Dal and coconut chicken curry with brown rice



Dal and cashew chicken curry with brown rice



2 Supporting a healthy community life

Care-focused LAWSON stores with nursing care consultation desks for seniors

Health consciousness has been advanced through the operation of Care-focused LAWSON stores offering consultations by counselors such as care managers at permanent nursing care consultation desks and products that support seniors and their families. We also use their community salons as regional bases for multi-generational interaction to hold health assessment meetings, “Orange Café” dementia caregiver training courses and other events related to health and preventative care.



A nursing care consultation window in a Care-focused LAWSON for senior citizens

Crew members who have qualified as “registered sales clerks” provide customer consultations concerning medicines

Every store that carries OTC drugs employs crew members with national registered sales clerk licenses. Customers who visit convenience stores to shop for medicines often want immediate relief from cold or headache symptoms for themselves or family members. Registered sales clerks inquire about their physical condition and symptoms and recommend the most appropriate medicine. Associated products such as cooling gel sheets, beverages and easy-to-eat foods are available for purchase at the same time.

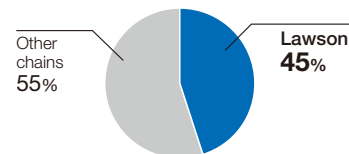


Hospital LAWSON (in-hospital) convenience stores

Lawson has responded quickly to the needs of hospital patients by leading the industry in locating convenience stores in Japanese hospitals. Besides regular products and services, Hospital LAWSON stores feature a lineup of products designated by hospitals. We also cooperate with individual hospitals in developing customized stores and services such as hospital wagon sales. Recognizing the hospital as a community in its own right, we seek the daily happiness of every hospital patient by giving careful consideration to their detailed needs.



● Ratios of convenience store chains operating in-store hospitals



*Data based on survey results compiled by Lawson (as of August 2020)

Supporting healthy diets at LAWSON Farm ^{*1}



In its efforts to assure LAWSON stores a stable supply of vegetables and fruits that support the healthy eating habits of our customers, the Lawson Group has established LAWSON Farm, a corporation eligible for farmland ownership with member farms at 18 locations nationwide. LAWSON Farms employ the Nakashima method of farming, which involves conducting soil diagnoses to develop ideal soil for growing crops before planting and supplies appropriate nutrition according to the growing conditions to produce healthy, delicious vegetables and fruits. We are also working to satisfy the GAP (JGAP, ASIAGAP)^{*2} guidelines for sustainable agricultural production through efforts in the areas of quality improvement, food safety and environmental protection.



*1 The registration number inscribed below the JGAP certified farm mark is the number for LAWSON Farm Chiba.

*2 GAP: Good Agricultural Practice (agricultural production process management). LAWSON Farms accorded GAP certification have attained the Japanese JGAP standard or international ASIAGAP standard.

● Certified Nakashima method products from Lawson Farms nationwide

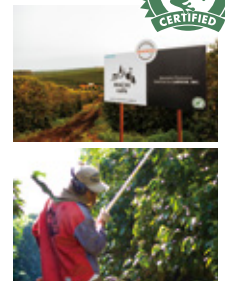
Farm name	Certified product
Lawson Farm Chiba	Japanese mustard spinach (rape), spinach, radish, carrots, cabbage
Lawson Farm Tokachi	Potatoes, carrots
Lawson Farm Yamanashi	Peaches, Kyoho grapes
Lawson Farm Aichi	Cabbages
Lawson Farm Hyogo	Onions
Lawson Farm Tottori	Daikon radishes
Lawson Farm Ichikikushikino	Lettuce
Lawson Farm Satsuma	Cabbages

Rainforest Alliance

Consideration for society and the environment Using only beans from Rainforest Alliance certified plantations*

The MACHI cafés inside LAWSON stores seek to protect the human rights of coffee producers and workers by sourcing beans only from Rainforest Alliance-certified plantations that use natural resources and environmentally (“machi”) friendly farming methods. Rainforest Alliance certification is granted to farms that adhere to more sustainable farming practices and meet strict environmental, social and economic standards.

* Not applicable to single origin or decaffeinated series.



3 Reinforcing support for franchise stores

Lawson Headquarters' closest, most strategic partners are the franchise owners and store crews who serve customers on the forefront in communities throughout Japan.

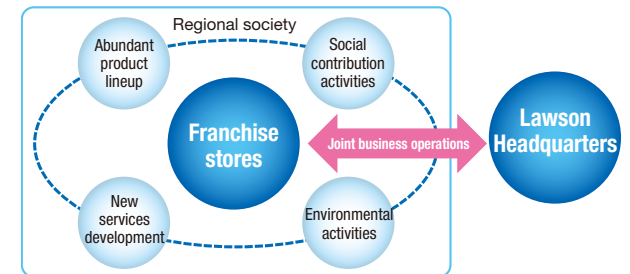
If they are to serve as refreshment hubs in our communities where people gather with a smile, LAWSON franchise stores must be active and energetic. Headquarters contributes by supporting their recruitment activities and optimizing their benefit packages, as well as by reinforcing various initiatives and systems to encourage sound store management through clear, open communication.

Lawson recommends, moreover, that its franchise owners operate more than one store. This enables them to spread the risk posed by the emergence of new competing stores, so that they can maintain stable management while expanding their business more easily than when operating a single store.

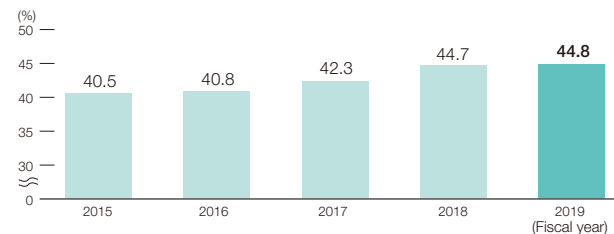
In February 2020, Lawson amplified its efforts to promote multiple-store management by establishing an education/training system to enhance financial support and encourage a transition to multiple-store management by franchise stores under single-owner management that were facing a difficult business environment.

Lawson has established the original Management Owner (MO) system to support franchise owners who open additional stores based on a reinforced partnership with Headquarters. The MO system is making a substantial contribution to the progress of the LAWSON chain as a whole, not only by enhancing the brand image of the Lawson chain through development of model stores and sales floors, but also by providing a platform for MOs to advise other owners on store management as well as to exchange opinions or propose improved work procedures to Headquarters management personnel as representatives of the franchise stores in their region. As of end February 2019, there were approximately 190 MOs operating stores in various regions of Japan.

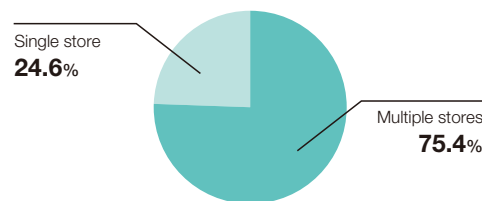
We will continue our efforts to become an indispensable part of the community infrastructure by building an even closer partnership with these franchise stores and by reinforcing such near- to mid-term initiatives as supporting our less profitable stores and encouraging multiple-store and new franchise store ownership — in addition to the franchise management support measures implemented so far.



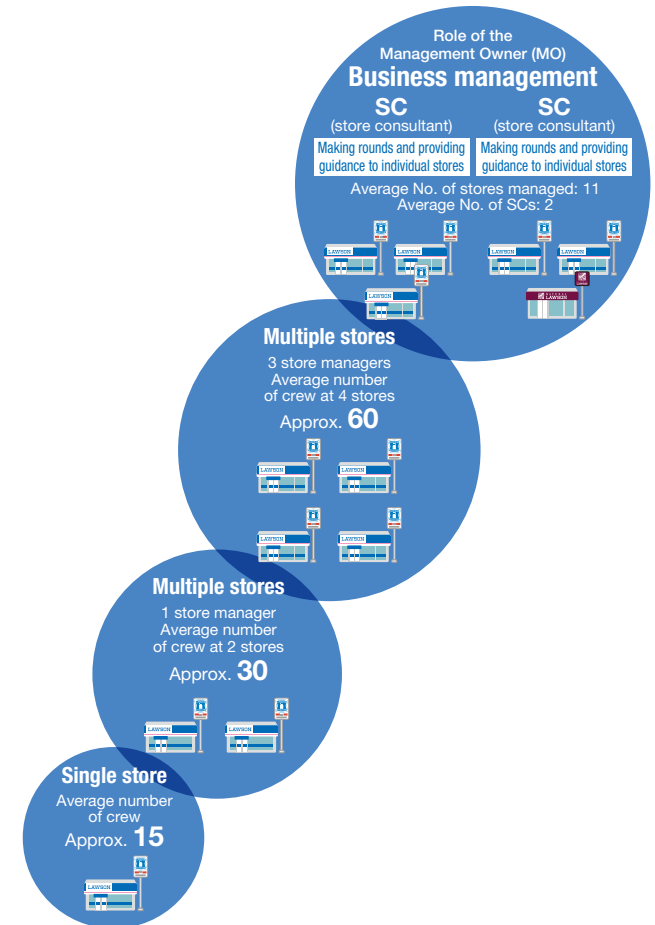
● Multiple store ownership ratio *As of end February 2020



● Multiple store ratio *As of end February 2020



30





● New measures to stabilize franchise store management (effective fiscal 2020)

1. Support to help struggling franchise stores with single-store management as they transition to multi-store owner management



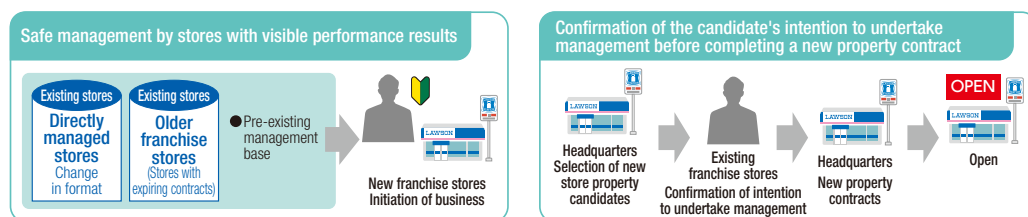
2. Support for store manager training

Headquarters employees provide direct support for cultivation of multi-store managers.

3. Contract matching

As a rule, Lawson is happy to provide guidance concerning existing stores for potential new owners.

After confirming a candidate's intention to undertake LAWSON store management, we proceed with contract signing and opening of the new property.



4. New five-year contract packages

We will establish a new five-year contract package system for potential owners who feel uncertain about signing a ten-year franchise agreement. Adoption of the new package will be a matter of choice. (Introduction within 2020 scheduled.)

5. Change to store profit-based management system

The Company's overall management target will be changed from Headquarters sales to franchise store profits in a move intended to reflect Headquarters' primary concern for the franchise stores' profitability, and to ensure that every Lawson employee works more responsibly than ever before to achieve it. The KPI (key performance indicator) for employee bonuses will also be changed to franchise store profits.

6. FC owner support system

Approximately 100 Headquarters employees will be assigned to eight locations nationwide to support franchise store owners who take vacations. (Effective mid-September 2020)

Besides implementing the above measures, Headquarters is responding to the impact of the COVID-19 pandemic on an individual store basis by providing management support for stores whose customer traffic and sales have fallen off significantly. Our approach is to support stable management according to the situation.

Communication to build strong partnerships with franchise stores

Lawson has established a number of systems aimed at strengthening its partnerships with franchise stores by enabling members of the Board of Directors, including the President, to communicate directly with franchise stores. We place special value on feedback from our franchise stores, which operate in direct contact with customers, and seek to achieve mutual consideration and mutual prosperity with them through close communication. In fiscal 2020, we have taken such measures as a change to online meetings to prevent further spread of the COVID-19.

Lawson Seminars (convened twice annually for all franchise stores)

The President and other members of management share the Company's policies and directions with the franchise owners by providing them with detailed explanations of future business strategies, and informing them of product development planning in conformance with the policies.



Seminars for franchise stores are held nationwide.

Area meetings (convened monthly at branch offices throughout Japan)

Franchise stores from the same areas gather to share details of sales activities planned for the following month as well as of their past successes, or to exchange opinions with the aim of helping individual stores improve their management capabilities.

Lawson Owner Welfare Association board meetings (2 times/year)

Meetings of Headquarters executive officers and representatives selected from among franchise (FC) owners in each area convene twice a year. Organized to provide FC owners with opportunities to exchange opinions with Headquarters, the meetings are attended by the President and other members of Lawson's Board of Directors, who join in discussions covering a range of issues.

MO General Assembly (1 time/year)/MO Executive Committee meeting (2 times/year)

Lawson's management owners meet regularly with Headquarters management to exchange opinions as representatives of their regional franchise stores in accordance with Lawson's Group-wide practice of participation in management.

Lawson Owner Hotline (as needed/available to all franchise stores)

In July 2019, Lawson established a system of both internal and external telephone consultation contacts (in law offices) to enhance communication with franchise owners.

We also provide for direct communication with the President (as needed) and conduct questionnaire surveys at member stores (once a year).

Franchise store benefit system

Lawson Owner Welfare Association

The Lawson Owner Welfare Association provides franchise stores with benefits embodying the three principles of "comfort," "health" and "peace of mind." The wide range of benefit packages includes various allowances, mutual aid and compensation for franchise owner members and their families as well as for store crew and staff members.



4 With Lawson's Way as the cornerstone, we will build a "Lawson whose personnel can continue working cheerfully and happily with lively, positive energy"

Promotion of diversity and realization of a work/life balance

■ Creating work environments in which diversified personnel work enthusiastically

Lawson promotes diversity with the aim of assembling employees with widely varied values who join together and perform to their full potential to strengthen its franchise chain further. We have constructed systems for promoting diversity under the direction of the President, established a special subsidiary to promote employment of people with disabilities, developed childcare facilities in our workplaces, and opened offices for conducting labor-management consultations with a focus on improving operating efficiency and work environments.

We continue to pursue active efforts to recruit women and foreign nationals as regular employees, while broadening the scope of our international employment activities to include such initiatives as local hiring in South Korea and elsewhere.

In our desire to retain our female employees over the long term, we have introduced such programs as career development training, childcare leave training, and elective leadership training to support young women in their career and life planning. We are continuing to

pursue these initiatives with the aim of increasing the proportion of female employees among those in management positions to 30% by fiscal 2020.

Lawson encourages male employees to take their childcare leaves, moreover, in hopes of inspiring active male participation in child-rearing and housework leading to efficient, highly productive work styles among both men and women. The ratio of fathers taking childcare leaves exceeded 90% in fiscal 2018 and 2019, indicating that this practice is taking root in Lawson's corporate culture.

We introduced a flexible full-time (limited work location) employee system designed for compatibility with obligations such as childcare, long-term care and cancer treatment in 2018, moreover, and raised our employee retirement age to 65 effective March 2020. Plans are also in the works to introduce an active full-time senior employee system to help transform Lawson into a company whose employees can continue working with satisfaction later in life.

Other initiatives we are implementing or investigating include a rewarding work reformation project, remote work programs realizing various work styles and a cross-Company mentor system as well as fostering of a culture of positive reinforcement to enable employees to continue working and growing energetically over the long term.

Implementing a nurturing personnel management system

■ Cultivating human resources who think and act on their own initiative

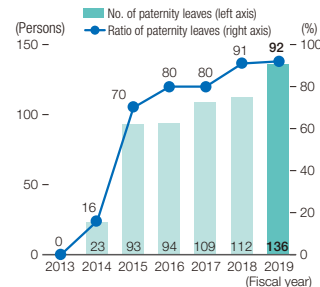
Guided by our Group philosophy, we encourage every employee to think and act independently by employing two evaluation systems: the Employee Behavior and Skill Level Evaluation, which evaluates the employee behavior (processes) that produces positive results; and the Performance Evaluation, which assesses results concerning actual employee behavior.

We also encourage every employee to declare a career plan based on a career development sheet, and follow up by conducting career development interviews to support their growth as individuals.

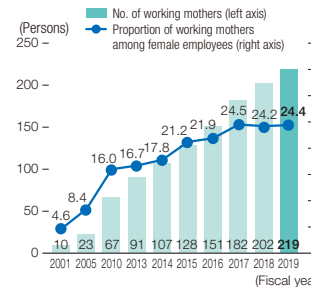
In fiscal 2018, we discontinued the internal award system we had implemented to honor employees who addressed challenges voluntarily and achieved results in terms of operational or business performance improvement. We replaced it with the new L-Challenge (Lawson Challenge) Award initiative that inspires employees to suggest or implement ideas unique to Lawson. We are developing a structure for encouraging employees to take up challenges to improve work procedures and conditions from a Companywide perspective, beyond the scope of their own responsibilities, thus sharing their knowledge with others throughout the Company as a means of enhancing employee motivation and improving the business performance of the LAWSON store chain as a whole.



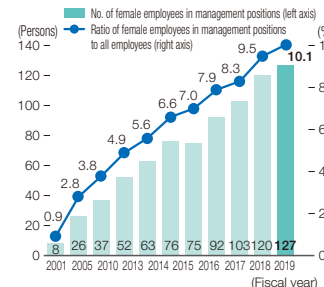
● Ratio of male employees taking paternity leave



● Proportion of working mothers among female employees



● Proportion of female employees in management positions



● Diversity Promotion System



The President joins participants in a training session for selected female employees

Industrial safety and hygiene promotion

Efforts to assure safe, worker-friendly workplaces

We ensure that the 5S Methodology encompassing “sorting, systematizing, sanitizing, sustaining and supervising” is fully implemented by our franchise stores in accordance with procedures clearly specified in our operation manuals. We also hold safety management meetings Companywide to raise awareness concerning driving safety among store supervisors and others whose jobs involve driving. When a serious work-related accident occurs, we investigate and analyze the cause and share our findings internally with the aim of preventing recurrence.

Also in the area of work environment improvement, we focus on such mental health monitoring activities as presentation of improvement points and stress check results for the various departments.

Health initiatives for employees and franchise owners

Recognizing health as the foundation for happiness.

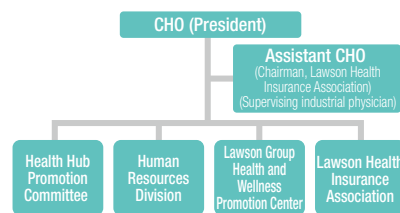
As a company that contributes to customers’ overall health, Lawson places paramount importance on the health of our employees and the owners and crews of affiliated stores as well. In his role as CHO (Chief Health Officer), the President announced a health declaration to this end in 2013. We have recently established the Community Health Hub Promotion Committee comprising the general managers of every department to promote health management and lead efforts to reinforce and direct health initiatives and health management for the Company and its customers. Since September 2018, we have been working to strengthen Groupwide health promotion measures in cooperation with the Lawson Group Health and Wellness Promotion Center, a body operating under the direct supervision of the President, the Human Resources Division, management and labor, and the Lawson Health Insurance Association.

Promoting the health of its franchise owners is another important concern for Lawson. The various health preservation programs provided through the Lawson Owner Welfare Association (see page 31) include a subsidy plan for medical examinations and operation of a health support desk.



Conducting interviews with industrial physicians and public health nurses to support employee health

Health management systems



Message

We will create environments where everyone can work independently and energetically by sharing the principles advocated by the new “Lawson’s Way” code of conduct.

Lawson has established a new code of conduct, the “Lawson’s Way,” to pursue realization of our Group Philosophy, “Creating Happiness and Harmony in Our Communities.” Serving as action guidelines for all Lawson personnel, the Code clarifies roles and induces a strong awareness of our shared mission and responsibilities to ensure that everyone from Headquarters’ employees to personnel who interact with customers daily are all working toward the same goal. The five basic principles of the Lawson’s Way are shared among Lawson people in every position, from supervisors*¹, merchandisers*² and RFC*³ to leaders and owners. We ask the opinions of affiliated store owners and crews nationwide concerning proposals from the officers of various departments, and draw on their input to finalize procedures suited to each particular site. This approach simplifies procedures and makes them easily understandable for anyone. Their implementation begins this year, with our corporate officers leading the way with tangible action based on the Lawson’s Way. The five basic principles are particularly important to these efforts due to their simplicity. We consider them essential to understanding the nature of the LAWSON store as a community hub.

We continue working at the same time to optimize the Company’s working environments to enable employees to work energetically and cheerfully. Empathizing with our colleagues, vocalizing our ideas, and enjoying every little challenge, we will contribute through our actions to enhancing customer satisfaction and increasing profit margins at LAWSON stores. We will spare no effort to ensure that these accumulated activities create greater happiness and harmony throughout our communities.

*1 SV (Supervisor): Store Management Instructor

*2 MD (Merchandiser): Person in charge of product development

*3 RFC (Recruit Field Counselor): Person in charge of store development

Katsuyuki Imada (right)

Member of the Board
Senior Executive Managing Officer
Division Director, Corporate Strategy and Planning Division
Human Resources

Eri Yanagida (left)

General Manager, Human Resources Division



5 Supporting the activities of the women, children and seniors in our communities

Social initiatives

Helping people during the COVID-19 pandemic

All of us at Lawson are working to protect everyone in our stores from infection by the COVID-19. We are also conducting various activities to support people who are facing difficulties day after day.

In March 2020, we distributed rice balls at no charge to schoolchildren in childcare facilities in 47 prefectures nationwide who were without their school lunches due to the temporarily school closure. This program involved delivering 584,983 rice balls to a total of 7,163 facilities and 307,332 children over a three-day period. We also expressed our concern for children with limited space to play at home during the closure by holding a free “Enjoy Coloring with Lawson” cartoon page coloring/printing



event using multifunction copiers at the stores from March to April. All the many participating children had a wonderful time.

The COVID-19 pandemic exerted a formidable impact on the Japanese food scene as well. We responded by developing Miruku Mushipan (“steamed milk bread”) using milk intended for school lunches whose consumption has decreased, for sale at approximately 2,400 stores in six prefectures in the Kinki region. A plan to use highway buses to transport fruits and vegetables that had been slated for sale at Mashiko Road Station theme park in Tochigi Prefecture and sell them at five stores in Kanagawa Prefecture during the park’s closure also met with a positive reception.



Fund-raising activities organized at the stores to generate happiness in their communities

We established the Lawson Group’s “Happiness in communities” Fund-raising campaign to realize the concept “Aiming to create a better future for children.” A total of some 7 billion yen (as of end February 2020) has been collected since September 1992 through in-store donation boxes and Loppi multimedia terminals, and from Ponta point and d-point donations.

We also pursue activities such as measures to prevent COVID-19 infections, and accept donations for emergencies such as earthquake and torrential rain disasters year-round.



Community Happiness donation activities

Support Dreams Fund

(Scholarship program for children from single-parent families)

Organization receiving donations

National Federation of Single Parents and Children’s Welfare Associations in Japan



This scholarship program was established to provide support to children in single-parent families who wish to realize their dreams. 30,000 yen is provided to 400 3rd-year junior high school and high school students on a monthly basis.

Lawson Green Fund

Organization receiving donations

The National Land Afforestation Promotion Organization



We support school afforestation activities conducted in primary/junior high schools and special needs schools throughout the nation, and also support forest improvement projects led by voluntary organizations. The number of projects joined by franchise owners and others is 1,537 as of the end of February 2020.

“Dream Classes” Fund

Organization receiving donations

Public interest corporation: Japan Football Association



We support the “Dream Classes” where athletes talk to children about the importance of having a dream. Approximately 570 students of 18 classes in eight schools have participated in the “Dream Classes” since the project was launched in 2019. (For details, please see the right column.)

Lawson takes up challenges repeatedly in its commitment to participating in the local community and realizing a carbon-free society.

1 Providing the community with convenience, safety and security through our stores

Community revitalization agreements with local governments

Having concluded comprehensive agreements with local governments throughout Japan, Lawson is collaborating with them in programs aimed at revitalizing local communities and creating community environments in which everyone can lead a comfortable life. As of the end of June 2020, we were cooperating with 65 local governments (45 prefectural and 20 municipal governments) in a wide variety of projects. The list includes welfare and child-rearing support such as provision of hot water for baby milk, product development leveraging use of local specialties and seasonal ingredients, crime prevention activities, environmental improvement through greening and cleaning activities, and disaster response measures such as supply procurement and provision of support for people who are stranded away from home. In addition to all these, some stores have formed tie-ups with local governments to serve as antenna shops to promote recommended local products and provide tourist information.



Administrative services available at Lawson

Customers can get various forms of government-issued documents with the My Number Card, or Basic Resident Register Card at Lawson stores throughout the country. Currently, this service is available in 749 cities, wards, towns, and villages (as of July 6, 2020) accounting for 70 to 80% of the nation population. The in-store multi-functional copier can be used to print out copies of residence certificates, seal registration certificates, tax payment certificates, family register certificates, copies of supplementary family register etc.*

*The public services available at Lawson stores vary depending on the local municipality



Delivering shopping excitement to customers Mobile sales services

We visit marginal villages, elderly facilities, companies, factories, etc. in remote areas from our stores by mobile sales vehicle to sell food products, daily goods, and assorted items there. As part of our “community watch service,” we spontaneously communicate with senior people using our mobile sales services in collaboration with local governments and others. Lawson delivers to customers shopping excitement as well as products.



Easy, convenient procedures for obtaining insurance

Community residents can easily apply for insurance using an in-store Loppi multimedia terminal at a nearby LAWSON store. They can obtain single-day automobile insurance for as little as 500 yen a day when planning short-term motor vehicle use, for instance, receive motorcycle liability insurance along with a license plate validation sticker on the spot, and even obtain bicycle insurance, which is now becoming mandatory throughout Japan. Whenever a customer takes out one of these three types of insurances, one yen from the premium is donated to a non-profit organization for the support of children orphaned by traffic accidents and other transportation-related events.



Participation in Safety Station activities

The convenience store industry has faced a growing number of demands from society in recent years for actions across the range from crime prevention, disaster response and safety measures to sound, healthy development of young people.

The Lawson Group is responding by participating actively in the Safety Station activities (SS activities) of the Japan Franchise Association, cooperating with efforts to implement safe, secure community development, and working to ensure a wholesome youth environment. We are also taking measures to prevent robbery and special fraud, protect women and children who feel threatened, and safeguard confused elderly residents who wander away from home.

Lawson's pursuit of these efforts earned commendations from local police for 392 instances of special fraud prevention at its stores in fiscal 2019.

2019 response status

Sheltering frightened women	1,163 stores	At least 1,636 instances
Sheltering frightened children	560 stores	At least 829 instances
Safeguarding seniors	2,166 stores	At least 3,881 instances
Preventing scams (wire fraud, etc.)	1,916 stores	
Encouraging young people to go home during late-night hours	7,802 stores	



2 Launching the “Surprise ‘Whew!’ kindness project” to promote environmentally-friendly lives

Concern for the global environment is one of the most pressing issues facing us in today’s society as we look to the future.

Lawson initiated this environmental friendliness project in July 2020 with the aim of alleviating environmental problems by proposing “Earth-friendly (community-friendly) living” while responding to innumerable requests from customers.

Lawson’s efforts to contribute to the SDG vision include promoting efforts to address environmental issues by such means as lessening the use of plastic shopping bags, containers and packaging; cutting food loss; and reducing CO₂ emissions, while achieving Lawson’s 2030 targets (KPIs).



● Goals for 2030 (KPI)

Reducing plastic

Plastic for containers and packaging	Lawson’s original products Eco-friendly materials	Plastic shopping bags
Reduce by 30% V. 2017 levels		Reduce by 100%
50% used		

Reducing food waste

Reduce by **50%**
V. 2018 levels

Reducing CO₂ emissions

CO₂ emissions per store
Reduce by **30%**
V. 2013 levels

3 Reduced use of plastics

Goal for 2030 (KPI)	Plastic containers and packaging Reduction of 30% from 2017	(Adoption of original product packaging using 50% eco-friendly materials)
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■ **Reducing plastic use for packaging**

We strive to replace plastic packaging items with paper ones, and reduce the volume of plastic waste while retaining the taste and quality of our original products. Also, we are committed to reducing plastic use by utilizing plastic packaging items partly made from plant-derived materials.



MACHI café

Switching to paper cups for MACHI café iced coffee (Size S)

- Switching to paper cups from plastic ones
- Switching to lids with a sip-thru hole that allows customers to drink their beverages without the need for a straw



Switching to paper containers for all original yogurt drinks

- Changing the containers of all products from plastic to paper (excluding the lids)
- Switching to straws containing plant-derived materials

NATURAL LAWSON

Selling boxed meals using paper containers

- Reducing plastic use by 70% (approximately 18g) per container compared to plastic containers



Changing the wrapping materials for rice ball products

- The specifications of plastic materials have been changed for the wrapping of all hand-rolled rice ball products, some directly wrapping rice ball products, and one rice ball product sold with other products in a bundle. The existing plastic materials have been replaced with those containing plant-derived materials, and the thickness of the wrapping sheet has also been reduced



Changing the wrapping materials used for sandwich products (all triangular-shaped sandwich products)

- Reducing plastic use for wrapping by approximately 0.3g per product in addition to changing the package to a simpler design



Redesign of original cold drink containers

- Reducing plastic use by removing the plastic lids from the containers



Switching to recycled PET material-based containers for chilled noodle products

- Changing the plastic materials used for some types of chilled noodle containers from standard PET materials to those containing recycled PET materials made from collected PET bottles

■ **Charge for plastic shopping bags**

Effective July 1, 2020, it is mandatory for stores throughout Japan to charge for plastic shopping bags as part of the national policy of preserving the global environment. Besides complying with this policy by charging for shopping bags, Lawson is producing bags with a mix of approximately 30% plant-derived materials to reduce the use of plastics. We have been working since fiscal 2007 to popularize reusable bags that hold a PET bottle and a boxed meal neatly with the aim of encouraging customers to bring their own bags. As of fiscal 2019, we had distributed approximately 5.41 million of these innovative bags.



4 Reduced food loss

Goal for 2030 (KPI) Reduction of food waste by **50%** from 2018 level

Recycling of unsold food

The daily volume of unsold food products, and that of the food oil (oil waste) used for deep-fried food products is 5.9 kg and 2.5 kg, respectively at one Lawson store.

In order to reduce food waste, we optimize the number of purchases, offer discounts to sell up, and deliver unsold food products to recycle plants to have them recycled for feedstuffs or fertilizers. Oil waste is also recycled for nutritional additives to feedstuffs, biodiesel, etc. The recycling ratio of food and other waste achieved through these efforts reached 50.2% in fiscal 2019.

Donating the surplus stock of original products on a regular basis

Lawson has periodically donated to the Japan Food Bank Promotion Group original sweet products, processed foods*, etc. that missed the delivery deadlines to stores since August 2019. The number of products we have donated is about 155,000 in total as of the end of April 2020. The donated products are delivered to food bank bodies across Japan, from which they are provided to families who need food aid, Children's Cafeterias, orphanages, facilities for the disabled, etc.

*Food products are delivered for donation much earlier than their best-before dates.



5 Reduced CO₂ emissions

Goal for 2030 (KPI) Reduction in CO₂ emissions per store by **30%** from 2013

Introduction of CO₂ refrigeration systems

Lawson employed highly energy-efficient CO₂ refrigeration systems in 2010. Approximately 3,700 stores have installed the systems (as of the end of February 2020). These systems use CO₂ refrigerants whose impact on global warming is said to be about 1/4,000 compared to CFCs, and therefore can materially reduce greenhouse gas emissions. Also, they are very energy-efficient, and can reduce electricity use by 12% per store.



CO₂ refrigerant cooling/refrigeration system

Deployment of eco-friendly model stores

Lawson established eco-friendly model stores equipped with leading-edge technologies. We introduce to new stores only the facilities that have been proved to be highly energysaving and energy creation by the tests and verifications conducted at these model stores. At the model store that was launched on Keio University Shonan Fujisawa Campus in September 2019, all the refrigerators and freezers available there are CFC-free. It is the first Lawson store to have all its refrigeration systems CFC-free.



Changing the company car for the Supervisor (SV) to an EV made it possible to create a two-way power flow between the EV and the store by only connecting the EV to the EV charger with no need for in-store operation

Implementation of "Ten Energy-saving Rules" at the stores

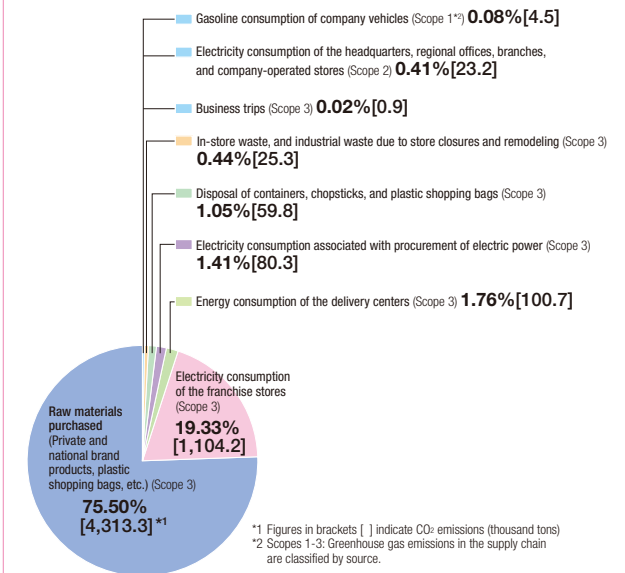
Lawson has established the "Ten Energy-saving Rules" to improve the operational efficiency of in-store refrigeration and air-conditioning systems, and reduce the total amount of electricity used. Based on these rules, we perform maintenance duties such as adjusting the set temperature, and cleaning filters at each store.



CO₂ emissions generated by our supply chain for fiscal 2019

CO₂ emissions in total **Approx. 5,712.2 thousand tons**

Method of calculating greenhouse gas emissions in the supply chain
Calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions throughout the Supply Chain, Ver.1.0, explanations by industry (retail industry).



*1 Figures in brackets [] indicate CO₂ emissions (thousand tons)
*2 Scopes 1-3: Greenhouse gas emissions in the supply chain are classified by source.

Management team creating new Lawson in the new era



Sadanobu Takemasu

President and CEO, Representative Director, Chairman of the Board
Years on Board: 6

2014, Senior Executive Vice President, Representative Director; 2016, appointed President and CEO, Representative Director. Joined Lawson from Mitsubishi Corporation.



Katsuyuki Imada

Member of the Board
Senior Executive Managing Officer
Division Director, Corporate Strategy and Planning Division
Human Resources
Years on Board: 3

In addition to experience in the employ of Mitsubishi Corporation, Katsuyuki Imada has extensive experience acquired as Lawson's CFO; Director, Corporate Strategy and Planning Division; and General Manager, Next-Generation CVS Promotion Division.



Satoshi Nakaniwa

Member of the Board, Executive Managing Officer, Chief Financial Officer
Years on Board: 3

In addition to experience in the employ of Mitsubishi Corporation, Satoshi Nakaniwa has extensive experience, having been responsible for Lawson's finance and accounting, business risk management, investor relations (IR), general affairs, and purchase management.



Yutaka Kyoya

Member of the Board
Years on Board: 7

Yutaka Kyoya has extensive knowledge and understanding of the consumer industry filed, primarily related to foods, acquired in the employ of Mitsubishi Corporation.



Keiko Hayashi

Member of the Board (outside)
Years on Board: 4

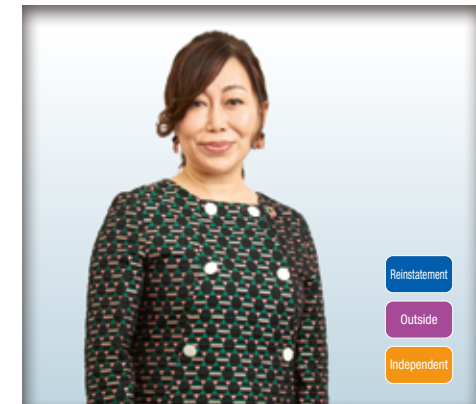
Founder of DoCLASSE, Keiko Hayashi has experience and expertise in corporate management and an in-depth knowledge of marketing.



Kazunori Nishio

Member of the Board
Years on Board: 4

Kazunori Nishio has thorough knowledge and expertise of the retail industry acquired through experience in the employ of Mitsubishi Corporation.



Miki Iwamura

Member of the Board (outside)
Years on Board: 2

Miki Iwamura has extensive knowledge acquired through her work at GOOGLE LIMITED LIABILITY CO. in Japan, which encompasses management utilizing digital Big Data, marketing and brand enhancement.



Newly appointed
Outside
Independent

Satoko Suzuki

Member of the Board (outside)
Years on Board: 0

Satoko Suzuki has successively served as a member of various public and private committees related to “self-gift consumer behavior” and others. She is known as an academic of consumer behavior, marketing, and brand management.



Masakatsu Gonai

Standing Corporate Auditor
Years as auditor: 3

In addition to his deep understanding of Lawson’s operations based on experience acquired as branch manager and in CR Executive Officer and human resources management, Masakatsu Gonai has expertise in risk management and human resources development.



Newly appointed

Shuichi Imagawa

Standing Corporate Auditor
Years as auditor: 0

In addition to his deep understanding of Lawson’s operations based on experience acquired as the person responsible for store operations and marketing, branch manager and CR and Human Resources Executive Officer, Shuichi Imagawa has in-depth and thorough knowledge of risk management and human resources development.



Outside
Independent

Eiko Tsujiyama

Corporate Auditor (outside)
Years as auditor: 9

Eiko Tsujiyama is an academic with in-depth knowledge of corporate finance and accounting and experience working for the Business Accounting Council of the Japanese Financial Services Agency as well as for the National Tax Council of the Japanese National Tax Agency.



Outside
Independent

Yuko Gomi

Corporate Auditor (outside)
Years as auditor: 1

Yuko Gomi is an attorney with extensive business experience and broad insight based on her years of practice in corporate legal affairs and risk management and as a Legal Advisor to the Minister’s Secretariat of the Cabinet Office and an Information Security Advisor to the Japan Coast Guard.



Newly appointed
Outside
Independent

Keiko Yoshida

Corporate Auditor (outside)
Years as auditor: 0

As a certified public accountant, Keiko Yoshida is representative of an accounting firm and has knowledge of tax affairs, accounting and management.

Executive Officers As of March 1, 2020

Senior Executive Managing Officer	Jun Miyazaki
Executive Managing Officer	Yuichi Wada
Executive Vice President	Motonobu Miyake
Executive Vice President	Akihito Watanabe
Executive Vice President	Hitoshi Fujii
Executive Vice President	Kazuhiro Wakui
Senior Vice President	Yasuhiko Hirokane
Senior Vice President	Zhang Joshua
Senior Vice President	Toshihiko Chihiro
Senior Vice President	Satoshi Kumagai
Senior Vice President	Tatsushi Sato
Senior Vice President	Tatsuya Murase
Senior Vice President	Kisho Tsuruta
Senior Vice President	Miwako Tate
Senior Vice President	Hajime Kawamura
Senior Vice President	Yasuhiro Iseki
Senior Vice President	Hiroko Otani

(Excluding directors’ additional posts)

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.

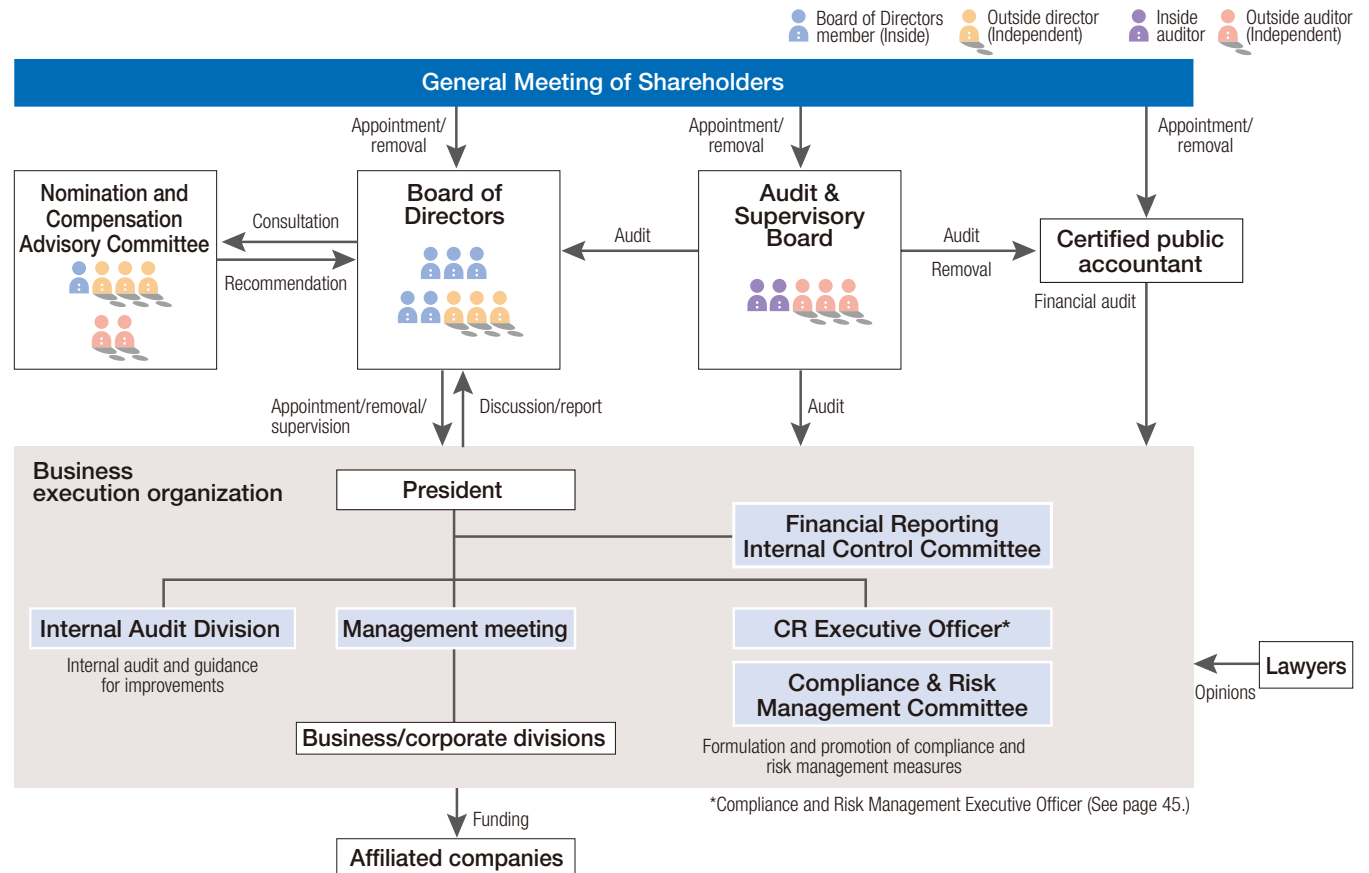
As an independent listed company, Lawson determines the terms and conditions of transactions after comparing and examining the prices offered by other companies, prevailing market prices, etc. even in the transactions with Mitsubishi Corporation, Lawson's parent company, and its group companies, just 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 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.



Corporate Governance

Characteristics and system of Corporate Governance

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.

Corporate Governance

Characteristics and system of Corporate Governance

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		●				

I will work to make Lawson a company that meets the expectations of all our stakeholders by efficiently sensing and cross-functionally responding to diverse risks.



Jun Miyazaki

Senior Executive Managing Officer,
Corporate Communications,
Compliance & Risk Management,
Human Resources (Deputy in charge)

The Lawson Group has engaged in the convenience store and other businesses that support customers' everyday needs. In recent years, new risks have been increasing such as the frequent extreme weather events, leakage of personal information and spread of viral infection. The role of CR Executive Officer*¹ is to respond to the risks by promoting internal control and compliance risk management system in the entire group.

We have worked on food safety and hygiene management, information security, crime prevention measures and disaster response. We believe that it is our important mission to offer food that is safe and suitable to eat, protect community safety and our customers' information, and, in the event of a disaster, keep offering goods and services in affected areas, taking advantage of our network of stores.

The basis is to meet the needs of our customers and the community. Moreover, Lawson wants to satisfy much more than the needs. About 200 thousand people work in various business operations of the Lawson Group. The CR Executive Officer's role is to keep paying attention so that all such works are conducted in harmony with the community to maintain the soundness as a business.

The largest risk that occurred this year is COVID-19. The major issue has been how to ensure the safety and security of our customers and store employees while continuing operations. We have taken measures such as supplying plastic sheets to prevent droplet transmission, masks, and disinfectants and providing social distance posters and floor stickers to show customers where to stand. In addition, we put up posters to indicate a less crowded time of the day in each store to reduce customer congestion.

In the COVID-19 pandemic, digitalization accelerated. Self-checkout registers, with which customers pay without a cashier's help, have become increasingly available in the stores nationwide. Furthermore, smartphone cash registers, or customers making payments by using an application, have become available in

some stores. On top of that, fully automated stores started on an experimental basis. There is a fear of new risks in digitalization. We will focus especially on the safety of the customers who make electronic payments. Working from home has become popular in the Company as well. The establishment of worker-friendly workplaces is another role of the CR Executive Officer. In a poor environment, innovations will not occur, and goods and services that satisfy customers will not be provided. We will develop a harassment-free highly-motivated corporate culture through active communication.

We are also working hard for the SDGs. Frequent natural disasters, such as large-scale typhoons and torrential rains are said to be caused by global warming. Individuals and companies should work together to address them. Lawson has agreed with the Task Force on Climate-Related Financial Disclosures (TCFD) in April 2020. We will grasp the risks and chances of global climate change and make positive responses. Besides, the reduction of plastic use and food waste is an issue that should be solved promptly. We think that customer support and securing of profitability are necessary to continue these activities. We have set up the target values, respectively. We will gather the knowledge and expertise, both internally and externally and conduct various experiments in the stores for the achievement of the targets.

The relationship between the franchise stores and Headquarters has changed in our history of 45 years. We have developed better communication through the Lawson Owner Welfare Association, area meetings, and MO (Management Owner) General Meetings for multiple-store management. We will continue our efforts, now and in the future, to establish a clear and open relationship that enables the free exchange of opinions to achieve the common goal of building good stores that contribute to the community.

I will work to make Lawson an existence useful to the community, the Group trusted by the community, and the employees proud to work in the Group.

*¹ CR Executive Officer: The executive with overall responsibility for the development and implementation of a framework for identifying misconduct and problems concerning legal compliance and preventing risks from arising

Internal control

Basic policy regarding the internal control system

With the convenience store business at its core, the Lawson Group's business operations range from high-end supermarket and entertainment-related businesses to financial, e-commerce, and consulting services, together with LAWSON stores in every prefecture in Japan, as well as several stores overseas. The Group provides a wide variety of products and services, as such, we are not only required to observe various laws and regulations but also must assess the diverse range of possible risks and implement the appropriate countermeasures. In light of these characteristics, Lawson has established the "Basic Policy for Maintaining the Internal Control System" to support its efforts to achieve healthy, sustainable growth. We are promoting maintenance of our internal control system based on this policy, while responding to changes in our management environment, conducting periodical reviews of the policy itself, and endeavoring to maintain and enhance an effective, practical internal control system.

The main revisions of the aforementioned Basic Policy implemented in fiscal 2020 are described below:

■ Addition of the important laws that especially must be made widely known

The consumer-related laws (Food Labeling Act, Food Sanitation Act, Health Promotion Act, etc.) have been added as the important laws that especially must be made widely known for compliance purposes to establish a system that ensures product safety and reliability, which is our business lifeline, and that aims to secure consumers' trust.

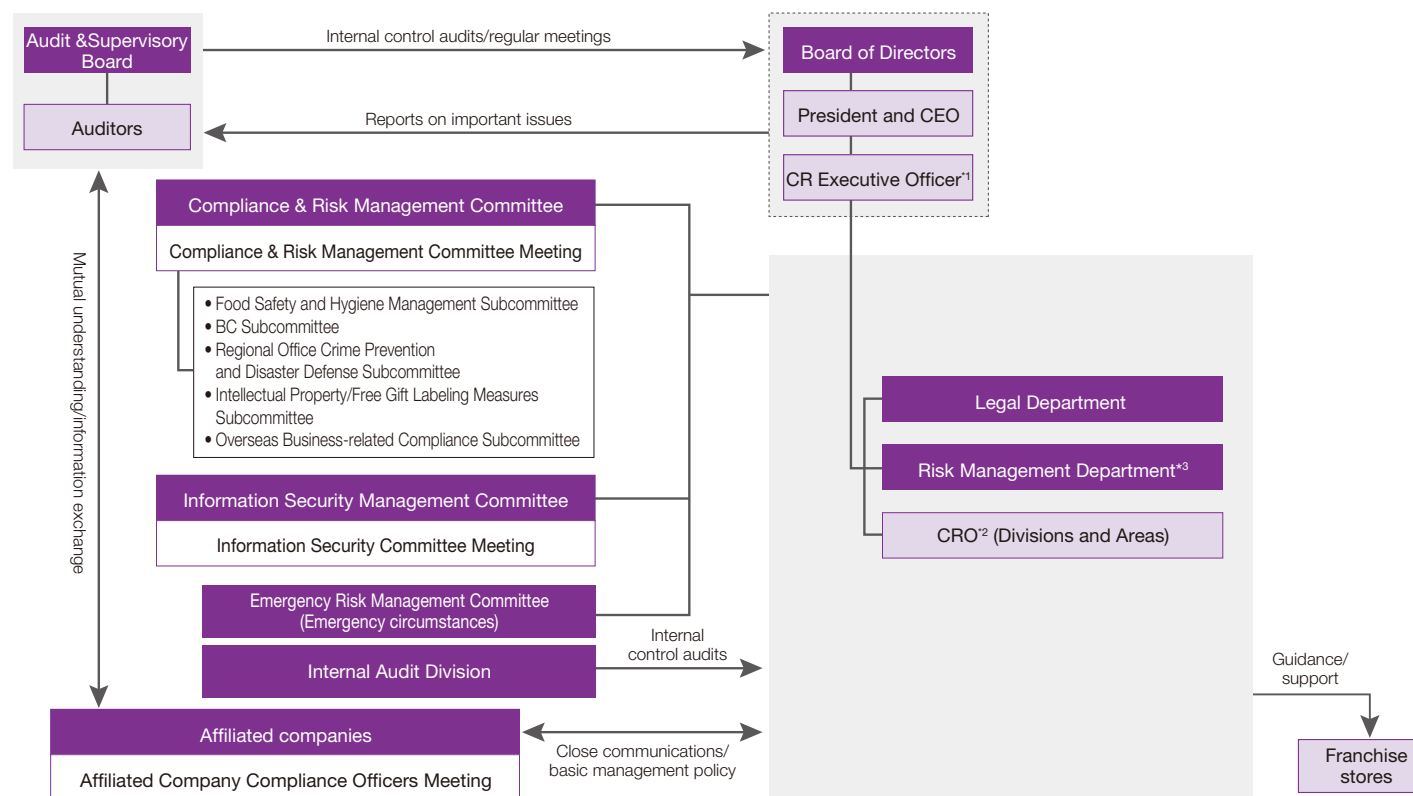
Moreover, adding Intellectual Property Acts reinforces the internal checking system for labels, etc. to prevent the infringement of intellectual property rights (trademark right, copyright, etc.) in developing sales promotion materials.

■ Stipulated the implementation of regular personnel rotation

As an employee's assignment to a particular job for many years may lead to an environment where misconduct could occur, we have newly stipulated the implementation of

regular personnel rotations to eliminate the dependence on a particular employee to do a certain job and prevent misconduct.

● Lawson's internal control system (as of June 1, 2020)



*1 CR Executive Officer: The executive with overall responsibility for the development and implementation of a framework for identifying misconduct and problems concerning legal compliance and preventing risks from arising

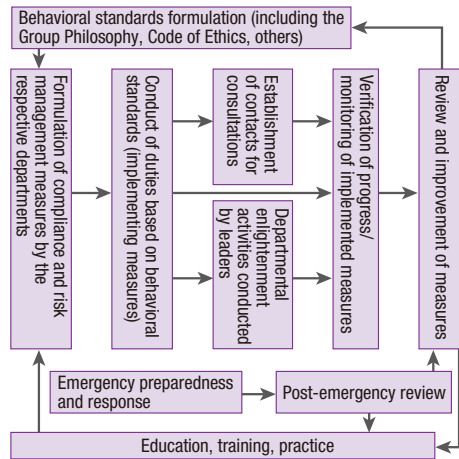
*2 CROs (Compliance and Risk management Officers): Persons responsible for compliance in the various divisions who support the CR Executive Officer and assume overall responsibility for the development and execution of a frameworks for identifying misconduct and problems concerning legal compliance and preventing risks from arising

*3 The Information Security Management Office is incorporated into the Risk Management Department.

Lawson's compliance and risk management system

Lawson has established a compliance and risk management framework based on its Corporate Conduct Charter and Code of Ethics. We seek to conduct business as a good corporate citizen, acting honestly and considerately according to high ethical standards, implementing the PDCA (Plan-Do-Check-Action) cycle, and organically linking our behavioral standards with our education and training programs, communication functions and monitoring activities.

● Management organization



Formulation of behavioral standards

We have established the Code of Ethics to indicate the important points from an ethical perspective when taking action based on Group Philosophy and Lawson's Way. We have also established Group Privacy Policy and Lawson Group Purchasing Policy to ensure business conduct throughout the Group.



Lawson Group C&R Handbook

Appointment of CR promotion officers

We have appointed an executive officer responsible for CR (compliance and risk) with responsibility for promoting compliance and risk management. Compliance and risk management officers (CROs) assigned to each department at headquarters and the regional offices are tasked with establishing and raising awareness of compliance measures and risk countermeasures in their respective departments and with contributing to creation of a culture that emphasizes compliance with social norms.

Full implementation of education and training

Lawson conducts compliance and risk management training for all its employees each year for the purpose of improving their ethical awareness and risk response capabilities. It has developed a training system to support structured, systematic learning, moreover, that begins with training of newly recruited employee and extends to training of newly appointed management personnel and specialized occupational training as well as biannual compliance training for management members provided by outside instructors. Our ongoing implementation of these training programs is designed to encourage personnel in every position and with every job description to share in the problem-solving process leading to business enhancement. We are currently reviewing the program contents in light of our changing risk environment.

Establishing and raising awareness of the Consultation/Whistleblower Hotline

In addition to Human Resources Department personnel who specialize in consulting concerning sexual harassment and abuse of power and legal personnel who provide consultations on legal matters, Lawson has established consultation

contacts to receive internal notifications and provide consultations concerning compliance and risk management issues. Besides establishing the Lawson Group Outside Consultation/Whistleblower Hotline involving law firms and other external organizations, it has created a framework for providing business partners' employees and store crew members with anonymous consultations and contacts to receive consultations from franchise owners.

Lawson is working harder today than ever to increase awareness and understanding of these services and frameworks by communicating about them with employees and other concerned parties.

Reinforced operational management and monitoring

Lawson has established the Legal Department to supervise compliance and the Risk Management Department to supervise risk management under the CR Executive Officer's direction. These departments cooperatively serve as cross-departmental secretariats for the Compliance & Risk Management Committee Meeting and manage the progress of measures implemented in these areas by individual departments throughout the Group to promote an effective compliance risk management system. The Risk Management Department, jointly with the IT Department, serves as the secretariat for the Information Security Committee Meeting to further enhance information security management. Five separate subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and Disaster Defense Subcommittee, the Intellectual Property/Free Gift Labeling Measures Subcommittee and Overseas Business-related Compliance Subcommittee) have been established under the Compliance & Risk

Management Committee Meeting and tasked with managing the progress of important measures while preventing the emergence of risks.

The subcommittees collaborate with the Corporate Auditors Office, moreover, receiving reports on the results of compliance audits as needed while also providing detailed guidance for implementing measures and offering proposals for improvements.

Besides awareness surveys involving all the employees, the monitoring activities extend to circulation of questionnaires among business partners concerning such matters as delivery of merchandise to stores and store construction as part of efforts to review the compliance systems from a broad perspective.

Enhanced cooperation among Group companies

Officers responsible for compliance and risk management have been appointed by the Group companies as well, and Lawson also holds meetings of affiliated companies' compliance officers. Besides formulating codes of ethics and providing training to heighten employee awareness, it conducts the same employee awareness surveys and business partner questionnaires at the Group companies as at Lawson. The Corporate Auditors Office conducts audits of operational duties at the Group companies, whose boards of auditors convene meetings to provide guidance and assistance in establishing and improving their compliance, risk management and information security frameworks.



Group officer training

Responses to emergencies

Lawson places particular emphasis on “food safety and hygiene management,” “information security” and “disaster relief,” and it has prepared a structure for responding to emergencies and resolving problems rapidly.

Meetings of the Compliance & Risk Management Committee and the Information Security Committee as well as of the five subcommittees are convened under ordinary circumstances to assess risks and to formulate and promote measures to avoid them and prevent their occurrence. Should a serious risk situation arise, an Emergency Risk Management Committee is organized to resolve issues swiftly and minimize damage. Once the problems have been resolved, the Company analyzes the factors contributing to the occurrence and reviews and improves the relevant measures to prevent any recurrence.

We are reinforcing our emergency response capabilities, moreover, through efforts such as formulating the Business Continuity Plan (BCP) and implementing disaster mitigation measures. Our aim is to institute a business continuity (BC) framework that prevents interruption of important business activities, even when emergencies involving serious damage occur.

“Resilience Certification”

Lawson is certified as an enterprise that contributes to the building of national resilience against disasters.

Lawson has received confirmation from the National Resilience Promotion Office, Cabinet Secretariat to the effect that it conforms to the “requirements of a certified organization” stipulated in the “Guidelines relating to certification of groups contributing to the building of national resilience against disasters” established in February 2016. Lawson was recognized by the Association for Resilience Japan as the first convenience store to contribute to the building of national resilience against disasters.



Assuring continuity of business operations

Fundamental policies and objectives for maintaining business continuity (BC)

Interruption of important business activities shall be avoided, even when emergency situations involving serious damage occur, while maintaining a priority on securing people’s safety and wellbeing. Even if business operations are unavoidably interrupted, critical functions shall be resumed quickly in order to avoid undermining our customers’ satisfaction or corporate value.

■ Three main goals for maintaining BC

● Fulfilling Lawson’s mission as a “community lifeline”

We will endeavor to ensure uninterrupted provision of products and services to customers by keeping stores open whenever possible.

● Continuation of the franchise (FC) business

We will determine specific periods and methods for resuming operations and maintain the requisite level of FC headquarters operations.

● Securing appropriate earnings

We have implemented measures in consideration of the impact emergencies could exert on earnings and of social conditions in order to secure an appropriate level of earnings necessary to the Company’s survival.

Disaster preparedness and response

When large-scale disasters occur, our first priority is to confirm the safety of Lawson employees and our FC owners and crews. Lawson conducts Companywide training three times a year in which participants acquire experience in implementing a variety of measures, including responding by telephone, email and disaster message dialing and applying the safety check system. This prepares every individual to respond smoothly should emergencies arise. Manuals elucidating the requisite disaster preparedness and responses are distributed to the stores.

When disasters occur, disaster relief headquarters are set up immediately in three locations in the affected area: headquarters,

Practical procedures are compiled in the Business Continuity Plan (BCP), and we are pursuing efforts to establish a BC framework in line with the BCP, and to sustain and enhance it, as important issues for management.

Mechanism for enhancing BC capabilities

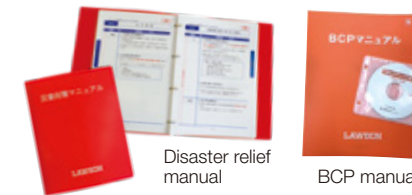
Activities conducted to improve response capabilities are essential for sustaining a corporate climate adapted to responding sensitively to a variety of crises. Lawson is continually reviewing such business components as “hardware” factors involving office buildings and lifelines, “software” factors involving its BCP and manuals, and “skills” factors involving employees and FC stores. The Company uses its findings to implement improvements in crisis response capabilities throughout the Group.

Formulation of the Disaster Relief Manual and BCP Guidelines

Lawson has formulated the “Disaster Relief Manual” based on the disaster relief policy, defining the

approach toward disaster relief and the standard of conduct of the organization and its employees in the event of a disaster. There are different versions of the manual, “Concept of Operations,” “Initial Actions,” and “Response and Recovery Actions,” in which the response rules and procedures for measures according to the disaster level for all employees and the entire organization are described.

Additionally, in the event of a major incident impacting the headquarters operations, to ensure the continuance of important business activities as the franchise headquarters, we have formulated the “BCP Guidelines” based on the Business Continuity Plan, defining the organization’s standard of conduct. The BCP Guidelines describes the operating procedures, etc. in the occurrence of the Tokyo Inland Earthquake.



regional offices and local sites. Lawson takes advantage of a Disaster Information Map System designed to enable personnel to confirm the disaster situation in real-time and implement support measures for shops, factories and delivery centers, so that stores in the disaster



Disaster Information Map System

A comprehensive Disaster Information Map System for mapping disaster information in real time. The information is monitored and collected 24 hours a day, 365 days a year.

area can be reopened for business at an early date.

Implemented mobile sales in disaster-stricken areas

While many stores were affected and forced to close temporarily by Typhoon No. 19 in October 2019, some of them implemented mobile sales in parking lots. They provided mobile phone charging service by making available high-speed rechargers lent by NTT DOCOMO, INC. with whom Lawson has concluded a disaster agreement.



Lawson mobile sales vehicle (in the parking lot of a temporarily closed store)

Cooperation with local governments at times of disaster

In its capacity as a community lifeline, Lawson is making progress toward concluding agreements with local governments concerning cooperation in the provision of goods and assistance to stranded commuters in times of disaster.

<Entities concluding agreements on provision of goods in times of disasters>

Local governments: 47 prefectures, 21 cities and wards

Mass transit systems: 11

Electric power companies: 4

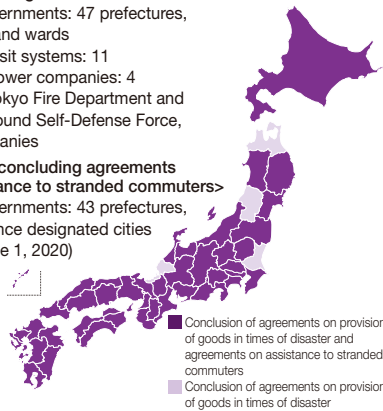
Others: Tokyo Fire Department and Japan Ground Self-Defense Force, fuel companies

<Entities concluding agreements on assistance to stranded commuters>

Local governments: 43 prefectures,

10 ordinance designated cities

(As of June 1, 2020)



*Map shows only prefectural-level agreements.

Appointment to the designated public institution based on the Disaster Countermeasures Basic Act

As of July 1, 2017, Lawson was appointed a designated public institution by the Prime Minister based on Article two, Item five of the Disaster Countermeasures Basic Act. During times of normal operation, the Company formulates disaster prevention work plans, conducts disaster drills and stockpiles goods and materials in preparation for playing an important role in disaster prevention, emergency response and restoration. In so doing, it works closely with the relevant government and municipal offices.



A disaster prevention drill (held on January 17, 2020)

Improvement of the information security framework

The “Lawson Group Privacy Policy” has been formulated to promote protection of personal information. To ensure that the relevant personnel understand specific details of the contents and are prepared to implement them, the Company publishes potential mistakes and complaints that may arise at the stores, accompanied by practical responses to them, in various manuals produced for the stores in an effort to raise awareness. Headquarters employees are tested periodically to ensure that they are all acting reliably based on the “Lawson Office Security Rules,” in which matters to be observed are compiled.

We have established a system for specifying methods of gathering and storing information as well as information storage periods and for designating persons responsible for handling customers’ valuable information in each instance after advance checking by specialist departments.

When consigning responsibility for storing personal information to outside organizations, we require that a detailed investigation of the organization’s security framework be conducted in advance and that consignment of the responsibility be made only to organizations that satisfy Lawson’s conditions.

An onsite or documented inspection is conducted annually, moreover, to ensure that the conditions are maintained.

We are also evaluating our information security framework from a variety of other perspectives to ensure that it remains robust by implementing information security audits by our internal audit departments and employing specialized outside companies to carry out surveys of office security and diagnose any vulnerabilities in our information systems.

Crime prevention at stores

We conduct education to ensure that store personnel act with the highest priority placed on personal safety and with crime prevention in mind, in ways such as greeting customers in a cheerful and spirited manner. In addition to the following measures implemented by headquarters, we are cooperating with the police and the Japan Franchise Association in efforts to prevent crimes against the convenience store industry as a whole.

Actions taken as crime prevention measures

1. Promotion of security camera installation

Security cameras are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur. We have upgraded to a digital security camera system, moreover, which provides sharper images and improved recording capabilities.

2. Creation of an environment for store crew education

Reminders to raise awareness of crime prevention are distributed for display on POS cash registers and store computers, and crime prevention DVDs are also delivered to stores for use in educating their store crew members. Various tools and manuals, such as crime prevention self-check lists, have also been prepared.

3. Enhancing guidance provision during patrols

In addition to the regular store patrols, crime prevention guidance is also provided during late-night and crime prevention patrols to raise awareness at franchise stores.

4. Conducting crime prevention drills

Employees are trained under police direction in methods of responding to robberies, including throwing of anti-crime color paintballs.

In recent years, we have also been conducting special fraud prevention drills.



A DVD on measures to prevent robberies and other crimes



A crime prevention self-check list



Training in responding to robbers



Training in anti-crime color paintball throwing

Financial & Non-financial Overview

Eleven-Year Financial Summary

	(Millions of yen)				
(Fiscal year)	2019	2018	2017	2016	2015
For the year:					
Gross operating revenues					
Franchise commissions from franchise stores	¥ 314,260	¥ 302,136	¥ 289,232	¥ 275,312	¥ 261,681
Net sales	302,843	288,579	264,734	254,169	227,606
Other	113,132	109,931	103,357	101,806	94,165
Total operating revenues	730,236	700,647	657,324	631,288	583,452
Operating income	62,943	60,781	65,820	73,772	72,541
Net income attributable to owners of parent	20,108	25,585	26,828	36,400	31,381
Net cash provided by operating activities	202,703	128,594	113,938	99,864	112,205
Net cash used in investing activities	(49,074)	(81,017)	(91,209)	(76,227)	(68,657)
Net cash used in financing activities	(163,910)	277,937	(61,238)	(25,638)	(50,201)
Capital expenditures	90,726	140,071	140,495	119,784	106,747
Depreciation and amortization ²	0	66,844	58,601	56,199	49,293
At year-end:					
Total assets	¥ 1,357,732	¥ 1,342,329	¥ 900,256	¥ 866,577	¥ 803,212
Net assets	275,347	281,982	281,446	285,995	272,997
Shareholders' equity ratio	20.0%	20.6%	30.6%	31.7%	32.9%
Cash and cash equivalents	343,583	354,236	30,120	67,692	69,793
Total number of stores in Japan	14,444	14,659	13,992	13,111	12,395
Number of employees (full-time)	10,572	10,395	10,028	9,403	8,377
Per share data:					
Net income (yen/ U.S. dollars ¹)	¥ 200	¥ 255	¥ 268	¥ 363	¥ 314
Cash dividends (yen/ U.S. dollars ¹)	150	255	255	250	245
Payout ratio	74.6%	99.7%	95.1%	68.7%	78.1%
Financial data:					
Return on equity (ROE)	7.3%	9.3%	9.7%	13.5%	12.0%
Return on assets (ROA)	1.5%	2.3%	3.0%	4.4%	4.0%
Net sales of all stores (Domestic convenience store business):					
Net sales by store format ^{3,4}					
Franchise stores	¥ 2,296,838	¥ 2,233,739	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395
Company-operated stores	48,162	51,569	91,075	84,736	79,872
Net sales by product category ^{3,4}					
Processed foods	1,237,391	1,202,619	1,138,966	1,073,044	1,033,448
Fast foods	546,542	544,530	509,415	481,267	463,431
Daily delivered foods	351,442	329,545	314,481	294,141	276,885
Non-food products	209,624	208,612	197,821	194,833	186,498
Net sales of all stores	¥ 2,345,000	¥ 2,285,308	¥ 2,160,684	¥ 2,043,287	¥ 1,960,266
Ratio of operating income to net sales of all stores	2.5%	2.5%	2.9%	3.4%	3.5%

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 29, 2020 (\$1 = ¥109.43).

2. These figures include depreciation and amortization of intangible assets.

3. These figures include sales reported by franchise stores and are unaudited.

4. Net sales for the fiscal years 2016, 2017, 2018, and 2019 represent sales by stores operated by Lawson, Inc. as well as those by Lawson Sanin, Inc.

*Japanese yen figures are rounded down to the nearest million yen. US dollar figures are rounded to the nearest thousand dollars.

(Millions of yen)							(Thousands of U.S. dollars')
2014	2013	2012	2011	2010	2009	2019	
¥ 247,681	¥ 242,078	¥ 230,002	¥ 215,573	¥ 197,673	¥ 185,656	\$ 2,871,796	
174,044	168,159	192,942	208,063	192,329	233,693	2,767,463	
76,188	75,009	64,500	55,320	51,274	47,842	1,033,835	
497,913	485,247	487,445	478,957	441,277	467,192	6,673,094	
70,482	68,126	66,246	61,769	55,540	50,275	575,190	
32,686	37,965	33,182	24,885	25,386	12,562	183,754	
110,567	81,503	85,188	86,356	72,210	40,695	1,852,359	
(100,434)	(47,924)	(54,196)	(52,912)	(30,522)	(42,595)	(448,454)	
(3,289)	(39,650)	(31,979)	(27,544)	(28,798)	(27,238)	(1,497,859)	
141,251	84,032	77,361	74,572	50,326	71,399	829,079	
41,826	47,888	43,886	37,845	33,083	27,468	0	
¥ 764,614	¥ 620,992	¥ 579,809	¥ 531,453	¥ 476,036	¥ 448,131	\$ 12,407,317	
263,797	250,497	230,181	214,662	208,466	198,135	2,516,196	
33.5%	39.5%	39.1%	39.7%	42.7%	42.8%		
76,754	68,759	72,766	73,670	67,712	54,843	3,139,754	
12,276	11,606	11,130	10,457	9,994	9,761		
7,606	6,336	6,404	6,475	5,703	5,236		
¥ 327	¥ 380	¥ 332	¥ 249	¥ 255	¥ 127	\$ 1.83	
240	220	200	180	170	160	1.37	
73.4%	57.9%	60.2%	72.2%	66.8%	126.3%		
13.0%	16.1%	15.2%	12.0%	12.8%	6.5%		
4.7%	6.3%	6.0%	4.9%	5.5%	2.8%		
¥ 1,827,779	¥ 1,810,418	¥ 1,747,915	¥ 1,651,433	¥ 1,499,576	¥ 1,433,678	\$ 20,989,108	
105,019	126,873	156,339	173,820	183,205	232,459	440,118	
1,034,355	1,060,455	1,063,120	1,022,378	897,415	902,306	11,307,606	
429,212	408,672	372,706	345,226	321,851	324,197	4,994,448	
277,210	275,437	271,920	263,101	264,166	239,088	3,211,571	
192,020	192,726	196,506	194,546	199,348	200,544	1,915,600	
¥ 1,932,798	¥ 1,937,292	¥ 1,904,254	¥ 1,825,253	¥ 1,682,782	¥ 1,666,136	\$ 21,429,225	
3.6%	3.5%	3.5%	3.4%	3.3%	3.0%		

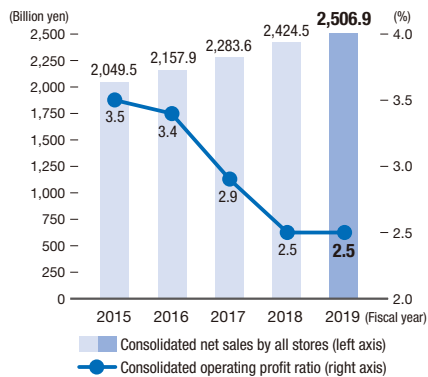
Financial & Non-financial Highlights

Financial & Non-financial Highlights

Financial Highlights

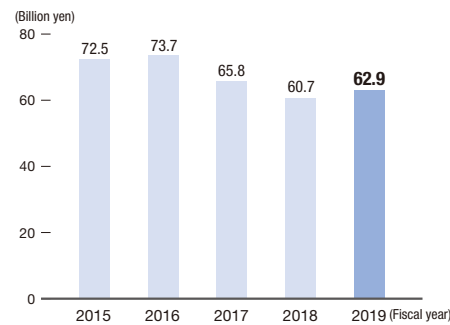
Consolidated net sales by all stores

Approx. **2.5** trillion yen



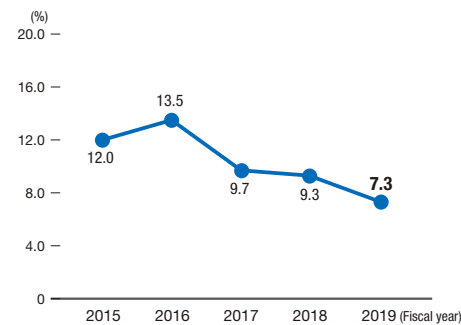
Consolidated operating income

62.9 billion yen



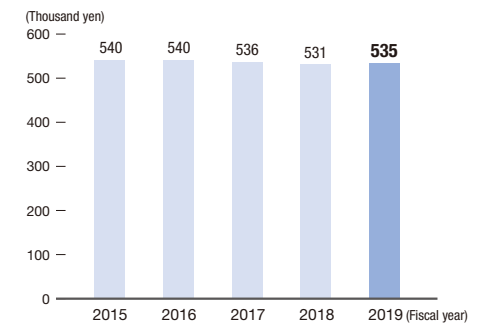
ROE (return on equity)

7.3%



Average daily store sales in Japan*

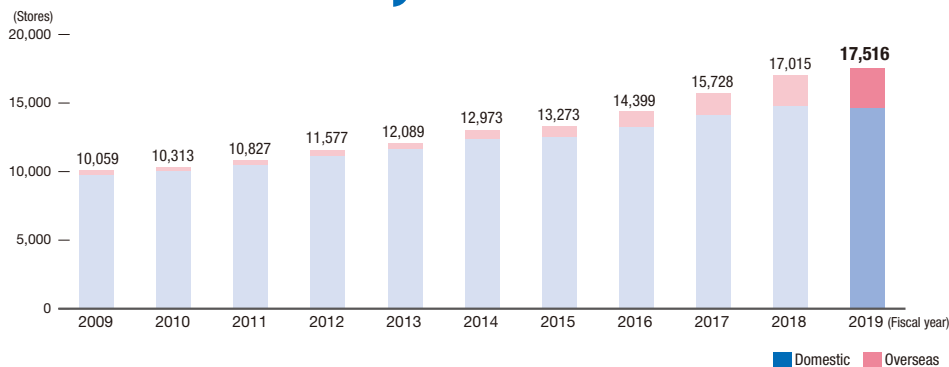
535 thousand yen



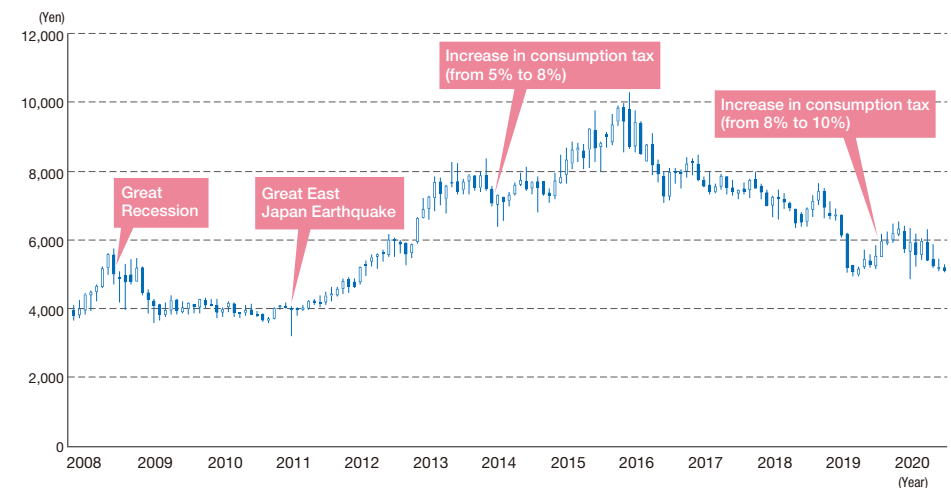
* The figures are those of LAWSON and NATURAL LAWSON operated by Lawson, Inc.

Changes in the number of stores

17,516 stores

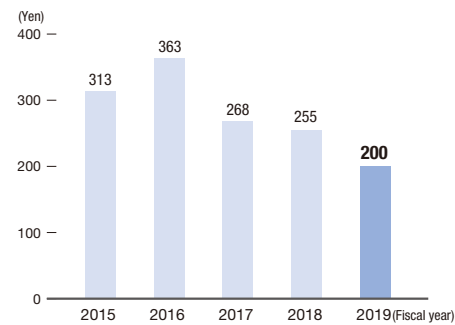


Changes in share prices (monthly)



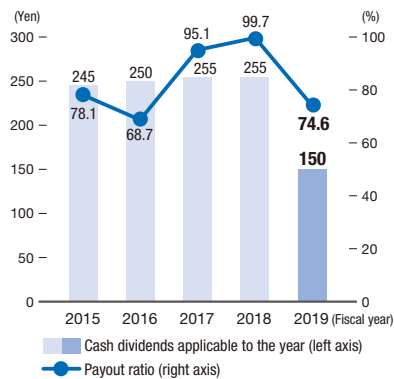
Net income per share

200_{yen}



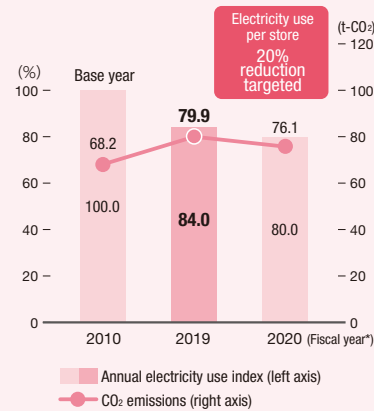
Payout ratio

74.6%



Non-financial Highlights

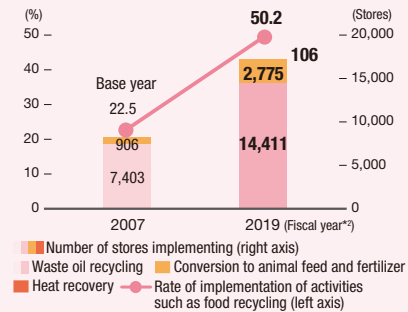
Electricity use (index) and CO₂ emissions per store



* Calculated from April 1 to March 31 of the following year to coincide with the administrative fiscal year
A reduction of 21.5% in fiscal 2019 compared with fiscal 2013 (The figures have been changed due to the change in the coefficient.)

Rate of food recycling*¹ & number of participating stores

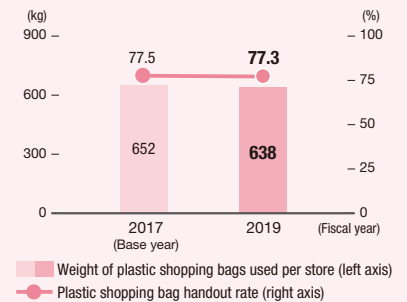
50.2%



*¹ The rate of food recycling does not include the figures of Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., and Lawson Kochi, Inc.
*² Calculated from April 1 to March 31 of the following year to coincide with the administrative fiscal year

Plastic Shopping Bags Used Per Store*

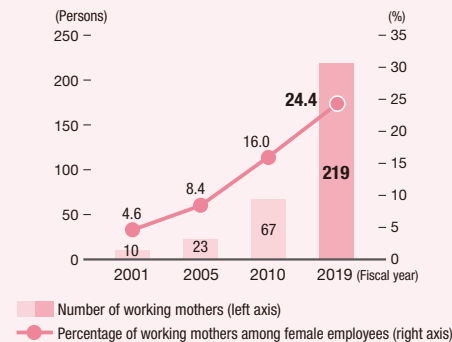
638_{kg}



* Excluding figures of LAWSON STORE 100
The rate of distribution of plastic shopping bags has become 25% (as of the end of August 2020) since July 1, 2020 (when charging for plastic shopping bags started).

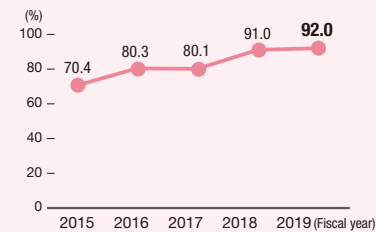
Number of working mothers & their proportion among female employees

24.4%



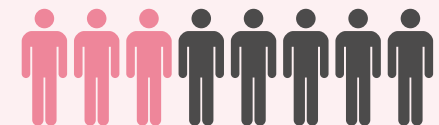
Percentage of male employees taking paternity leave

92.0%



Ratio of independent directors among directors

3 / 8



Corporate Data As of February 29, 2020

Company name	Lawson, Inc.	Business activities	Franchise chain development of LAWSON, NATURAL LAWSON and LAWSON STORE 100
Headquarters	East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan	Net sales for all stores	¥2,506.9 billion (consolidated)
President and CEO, Representative Director, Chairman of the Board	Sadanobu Takemasu	Number of stores	17,516 (worldwide)
Established	April 15, 1975	Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing, Shenyang, Wuhan, Hefei, Changsha), Indonesia, Hawaii, Thailand, Philippines
Capital	¥58,506.644 million		
Number of employees	10,572 (consolidated)		

Note 1: Net sales for all stores is the sum of total sales by the domestic convenience store business, overseas business and Seijo Ishii stores (consolidated subsidiaries only). For the Seijo Ishii business, only the total for its Company-operated stores is included.

Note 2: Among the total number of stores, the number of domestic stores comprises LAWSON, NATURAL LAWSON and LAWSON STORE 100 stores operated by Lawson Inc.; LAWSON stores operated by Lawson Sanin Inc., Lawson Okinawa Inc., Lawson Minami-Kyushu Inc. and Lawson Kochi Inc.; and Seijo Ishii stores operated by SEIJO ISHII, CO., LTD.

The number of overseas stores comprises stores operated under the LAWSON brand by companies in the respective regions.

Share Information As of February 29, 2020

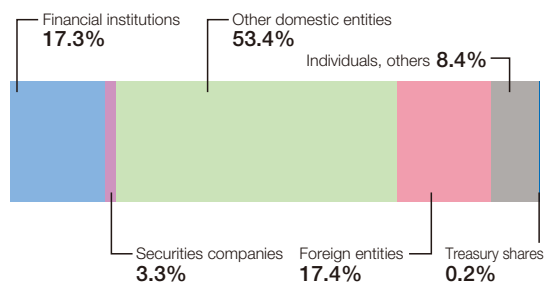
Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	31,293
Stock exchange listings	Tokyo Stock Exchange (1st Section) Mitsubishi UFJ Trust and Banking Corporation
Stock transfer agent	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Major shareholders (Top 10)

	Shareholder name	Number of shares held (Thousands)	Percentages of total shares held
1	Mitsubishi Corporation	50,150	50.1
2	The Master Trust Bank of Japan, Ltd. (Trust account)	4,799	4.8
3	Japan Trustee Services Bank, Ltd. (Trust account)	2,654	2.7
4	NTT DOCOMO, INC.	2,092	2.1
5	STATE STREET BANK WEST CLIENT — TREATY 505234	1,804	1.8
6	JPMorgan Securities Japan Co., Ltd.	1,262	1.3
7	Japan Securities Finance Co., Ltd.	1,179	1.2
8	Japan Trustee Services Bank, Ltd. (Trust account 7)	1,140	1.1
9	Japan Trustee Services Bank, Ltd. (Trust account 5)	1,009	1.0
10	Japan Trustee Services Bank, Ltd. (Trust account 9)	942	0.9

*The above percentages of total shares held were calculated after excluding 237,762 treasury stocks.

Distribution of shareholders by type



Main Lawson Group Companies As of February 29, 2020

Category	Name of company	
Domestic convenience store business	Lawson, Inc.	
	Lawson Store100, Inc.	Consolidated subsidiary
	SCI, Inc	Consolidated subsidiary
	Lawson urbanworks, Inc.	Consolidated subsidiary
	Lawson Sanin, Inc.*	Consolidated subsidiary
	Lawson Okinawa, Inc.	Equity-method affiliate
	Lawson Minami-Kyushu, Inc.	Equity-method affiliate
	Lawson Kochi, Inc.	Equity-method affiliate
Entertainment business	Lawson Entertainment, Inc. United Cinemas Co., Ltd.	Consolidated subsidiary (Consolidated subsidiary of Lawson Entertainment, Inc.)
Financial services business	Lawson Bank, Inc.	Consolidated subsidiary
Consulting business	BestPractice, Inc.	Consolidated subsidiary
Overseas business	Lawson (China) Holdings, Inc.	Consolidated subsidiary
	Shanghai Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Chongqing Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Dalian Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Beijing Lawson, Inc.	(Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Saha Lawson Co., Ltd.	Consolidated subsidiary
SEIJO ISHII business	SEIJO ISHII CO., LTD.	Consolidated subsidiary

* Lawson, Inc. merged with Lawson Sanin, Inc. as of March 1, 2020.

Total shareholder return (TSR)

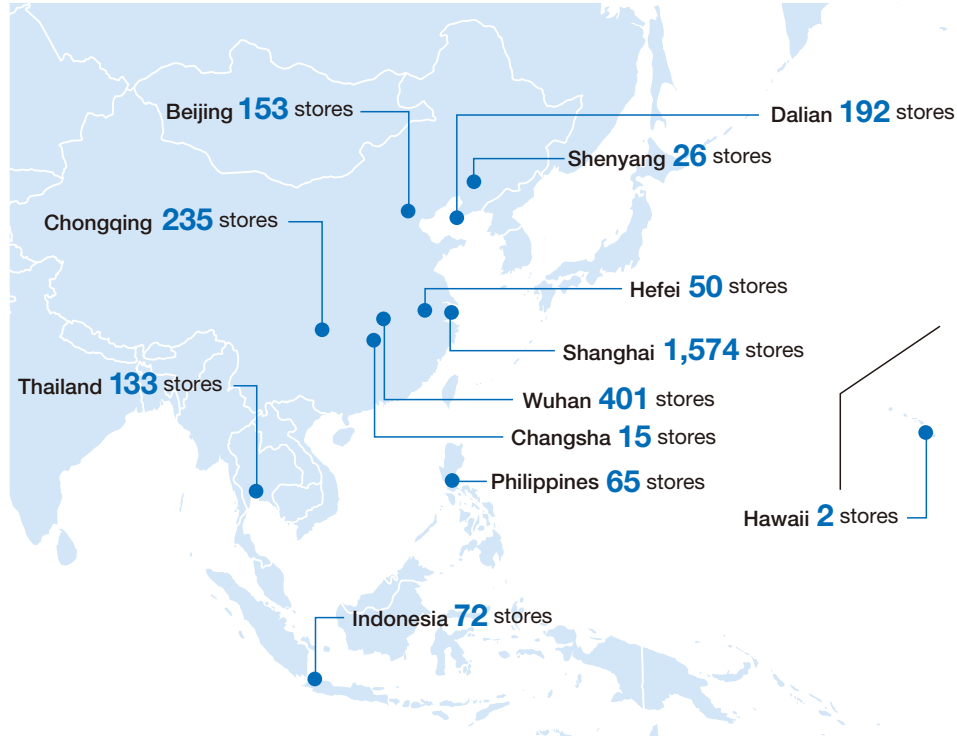
	February 2016	February 2017	February 2018	February 2019	February 2020
Lawson	114.4	105.4	99.0	99.2	88.0
TOPIX total return	86.8	105.0	123.5	114.8	110.6

Store Network Development As of February 29, 2020

Total number of stores (domestic and overseas total)* **17,516 stores**

Number of domestic stores **14,598 stores**

Number of overseas stores **2,918 stores**



* The number of domestic stores represents the total number of LAWSON, NATURAL LAWSON and LAWSON STORE 100 stores operated by Lawson, Inc.; LAWSON stores operated by Lawson Sanin, Inc., Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc., and Lawson Kochi, Inc.; and 3 Seijo Ishii stores operated directly by SEIJO ISHII, CO., LTD.

The number of overseas stores represents the total number of LAWSON brand stores managed by operating companies in the respective regions.

Main Businesses and Services As of February 29, 2020

LAWSON

Operating companies

Lawson, Inc.
Lawson Okinawa, Inc.
Lawson Minamikyushu, Inc.
Lawson Kochi, Inc.
Lawson Sanin, Inc.*
Lawson urbanworks, Inc.

A convenience store believes that its fundamental role is "Creating Happiness and Harmony in Our Communities" and operates in various store formats to suit each community's characteristics.

A nearby store supporting "beautiful, healthy and comfortable" lifestyles based on the concept of "making the most of every day"



Operating company

Lawson, Inc.



A store that sells a wide variety of fresh foods and other products and has both the user-friendliness of a convenience store and the rich product assortment of a supermarket. The store features a series of products all priced 100 yen, consisting mainly of the store's exclusive products.

Operating company

Lawson Store 100, Inc.



A lifestyle supermarket for people who are particular about food, providing food from around the world at reasonable world street corner prices

Operating company

SEIJO ISHII CO., LTD.



The farms are located nationwide, producing fresh fruit and vegetables for Lawson Group stores.

Operating company

LAWSON Farm, a corporation eligible for farmland ownership in respective locations



Provision of ticket sales services for a full range of entertainment, including musical & sports events, theaters, leisure facilities and cinemas, as well as planning and agency services for fan clubs, event planning & production (sponsorship promotions, investment promotions) and others

Operating company

Lawson Entertainment, Inc.



A company selling music and movie CDs & DVDs, books and related goods (through stores & e-commerce) as well as planning and producing events and museum exhibitions in stores

Operating company

Lawson Entertainment, Inc.



Operation of cinema complexes (multiplex movie theaters) offering not only film entertainment but also such enriching experiences as 4DX® (experiential viewing) and various contents other than movies

Operating company

United Cinemas Co., Ltd.



A bank that provides financial services such as ordinary savings accounts, fixed deposit accounts and credit card issuance, and moreover, ATM services available at the ATMs installed in LAWSON stores, etc. by using cash cards issued by financial institutions throughout Japan. The bank has also started a Smartphone ATM service that enables you to deposit or withdraw cash, with your smartphone instead of your card, as well as an ATM charge service that enables you to add money to your smartphone apps with cash at the above ATMs.

Operating company

Lawson Bank, Inc.

* Lawson, Inc. merged with Lawson Sanin, Inc. as of March 1, 2020.

LAWSON

2020 MD&A

Management's Discussion and Analysis

- | | |
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| 3 Industry Trends | 11 Consolidated Cash Flows |
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Eleven-Year Financial Summary

	(Millions of yen)									
(Fiscal Year)	2019	2018	2017	2016	2015	2014	2013	2012	2011	
For the year:										
Gross operating revenues										
Franchise commissions from franchise stores	¥ 314,260	¥ 302,136	¥ 289,232	¥ 275,312	¥ 261,681	¥ 247,681	¥ 242,078	¥ 230,002	¥ 215,573	
Net sales	302,843	288,579	264,734	254,169	227,606	174,044	168,159	192,942	208,063	
Other	113,132	109,931	103,357	101,806	94,165	76,188	75,009	64,500	55,320	
Total operating revenues	730,236	700,647	657,324	631,288	583,452	497,913	485,247	487,445	478,957	
Operating income	62,943	60,781	65,820	73,772	72,541	70,482	68,126	66,246	61,769	
Net income attributable to owners of parent	20,108	25,585	26,828	36,400	31,381	32,686	37,965	33,182	24,885	
Net cash provided by operating activities	202,703	128,594	113,938	99,864	112,205	110,567	81,503	85,188	86,356	
Net cash used in investing activities	(49,074)	(81,017)	(91,209)	(76,227)	(68,657)	(100,434)	(47,924)	(54,196)	(52,912)	
Net cash used in financing activities	(163,910)	277,937	(61,238)	(25,638)	(50,201)	(3,289)	(39,650)	(31,979)	(27,544)	
Capital expenditures	90,726	140,071	140,495	119,784	106,747	141,251	84,032	77,361	74,572	
Depreciation and amortization ²	0	66,844	58,601	56,199	49,293	41,826	47,888	43,886	37,845	
At year-end:										
Total assets	¥ 1,357,732	¥ 1,342,329	¥ 900,256	¥ 866,577	¥ 803,212	¥ 764,614	¥ 620,992	¥ 579,809	¥ 531,453	
Net assets	275,347	281,982	281,446	285,995	272,997	263,797	250,497	230,181	214,662	
Shareholders' equity ratio	20.0%	20.6%	30.6%	31.7%	32.9%	33.5%	39.5%	39.1%	39.7%	
Cash and cash equivalents	343,583	354,236	30,120	67,692	69,793	76,754	68,759	72,766	73,670	
Total number of stores in Japan	14,444	14,659	13,992	13,111	12,395	12,276	11,606	11,130	10,457	
Number of employees (full-time)	10,572	10,395	10,028	9,403	8,377	7,606	6,336	6,404	6,475	
Per share data:										
Net income (yen/ U.S. dollars ¹)	¥ 200	¥ 255	¥ 268	¥ 363	¥ 314	¥ 327	¥ 380	¥ 332	¥ 249	
Cash dividends (yen/ U.S. dollars ¹)	150	255	255	250	245	240	220	200	180	
Payout ratio	74.6%	99.7%	95.1%	68.7%	78.1%	73.4%	57.9%	60.2%	72.2%	
Financial data:										
Return on equity (ROE)	7.3%	9.3%	9.7%	13.5%	12.0%	13.0%	16.1%	15.2%	12.0%	
Return on assets (ROA)	1.5%	2.3%	3.0%	4.4%	4.0%	4.7%	6.3%	6.0%	4.9%	
Net sales of all stores (Domestic convenience store business):										
Net sales by store format ^{3,4}										
Franchise stores	¥ 2,296,838	¥ 2,233,739	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395	¥ 1,827,779	¥ 1,810,418	¥ 1,747,915	¥ 1,651,433	
Company-operated stores	48,162	51,569	91,075	84,736	79,872	105,019	126,873	156,339	173,820	
Net sales by product category ^{3,4}										
Processed foods	1,237,391	1,202,619	1,138,966	1,073,044	1,033,448	1,034,355	1,060,455	1,063,120	1,022,378	
Fast foods	546,542	544,530	509,415	481,267	463,431	429,212	408,672	372,706	345,226	
Daily delivered foods	351,442	329,545	314,481	294,141	276,885	277,210	275,437	271,920	263,101	
Non-food products	209,624	208,612	197,821	194,833	186,498	192,020	192,726	196,506	194,546	
Net sales of all stores	¥ 2,345,000	¥ 2,285,308	¥ 2,160,684	¥ 2,043,287	¥ 1,960,266	¥ 1,932,798	¥ 1,937,292	¥ 1,904,254	¥ 1,825,253	
Ratio of operating income to net sales of all stores	2.5%	2.5%	2.9%	3.4%	3.5%	3.6%	3.5%	3.5%	3.4%	

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 29, 2020 (\$1 = ¥109.43).

2. These figures include depreciation and amortization of intangible assets.

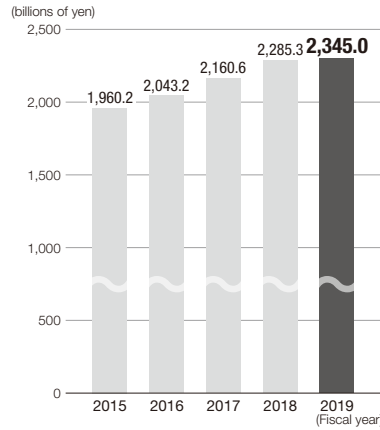
3. These figures include sales reported by franchise stores and are unaudited.

4. Net sales for the fiscal years 2016, 2017, 2018, and 2019 represent sales by stores operated by Lawson, Inc. as well as those by Lawson Sanin, Inc.

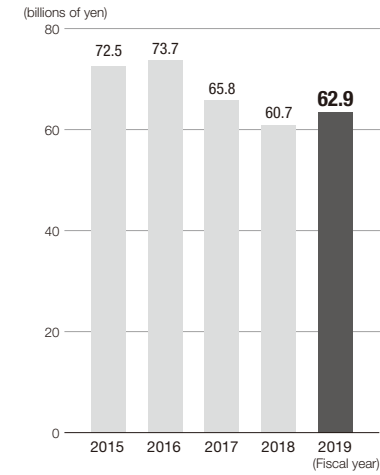
*Japanese yen figures are rounded down to the nearest million yen.
US dollar figures are rounded to the nearest thousand dollars.

(Millions of yen)		(Thousands of U.S. dollars ¹⁾)
2010	2009	2019
¥ 197,673	¥ 185,656	\$ 2,871,796
192,329	233,693	2,767,463
51,274	47,842	1,033,835
441,277	467,192	6,673,094
55,540	50,275	575,190
25,386	12,562	183,754
72,210	40,695	1,852,359
(30,522)	(42,595)	(448,454)
(28,798)	(27,238)	(1,497,859)
50,326	71,399	829,079
33,083	27,468	0
¥ 476,036	¥ 448,131	\$ 12,407,317
208,466	198,135	2,516,196
42.7%	42.8%	
67,712	54,843	3,139,754
9,994	9,761	
5,703	5,236	
¥ 255	¥ 127	\$ 1.83
170	160	1.37
66.8%	126.3%	
12.8%	6.5%	
5.5%	2.8%	
¥ 1,499,576	¥ 1,433,678	\$ 20,989,108
183,205	232,459	440,118
897,415	902,306	11,307,606
321,851	324,197	4,994,448
264,166	239,088	3,211,571
199,348	200,544	1,915,600
¥ 1,682,782	¥ 1,666,136	\$ 21,429,225
3.3%	3.0%	

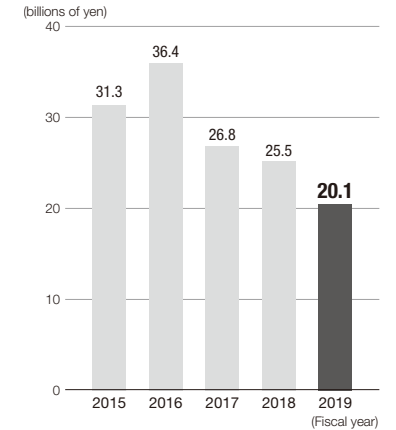
Net sales of all stores (Domestic convenience store business)



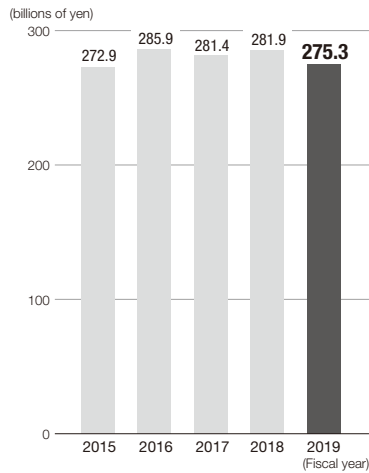
Operating income



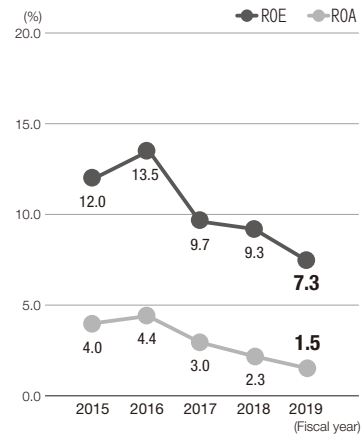
Net income attributable to owners of parent



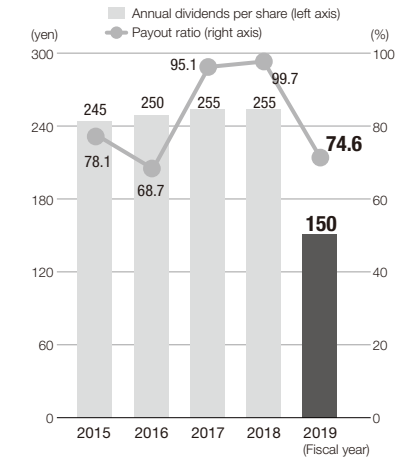
Total assets



Return on equity (ROE) Return on assets (ROA)



Dividends and payout ratio



Management's Discussion and Analysis

Industry Trends

Annual sales of convenience store industry in 2019 (January to December) amounted to 12,184.1 billion yen, up 1.7% from the previous year due primarily to favorable sales of products such as ready-made food by expanding the range of products that respond to changes in dietary life based on decreasing birthrate and aging population and the prevalence of the nuclear family and women's social progress, as well as increased average spending per customer thanks to the effect of cashless shopping rebate campaign started in October. Net sales of existing stores increased by 0.4% compared to the previous year.

The total number of stores as of the end of December 2019 stood at 56,502, which was about the same level with the previous year.*

* For annual sales and the total number of stores, "Current Survey of Commerce," Ministry of Economy, Trade and Industry is referred to, and for increase/decrease ratio in existing store sales, "Convenience store statistics investigation annual report" by the Japan Franchise Association is referred to.

■ Retail industry market size and convenience store share ¹ (Billions of yen)

(Calendar year)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total retail industry annual sales	145,047	144,965	142,514	139,877	140,666	141,219	138,897	137,585	135,157	136,479	132,961
Convenience store sector annual sales	12,184	11,978	11,745	11,445	10,995	10,423	9,872	9,477	8,774	8,113	7,980
Convenience store share	8.4%	8.3%	8.2%	8.1%	7.8%	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%

Source: "Current Survey of Commerce," Ministry of Economy, Trade and Industry

Notes: 1. The figures above reflect the revision of the figures in 2004 and onwards that the Ministry of Economy, Trade and Industry compiled in March 2013.

2. Annual sales amounts of the retail industry and the convenience store sector are on a calendar-year basis.

■ The net sales of all stores among the top 3 chains in the convenience store industry ¹ (Billions of yen)

(Fiscal year)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Lawson	2,506	2,424	2,283	2,157	2,049	1,961	1,945	1,907	1,826	1,683	1,666
Seven-Eleven Japan	5,010	4,899	4,678	4,515	4,291	4,008	3,781	3,508	3,281	2,948	2,785
FamilyMart ²	2,965	2,983	3,016	3,009	2,006	1,860	1,722	1,585	1,535	1,440	1,274
Total of the top 3 chains	10,482	10,306	9,977	9,682	8,346	7,829	7,448	7,000	6,642	6,071	5,725
Total market share of the top 3 chains	86.0%	86.0%	84.9%	84.6%	75.9%	75.1%	75.4%	73.9%	75.7%	74.8%	71.7%

Source: Data published by each company

Note: 1. The figures for the top three chains are on a fiscal-year basis, while the total market share of the top three chains is the proportion in convenience store sector annual sales on a calendar-year basis.

2. On September 2016, Circle K Sunkus and FamilyMart merged and in November 2018, brand integration of approximately 5,000 stores was completed.

■ Number of convenience stores (Stores)

(Calendar year)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Number of convenience stores	56,502	56,574	56,374	55,636	54,505	52,725	50,234	47,801	43,373	42,347	41,724

Source: "Current Survey of Commerce," Ministry of Economy, Trade and Industry

■ Non-consolidated operating results (Millions of yen)

(Fiscal year)	2019	As a percentage of all stores	2018	2017	2016	2015
Net sales of all stores	2,296,156	100.0%	2,236,125	100.0%	2,110,454	100.0%
Gross operating revenues	390,811	17.0%	385,678	17.2%	372,891	17.6%
Gross operating profit	356,385	15.5%	348,491	15.6%	335,792	15.9%
Selling, general and administrative expenses	311,660	13.6%	302,779	13.5%	284,771	13.5%
Advertising and promotional expenses	14,112	0.6%	13,363	0.6%	12,546	0.6%
Personnel expenses	46,261	2.0%	45,903	2.0%	44,722	2.1%
Facility expenses	181,194	7.9%	172,574	7.7%	160,243	7.6%
Other SG&A expenses	70,091	3.1%	70,939	3.1%	67,260	3.2%
Operating income	44,725	1.9%	45,711	2.0%	51,021	2.4%
Ordinary income	45,962	2.0%	51,443	2.3%	50,508	2.4%
Net income	15,486	0.7%	31,002	1.4%	19,417	0.9%

Management Policies for Fiscal 2020

For the year ended February 29, 2020, while changes in community needs resulting from factors such as an aging population, the prevalence of the nuclear family, women's social progress and rising health consciousness are serving as a tailwind for the convenience store industry, competition across boundaries of business categories has been fiercer.

Given such a business environment, the surrounding realities of franchise stores are becoming more and more severe, and since 2015, we have been trying to raise our store productivity by making maximum use of digital technology such as semi-automatic ordering system, introduction of POS (point-of-sale) cash registers equipped with an automatic change dispenser function.

We focus on building a strong partnership with franchise stores as one of our most important issues. In April 2019, in order to strengthen relationship with franchise stores and promote franchise store support measures, we formulated "Action Plan" and in November, we informed the progress of the plan. In addition, in February 2020, as a new policy to stabilize franchise store business, we announced short-term to medium- to long-term initiatives such as support for low-profit franchise store owners in operating multiple stores, support for store manager training and measures for new franchise owners.

Overview of Domestic Convenience Store Business

Aiming to become Lawson to be recommended by every customer, for domestic convenience store business, we implement initiatives to fulfill three commitments; "Overwhelmingly Delicious," "Human Kindness" and "Environmental. (Machi) friendliness." We are addressing to improve our product offering even further by developing overwhelmingly delicious and health-conscious products only at LAWSON, and we are also focusing on adherence to serving customers courteously at our stores as well as eco-friendliness such as reduction of food waste and plastic usage.

From October 1, 2019, the consumption tax rate has been raised from 8% to 10%, and reduced tax rate system has been introduced at the same time. In LAWSON stores, food and beverages are subject to the reduced tax rate, excluding food and drinks consumed at eating area inside stores as well as alcoholic beverages. In addition, as one of the subsidy projects implemented by the government with the increase in the consumption tax rate, 2% of the payment amount is returned to customers who purchased by cashless payment at applicable LAWSON stores.

Overview of Merchandise and Services

On the merchandise side, in order to realize "overwhelmingly delicious" foods, we focused on development of new products and further quality improvement of existing products. In the rice dishes, our "Kinshari onigiri" rice ball series, first launched in April 2019, which features rice with a smooth and fluffy texture, gained popularity, while "Akuma-no (= too delicious to stop eating) onigiri" rice balls series, which has become Lawson's representative staple item, had consistently strong sales. In sandwich category, due to renewal of sandwiches and introducing a new eating scene by new series "SAND FULL(plenty of delicious ingredients)," favorable sales continued. In the over-the-counter fast food category, in addition to renewed "L-Chicki" series, staple items and seasonal new products of "MACHI café" gained popularity. In the dessert category, our hit "BASCHEE-Basque-style cheesecake-," first launched in March 2019, gained popularity, also there were hit items of "Uchi Café" sweets one after another, and Lawson's sweets attracted a lot of attention.

In the bakery category, "Machi-no-pan," a new series of bakeries, pursuing texture and deliciousness of ingredients with selected materials and manufacturing method, firsts launched in March 2019, and successful renewal of existing staple items both contributed to rise in sales.

On our sales promotion side, effective measures to attract customers were launched, including a stamp campaign, smartphone stamp rally and an exciting speed lottery capitalizing on our strength in the entertainment field.

Overview of Store Operations

In store operations, we continued to focus on reinforcing adherence to the Three Essential Practices, which emphasizes (1) serving customers courteously; (2) providing a quality product offering that meets community needs; and (3) keeping our stores and communities clean. We actively promoted improvement of store operations and strengthening franchise support system during the fiscal year under review. We will continue to expand deployment of "self-checkout registers" which utilizes self-mode of the POS cash registers with automatic change dispensers.

In January 2020, we temporarily closed 102 franchise stores nationwide during the New Year holidays as part of an experimental trial. Our plan for the next fiscal year will be examined by carefully looking at the future conditions under rapidly changing environment due to the influence of COVID-19.

Overview of Store Development

In developing (opening) new stores, the Group continued to prioritize profitability. The total number of "LAWSON," "NATURAL LAWSON" and "LAWSON STORE100" stores opened in Japan during the fiscal year under review stood at 554 while 769 stores were closed due to facilitating closings of low profitability stores and the total number of stores in the country was 14,444 as of the end of February 2020.*

In an effort to establish convenience store models catered to an aging population and rising self-medication consciousness, through partnerships with prescription drug pharmacy and drug store chains we continue to expand healthcare-focused LAWSON stores that offer over-the-counter pharmaceuticals and prescription drugs, as well as a wider assortment of cosmetics and daily necessities than ordinary LAWSON stores. The number of LAWSON stores offering over-the counter pharmaceuticals, including such healthcare-focused stores, reached 222 as of the end of February 2020 (of which 49 stores were Pharmacy LAWSON stores equipped with drug-dispensing pharmacies). The number of LAWSON stores with a nursing care consultation counter reached 24 as of the end of February 2020. Furthermore, we have also been expanding our chain of "in-hospital LAWSON stores," which features strengthened focus on medical, sanitary, nursing and rehabilitation supplies in addition to merchandise and services offered at standard convenience stores. The number of such stores has reached 323 as of the end of February 2020. Building on our expertise developed through operation of in-hospital LAWSON stores, we will continue to support the lives of all people interacting with hospitals.

At "NATURAL LAWSON" stores, as a store that supports a beautiful, healthy and comfortable lifestyle, we offer assortment of products that can only be obtained at "Natural Lawson" such as original products with carefully selected ingredients and collaborative products with famous brands. As for "LAWSON STORE100," we continue to meet customer needs by offering a wide range of product assortment from fresh vegetables and fruits, daily foods, prepared food, beverages to daily necessities focusing on valuable 100 yen products. As of the end of February 2020, the number of "NATURAL LAWSON" stores reached 145, while the number of "LAWSON STORE100" stores reached 742.

* The numbers of openings and closings and the total number of stores in Japan include the number of stores operated by Lawson, Inc., stores run by our subsidiary Lawson Sanin, Inc., (merged with the Company on March 1, 2020) and stores operated by Lawson Kochi, Inc., Lawson Minami-Kyushu, Inc., and Lawson Okinawa, Inc. which are equity-method affiliates.

Number of stores in the convenience store business in Japan

(Stores)

(Fiscal year)	2019	2018	2017	2016	2015
Total number of stores	14,444	14,659	13,992	13,111	12,395
Openings	554	1,067	1,250	1,143	1,007
Closings	769	400	369	427	888
Net increase	-215	667	881	716	119

Note: Including the number of stores operated by Lawson Mart, Inc., Lawson Sanin, Inc., Lawson Kochi, Inc., Lawson Kumamoto, Inc., Lawson Minami-Kyushu, Inc., and Lawson Okinawa, Inc.

Number of convenience stores in Japan

(Fiscal year)	2019		Net increase in the term	2018		2017	
	Stores	Share		Stores	Share	Stores	Share
Lawson, Inc.							
Company-operated stores							
LAWSON	263	1.8%	-40	303	2.1%	284	2.0%
NATURAL LAWSON	22	0.2%	-2	24	0.2%	28	0.2%
Franchise stores							
Type B	1,794	12.4%	-45	1,839	12.5%	1,616	11.5%
Type G	1,342	9.3%	-124	1,466	10.0%	1,582	11.3%
Type C	9,300	64.4%	56	9,244	63.1%	8,715	62.3%
NATURAL LAWSON	123	0.9%	8	115	0.8%	115	0.8%
LAWSON STORE100	742	5.1%	-64	806	5.5%	805	5.8%
Subtotal	13,586	94.1%	-211	13,797	94.1%	13,145	93.9%
Lawson Sanin, Inc.							
Company-operated stores							
	5	0.0%	-	5	0.0%	5	0.0%
Franchise stores							
	280	1.9%	-7	287	2.0%	285	2.0%
Subtotal	285	2.0%	-7	292	2.0%	290	2.1%
Lawson Kochi, Inc.							
Company-operated stores							
	5	0.0%	-1	6	0.0%	3	0.0%
Franchise stores							
	134	0.9%	-	134	0.9%	136	1.0%
Subtotal	139	1.0%	-1	140	1.0%	139	1.0%
Lawson Minami-Kyushu, Inc.							
Company-operated stores							
	3	0.0%	-	3	0.0%	2	0.0%
Franchise stores							
	192	1.3%	-2	194	1.3%	192	1.4%
Subtotal	195	1.4%	-2	197	1.3%	194	1.4%
Lawson Okinawa, Inc.							
Company-operated stores							
	5	0.0%	1	4	0.0%	3	0.0%
Franchise stores							
	234	1.6%	5	229	1.6%	221	
Subtotal	239	1.7%	6	233	1.6%	224	
Total number of convenience stores in Japan	14,444	100.0%	-215	14,659	100.0%	13,992	100.0%

Other New Initiatives

On December 16, 2019, KDDI CORPORATION and Lawson, Inc. executed a capital business partnership to promote data marketing utilizing the customer bases of both companies and create new consumption experiences through the application of advanced technologies. Under this partnership, KDDI and Lawson will combine KDDI's advanced technologies including fifth-generation mobile communication system called "5G" with the real-world infrastructure of Lawson's over 14,000 stores to develop next-generation convenience store services that involve data and financial services and create new consumption experiences for customers.

In February 2020, at "Fujitsu Shinkawasaki TS cash register-free store," we started "cash register-free store" demonstration experiment which uses digital technology to allow customers to shop without going through the cash registers.

Overview of Businesses in Figures

Net Sales

Net sales of all LAWSON stores (consolidated) for the year ended February 29, 2020 amounted to 2,506,900 million yen (up 3.4% from the previous fiscal year). This sales growth was achieved by the increase in LAWSON stores overseas although stores in Japan decreased, the increase in franchise commissions from franchise stores, and favorable sales of Seijyo Ishii business and Entertainment-related business, among other factors.

Sales of existing stores for fiscal 2019 (non-consolidated basis) increased by 0.1% from the previous fiscal year. Under our effort of reinforced promotions on purchases in evenings and at night to expand the range of our products, Lawson's original products such as desserts, bakeries, and sandwiches sold well. While harsh competition across boundaries of business categories continues, although the number of customers decreased by 1.6% from the previous fiscal year, average spending per customer increased from the previous fiscal year by 1.7% as a result of price increase of cigarettes, good sales of multiple purchases under effort of reinforced promotions on purchases in evenings and at night and favorable sales of high unit price items such as desserts, among other factors.

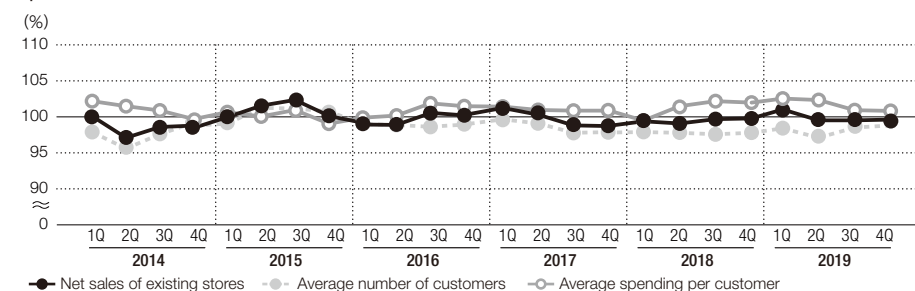
Regarding consolidated results by product category, in the fast food category, among rice balls, "Kinshari series," first launched in April 2019, and "Akuma-no onigiri

series," which has become Lawson's staple item, pushes up sales. Also for sandwich category, renewal of sandwiches was successful and we could introduce a new eating scene to have sandwiches at dinner by our new series "SAND FULL." In the over-the-counter fast food category, prepared food "Toke-Koro" and "Afure-Menchi" among other items, sole well.

In the daily delivered food category, a huge hit dessert "BASCHEE," there were a series of hit items in "Uchi Café" SWEETS and sales continued to be strong throughout the year and greatly exceeded the sales of the previous year. In the bakery category, renewal of staple products and a new "Machi-no-pan" series contributed to sales. Also, sales of frozen foods which we continue strengthening by expanding the assortment of items and Lawson Select ready-made meals remained strong.

In the processed food category, Lawson's original cup noodles and bagged snacks sold well and sales increased. Also, after tax increase in October 2018, although price increase of cigarette pushed up sales in the first half compared to the previous year, such impact calmed down in the second half and sales remained about the same level as the previous fiscal year.

■ YoY changes in net sales of existing stores, average number of customers and average spending per customer *



■ Growth rate of net sales of existing stores, average number of customers, and average spending per customer *

(Fiscal year)	2019	2018	2017	2016	2015
Net sales of existing stores (YoY)	100.1%	99.5%	99.9%	99.8%	101.4%
Average number of customers	98.4%	97.7%	98.7%	99.0%	100.9%
Average spending per customer	101.7%	101.8%	101.3%	100.8%	100.4%

* The total of LAWSON and NATURAL LAWSON operated by Lawson, Inc.

■ Sales by product category (Consolidated, total net sales in Japan)*

(Billions of yen)

(Fiscal year)	2019	2018		2017		2016		2015	
Fast foods (share)	523.3 24.1%	520.4	24.7%	484.9	24.5%	464.8	24.5%	450.5	24.7%
Daily delivered foods (share)	307.3 14.2%	283.9	13.5%	268.0	13.5%	251.4	13.3%	235.6	12.9%
Processed foods (share)	1,143.6 52.7%	1,107.3	52.6%	1,043.0	52.7%	995.3	52.6%	960.8	52.8%
(Cigarettes) (share)	559.1 25.8%	532.9	25.3%	498.6	25.2%	471.9	24.9%	460.0	25.3%
Non-food products (share)	195.7 9.0%	194.2	9.2%	182.9	9.3%	182.1	9.6%	174.0	9.6%
Net sales of all stores (share)	2,170.0 100.0%	2,105.9	100.0%	1,979.0	100.0%	1,893.7	100.0%	1,821.1	100.0%

* The total of LAWSON and NATURAL LAWSON operated by Lawson, Inc.

■ Product categories

Category	Products included
Fast foods	Rice dishes, noodles, sandwiches, delicatessen items, over-the-counter fast foods, etc.
Daily delivered foods	Bakery items, desserts, ice cream, fresh foods, etc.
Processed foods	Soft drinks, alcoholic beverages, cigarettes, processed foods, confectionery, etc.
Non-food products	Daily necessities, books, magazines, etc.

■ Gross profit margin by product category *1

The gross profit margin stood at 31.3%, up 0.1% from the previous fiscal year as a result of our effort to improve profit margins of fast foods and daily delivered foods, among other items.

■ Gross profit margin by product category (Non-consolidated) *1

(Fiscal year)	2019	2018	2017	2016	2015
Fast foods	38.9%	38.2%	38.3%	38.4%	38.4%
Daily delivered foods	34.3%	34.0%	33.9%	34.0%	34.0%
Processed foods	23.8%	23.9%	24.0%	24.1%	24.0%
Non-food products *2	50.5%	50.3%	50.1%	49.1%	49.7%
Gross profit margin	31.3%	31.2%	31.3%	31.4%	31.3%

■ Third party bill settlement services (Non-consolidated) *3

(Fiscal year)	2019	2018	2017	2016	2015
Bill settlements (millions of yen)	2,498,711	2,412,349	2,263,937	2,132,450	2,088,693
Number of transactions (millions)	214.6	215.2	208.6	202.0	198.3
Commission revenues (millions of yen)	11,435	11,466	11,154	10,788	10,671

*1. The total of LAWSON and NATURAL LAWSON operated by Lawson, Inc.

*2. Gross profit margin of non-food products is calculated including commission income.

*3. The total of LAWSON, NATURAL LAWSON and LAWSON STORE 100 operated by Lawson, Inc.

■ Main Type of Lawson contracts

Contract type	Cn	Bn
Contract term	10 years from store opening day	
Requirements for FC owners	At least 20 years old, 2 full-time store workers	
Land and buildings	Provided by headquarters	Prepared by a franchise store
Investment in store construction and interior decoration expenses	Borne by headquarters	Borne by a franchise store
Business fixtures	Provided by headquarters	
Necessary expenses	Payment by a franchise store at time of contract ^{*1}	Franchise fee ¥1.0 million (excluding tax) Breakdown: Training expenses ¥500,000, store opening preparation commission ¥500,000
	Other expenses	Store opening preparation expenses: Approx. ¥500,000 (e.g., change, licensing fee for operation)
Headquarters Charge ^{*2}	The following percentage of gross profit:	The following percentage of gross profit:
	<ul style="list-style-type: none"> • ¥3.0 million or less: 45% • Greater than ¥3.0 million up to ¥4.5 million: 70% • Greater than ¥4.5 million: 60% 	<ul style="list-style-type: none"> • ¥3.0 million or less: 41% • Greater than ¥3.0 million up to ¥4.5 million: 36% • Greater than ¥4.5 million up to ¥6.0 million: 31% • Greater than ¥6.0 million: 21%
Partial guarantee for expenses associated with product disposal losses	Headquarters will bear the following percentage of clearance and disposal costs according to their proportion in merchandise sales: <ul style="list-style-type: none"> • Greater than 2.0% up to 3.0%: 20% • Greater than 3.0% up to 4.0%: 30% • Greater than 4.0%: 55% 	
Partial burden of utility expenses ^{*3}	50% of electricity expenses and store air conditioning energy expenses are borne by headquarters	
Minimum guarantee (annual franchisee income ^{*4})	¥18.6 million * Non-24-hour stores ¥15.6 million	¥19.8 million *Non-24-hour stores ¥16.8 million

*1 The amount is paid by the franchise store to headquarters at the time of the franchising contract.

*2 Add 3% for non-24-hour stores to each of the above percentage.

*3 The ceiling on the monthly amount borne by headquarters is ¥250,000.

*4 Franchisee income = Gross profit - Headquarters Charge

■ Main Type of LAWSON STORE100 contracts

Contract type	VL-J	VL-B	
Land and buildings	Provided by headquarters	A franchise store uses its own land and building	
Contract stores	New opening stores or stores already being operated by the company	Land and building owned by a franchise store	
Contract term	10 years from store opening day		
Necessary expenses	Payment by a franchise store at time of contract ^{*5}	Franchise fee ¥1.0 million (excluding tax) Breakdown: Contract fee ¥250,000 (excluding tax)/Training expenses ¥250,000 (excluding tax)/Store opening preparation commission ¥500,000 (excluding tax)	
	Other expenses	Store opening preparation expenses: Approx. ¥500,000 (e.g., change, licensing fee for operation)	
Investment	Store construction and interior decoration expenses	Borne by headquarters	Borne by a franchise store
	Business fixtures	Provided by headquarters	
Minimum guarantee (annual franchisee income ^{*6})	¥20.4 million	¥22.2 million	
Headquarters Charge ^{*7}	[Sliding scale] The following percentage of gross profit (monthly): <ul style="list-style-type: none"> • ¥1–¥3,000,000: Gross profit x 27% • ¥3,000,001–¥3,500,000: Gross profit x 68% • ¥3,500,001–¥4,500,000: Gross profit x 62% • ¥4,500,001 or greater: Gross profit x 48% 		
Support to franchise stores (Operating expenses of a franchise store partially borne by headquarters)	Headquarters will bear the following percentage of clearance and disposal costs according to their proportion in monthly merchandise sales: <ul style="list-style-type: none"> • Greater than 1.5% up to 2.0%: 30% • Greater than 2.0%: 60% Headquarters will pay up to ¥100,000 a month.		

*5 The amount is paid by the franchise store to headquarters at the time of the franchising contract.

*6 Franchisee income = Gross profit - Headquarters Charge

*7 The minimum guarantee and headquarters income apply to stores operating on a 24-hour basis.

Items of the Consolidated Statement of Income

Operating Revenues

For the year ended February 29, 2020, gross operating revenues consisting of net sales, franchise commissions from franchise stores, and Other stood at 730.2 billion yen, an increase of 29.5 billion yen from previous fiscal year. This was attributable to the favorable sales of Seijyo Ishii business and Entertainment-related business, among other factors, and increased franchise commissions from franchise stores in domestic convenience store business.

Selling, General, and Administrative Expenses (consolidated and non-consolidated)

Consolidated selling, general, and administrative expenses stood at 461.5 billion yen, an increase of 19.7 billion yen compared to the year-ago period.

This increase was attributable to the increase of selling, general, and administrative expenses due to the increased number of stores, the increase in labor costs in Seijyo Ishii business and Entertainment-related business and the increase in software depreciation and amortization associated with system development such as the POS cash registers and new store computers introduced in the previous fiscal year.

Operating Income

Operating income for fiscal 2019 stood at 62.9 billion yen, up 2.1 billion yen compared to the year ago period and exceeded the plan of 60.8 billion yen.

On the non-consolidated basis, in addition to effect created by closing low profitability stores, we tried to reduce food waste at franchise stores and reduce cost at headquarters, however, there was IT cost increase due to renewal of store computers, the result was 900 million yen profit decrease compared to the year ago period. However, consolidated operation income increased due to the contribution of profits from the Seijo Ishii business and entertainment businesses, which had strong sales, and the cost reduction of Financial service business, among other factors.

Net income attributable to owners of the parent

Extraordinary loss increased mainly due to loss on disposal of property and store equipment and impairment of long-lived assets caused by closing low profitability stores, net income attributable to owners of the parent for the year under review stood at 20.1 billion yen, a decrease of 5.4 billion yen compared to the year-ago period while up 2.1 billion yen compared to the plan.

Breakdown of Selling, General, and Administrative expenses (Consolidated)

(Millions of Yen)

(Fiscal Year)	2019	2018	2017	2016	2015
Personnel expenses	86,535	84,279	79,135	73,893	68,994
Percentage composition	18.7%	19.1%	19.3%	19.2%	19.4%
Advertising and promotional expenses	29,890	28,254	26,001	30,594	29,461
Percentage composition	6.5%	6.4%	6.3%	7.9%	8.3%
Rent	133,880	132,739	124,387	115,926	108,795
Percentage composition	29.0%	30.0%	30.3%	30.2%	30.6%
Equipment lease	2,705	2,826	2,796	2,149	2,763
Percentage composition	0.6%	0.6%	0.7%	0.5%	0.8%
Depreciation and amortization	79,069	66,735	58,499	55,516	49,157
Percentage composition	17.1%	15.1%	14.3%	14.5%	13.8%
Depreciation of property and store equipment	62,035	53,276	47,595	44,652	40,270
Percentage composition	13.4%	12.0%	11.6%	11.6%	11.3%
Amortization of intangible assets	17,033	13,459	10,903	10,864	8,886
Percentage composition	3.7%	3.0%	2.7%	2.8%	2.5%
Other	129,466	126,992	119,311	105,182	95,791
Percentage composition	28.1%	28.7%	29.1%	27.4%	27.0%
Total	461,547	441,825	410,129	383,260	354,961
Percentage composition	100.0%	100.0%	100.0%	100.0%	100.0%

Items of the Consolidated Balance Sheet

● Consolidated Balance Sheet

Current Assets

Current assets increased by 17.0 billion yen from the end of the previous fiscal year to 636.6 billion yen, mainly reflecting an increase of 38.0 billion yen in accounts receivable-other and a decrease of 10.6 billion yen in cash and deposits. The increase in accounts receivable-other was attributable to increased accounts receivable to payment service providers in accordance with increased cashless payment.

Property and store equipment

Property and store equipment increased by 10.6 billion yen reflecting an increase of store assets.

Investments and other assets

Investment and other assets decreased by 12.3 billion yen due to a decrease in goodwill and software.

Current Liabilities

Current liabilities decreased by 36.5 billion yen from the end of the previous fiscal year to 561.9 billion yen, mainly reflecting a decrease of 86.7 billion yen in short-term loans payable, a decrease of 43.1 billion yen in current portion of long-term debt and an increase of 61.2 billion yen in deposits received. The decrease of short-term loans payable was attributable to repayment with increased deposits received through financial institution transactions in Financial service business. The decrease of current portion of long-term debt was attributable to refinancing to long-term debt.

Long-term Liabilities

Non-current liabilities increased by 58.5 billion yen from the end of the previous fiscal year to 520.4 billion yen, mainly reflecting an increase of 50.0 billion yen in long-term loans payable. As a result, total liabilities increased by 22.0 billion yen from the end of the previous fiscal year to 1,082.3 billion yen.

Equity

Equity decreased by 6.6 billion yen from the end of the previous fiscal year to 275.3 billion yen, mainly reflecting a decrease of 2.3 billion yen in capital surplus and a decrease of 1.8 billion yen in valuation difference on available-for-sale securities.

As a result, shareholders' equity ratio was 20.0% (20.6% as of the end of the previous fiscal year).

● Accounts Specific to the Company's Consolidated Balance Sheet

Shown below are accounts that are specific to the Company's balance sheet.

Accounts Receivable-Due from Franchised Stores/Accounts Payable-Due to Franchised Stores

Merchandise ordered by individual franchise stores are procured by the Company in a centralized manner, which in turn calculates the amount of payments to individual suppliers on behalf of franchise stores before performing proxy payment service for them. The Company records the amount in "accounts receivable-due from franchised stores." As of February 29, 2020, accounts receivable-due from franchised stores stood at 47.3 billion yen, an increase of 100 million yen compared to the end of the previous fiscal year.

On the other hand, all franchise stores' daily sales proceeds are sent to the Company, and exceed, on occasion, "accounts receivable-due from franchised stores." In such event, the Company records the amount in "accounts payable-due to franchised stores" on the consolidated balance sheet, as part of outstanding liabilities. As of February 29, 2020, accounts payable-due to franchised stores stood at 1.8 billion yen, an increase of 200 million yen compared to the end of the previous fiscal year.

Long-term Loans Receivable

Long-term loans receivable consists mainly of store construction cooperation money for landlords (store land and building owners). Long-term loans receivable as of February 29, 2020 stood at 42.4 billion yen, a decrease of 1.5 billion yen compared to the end of the previous fiscal year.

Lease Deposits

When entering into a lease agreement with the landlord, the Company deposits with the former a security deposit worth several months' rent for the property. Lease deposits as of February 29, 2020 totaled 107.1 billion yen, an increase of 100 million yen compared to the end of the previous fiscal year.

Deposits Received

Deposits received consist mainly of utilities payment services deposits and concerts ticket price deposits. The total of handling amount of utilities payment services stood at 2,498.7 billion yen, an increase of 3.6% compared to the end of the previous fiscal year. As of February 29, 2020, deposits received amounted to 193.0 billion yen, an increase of 61.2 billion yen compared to the end of the previous fiscal year.

Consolidated Capital Expenditures (Including Investments/Advances and Lease Asset Acquisition Costs)

Total consolidated capital expenditures for the year ended February 29, 2020 stood at 90.7 billion yen, a decrease of 49.3 billion yen compared to a year-ago period.

Investments in new stores amounted to 24.0 billion yen, a decrease of 18.0 billion yen compared to a year-ago period reflecting smaller number of new stores focusing on quality and reverse effect of payment for conversion in the previous fiscal year.

Investments in existing stores totaled 10.1 billion yen, a decrease of 1.2 billion yen compared to a year-ago period. Main driver of this decrease was investment on existing stores to support franchise stores such as refurbishment of stores while there was reverse effect of payment for conversion in the previous fiscal year.

Investment on systems totaled 10.9 billion yen, a decrease of 7.2 billion yen compared to a year-ago period. This is mainly because of reverse effect of system investment in Financial service business in the previous fiscal year.

Lease transactions stood at 42.5 billion yen, a decrease of 16.4 billion yen compared to a year-ago period mainly due to significant reverse effect of investment for the introduction of POS cash registers in the previous year, although there is some investment on new store computers.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures		(Millions of Yen)				
(Fiscal Year)	2019	2018	2017	2016	2015	
New store investments	24,041	42,082	55,863	47,594	40,460	
Existing store investments	10,146	11,425	7,403	7,233	6,727	
IT-related investments	10,968	18,195	18,615	19,261	15,882	
Other investments	747	7,295	5,401	1,464	1,466	
Sub-total investments	45,903	78,998	87,283	75,554	64,535	
Investments and advances	2,262	2,019	4,358	1,594	4,122	
Leases*	42,559	59,053	48,854	42,634	38,089	
Total	90,726	140,071	140,495	119,784	106,747	

* Leases are shown in an amount equivalent to the acquisition costs for the lease assets acquired during each accounting period. The amount of repayments of lease obligations (consolidated) is 40,682 million yen in fiscal year 2018 and 53,318 million yen in fiscal year 2019.

■ Breakdown of depreciation and amortization		(Millions of Yen)				
(Fiscal Year)	2019	2018	2017	2016	2015	
Depreciation of property and store equipment	62,149	53,384	47,697	44,792	40,396	
Amortization of intangible assets	17,033	13,459	10,903	11,406	8,897	
Total depreciation and amortization	79,183	66,844	58,601	56,199	49,293	

Consolidated Cash Flows

Net cash provided by operating activities for the year ended February 29, 2020 stood at a cash inflow of 202.7 billion yen, a cash increase of 74.1 billion yen compared to a year-ago period, due mainly to an increase of deposits received and an increase of funding in financial institution transaction in Financial service business.

Net cash used in investing activities for the year ended February 29, 2020 amounted to a cash outflow of 49.0 billion yen, a cash decrease of 31.9 billion yen compared to a year-ago period, which was due, among others, to decrease in payments caused by acquisition of property and store equipment as well as acquisition of intangible assets.

Net cash used in financing activities for the year ended February 29, 2020 amounted to a cash outflow of 163.9 billion yen, a cash decrease of 441.8 billion yen compared to a year-ago period, which was due, among other reasons, to a decrease in funding caused by long-term loans payable.

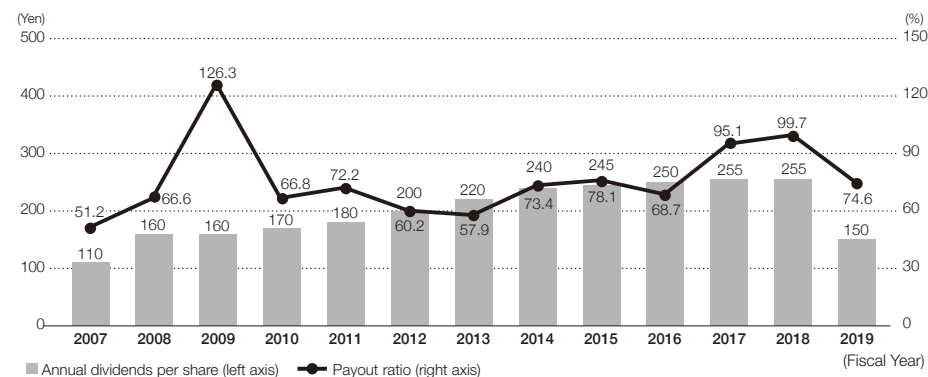
As a result, cash and cash equivalents as of February 29, 2020, stood at 343.5 billion yen, a decrease of 10.6 billion yen compared to February 28, 2019.

Capital Policy

As a policy to provide appropriate distribution of profit in accordance with our performance while maintaining financial health, from the fiscal year under review, we introduced “consolidated dividend payout ratio” to clearly demonstrate our intention for profit sharing with shareholders. Although our shareholders-oriented management will not change, we will establish a basic policy; while continuing our efforts to support franchise stores and investment to improve profit of franchise stores, we will provide our shareholders with as much dividends as possible within the range of dividend payout ratio and we decided to “pay dividends at a consolidated dividend payout ratio target of 50%, with a minimum of 150 yen per share as the lower limit.”

We plan to pay 150 yen per-share dividend for fiscal year ending February 29, 2020. As for fiscal year ending February 28, 2021, we plan to pay 150 yen per-share dividend.

■ Annual dividends per share & payout ratio



Overview of Major Consolidated Subsidiaries and Equity Method Affiliates

Consolidated financial results for the year ended February 29, 2020 include the financial results of 24 group companies comprising 21 consolidated subsidiaries and three equity method affiliates. The principal business activities of Lawson, Inc.’s subsidiaries and affiliates consist of the domestic convenience store business, Seijo Ishii business, entertainment-related business, financial services business, and overseas business. The following paragraphs outline the business activities and financial results of Lawson, Inc.’s major consolidated subsidiaries and affiliates.

Lawson Store100, Inc. (consolidated subsidiary)

Established on November 14, 2013, Lawson Store100, Inc. succeeded to the operational functions of Ninety-nine Plus, Inc., including its store operation and product development, on February 1, 2014 through an absorption-type company split. The former succeeded to the latter’s store-related assets including franchise agreements for the LAWSON STORE 100 (including Lawson Mart).

Effective March 2016, the corporate name was changed from Lawson Mart, Inc. to Lawson Store100, Inc.

Lawson Store 100 is convenience store-sized mini supermarket with basic merchandise assortment centering on fresh foods. Supporting customers’ daily dietary life with well-selected and safe quality vegetables and fruits, it serves a wide range of customers from children to senior citizens, with a focus on single person and homemaker customers.

For the year ended February 29, 2020, Lawson Store100, Inc. had a total of 742 stores (a decrease of 64 stores compared to February 28, 2019) at the period-end date. Operating loss stood at 700 million yen, an increase of 400 million yen compared to the year-ago period. This was mainly attributable to the fact that the fruit and vegetable prices remained at a low level and fierce competitive environment continued.

■ Lawson Store100, Inc.

(Millions of Yen)

(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	40,493	42,295	44,942	48,111	50,675	78,232
Operating income (loss)	(759)	(348)	(325)	545	375	1,763
Net income (loss)	(600)	(191)	(381)	441	286	985

*Consolidated starting from February 2013

SCI, Inc. (consolidated subsidiary)

SCI, Inc. ("SCI") was established by Lawson, Inc. in July 2012 as a supply chain management function subsidiary aimed at enabling Lawson, Inc. to involve itself in supply chain business activities as an influential player and to help streamline the manufacturing and logistics operations. The Company aims to build a manufacturing retailer business model that coherently covers the entire supply chain from the upstream to the downstream through structural reform of supply chain from raw materials procurement to manufacturing to logistics to the store.

For the year ended February 29, 2020, operating income amounted to 2.8 billion yen which was an increase of 300 million yen compared to the year-ago period due mainly to improved gross profit margin.

■ SCI, Inc.						
(Millions of Yen)						
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenue	304,877	309,482	283,884	256,143	191,299	87,638
Operating income	2,817	2,489	2,385	1,860	2,365	1,128
Net income	1,848	1,624	1,558	1,395	1,423	687

* Consolidated starting from September 2012

Lawson urbanworks, Inc. (consolidated subsidiary)

In March 2018, through corporate division with Lawson Inc. as a succeeding company and corporate division where the succeeding company is a fully owned subsidiary that Lawson established called Lawson urbanworks, Inc. ("Urbanworks") a portion of CVS Bay Area Inc.'s convenience store operations was transferred.

Urbanworks operates stores mainly in Tokyo and Chiba prefectures, and the number of stores at the end of the fiscal year ending February 29, 2020 was 71 (a decrease of 3 stores from the end of the previous fiscal year).

■ Lawson Urban Works, Inc.		
(Millions of Yen)		
(Fiscal Year)	2020.2	2019.2
Gross operating revenues	15,470	15,979
Operating income (loss)	56	(21)
Net income	34	7

Lawson Sanin, Inc. (consolidated subsidiary)

In September 2016, Lawson Inc. established Lawson Sanin, Inc. (Lawson Sanin) in Yonago City, Tottori Prefecture based on joint investment with POPLAR Co., Ltd., a convenience store operator based in Hiroshima City. In November 2016, Lawson Sanin, Inc. started a regional franchise business. In June 2019, the Company made Lawson Sanin into a wholly-owned subsidiary and as of the end of February 2020, it operates 285 stores (a decrease of 7 stores compared to the year-ago period).

For the year ended February 29, 2020, operating income stood at 300 million yen.

* Lawson Sanin, Inc. was merged into Lawson Inc. on March 1, 2020

■ Lawson Sanin, Inc.				
(Millions of Yen)				
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2
Gross operating revenues	7,517	7,527	7,876	2,460
Operating income (loss)	379	403	582	(56)
Net income (loss)	98	148	254	(75)

* Income began to be reflected in the consolidated accounts, starting from November 2016

Lawson Okinawa, Inc. (equity-method affiliate)

Through business alliance with SAN-A CO., LTD. ("SAN-A"), a retailer with overwhelming customer support in Okinawa prefecture that has unique lifestyle and food preferences, aiming to deliver services better suiting local needs and to offer a merchandise and store environment befitting local consumer tastes, we established Lawson Okinawa, Inc. in October 2009 as a wholly-owned subsidiary of Lawson, Inc. Subsequently, in December 2009, 51% of the total shares outstanding in Lawson Okinawa, Inc. were sold to SAN-A for the former to be run as a joint venture.

For the year ended February 29, 2020, Lawson Okinawa, Inc. had a total of 239 stores at the period-end date (an increase of 6 stores compared to the year-ago period), and operating income stood at 1.7 billion yen. We will continue to have Lawson Okinawa, Inc. strive to build a store environment meeting local needs appropriately, thus growing Lawson chain stores in Okinawa in the coming years.

■ Lawson Okinawa, Inc.						
(Millions of Yen)						
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	8,264	7,700	7,090	6,509	5,605	4,674
Operating income	1,798	1,824	1,658	1,637	1,407	1,183
Net income	1,172	1,107	1,069	1,081	954	738

Lawson Minamikyushu, Inc. (equity method affiliate)

Lawson Minamikyushu, Inc. ("Lawson Minamikyushu") was established in May 2013 as a wholly-owned subsidiary of Lawson, Inc. before launching Lawson store operations in Kagoshima in August the same year. Subsequently, in March 2014, Nangoku Corporation ("Nangoku" Consolidated starting from February 2013) took a 51% equity participation in Lawson Minamikyushu (Lawson, Inc.'s equity interest ratio became 49%) to integrate Lawson, Inc.'s Kagoshima operations before starting to run Lawson stores in the prefecture.

For the year ended February 29, 2020, the number of LAWSON stores stood at 195 at the period-end date (a decrease of 2 stores compared to the year-ago period), and operating income stood at 100 million yen. We will continue to have Lawson Minamikyushu strive to build a store environment meeting local needs appropriately, thus growing Lawson chain stores in Kagoshima in the coming years.

■ Lawson Minamikyushu, Inc. (Millions of Yen)						
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	4,602	4,412	4,317	4,007	3,756	3,595
Operating income (loss)	196	156	162	94	(183)	(422)
Net income (loss)	67	95	111	(93)	(591)	(472)

* Income began to be reflected in the consolidated accounts, starting from March 2014

Lawson Kochi, Inc. (equity-method affiliate)

In December 2014, Lawson, Inc. entered into a corporate franchise contract with SUNNY MART Co., Ltd. ("SUNNY MART"), which was a supermarket operator serving chiefly Kochi Prefecture and was the parent of Three-F Chu-Shikoku Co., Ltd. This was followed by SUNNY MART converting Three-F stores operated by the company into LAWSON stores on a step-by-step basis. In April 2015, Lawson Kochi, Inc. was established as a joint venture between SUNNY MART and Lawson, Inc. (with the former and the latter holding 51% and 49% equity stakes in the joint venture, respectively). Thus, all LAWSON stores in Kochi Prefecture began to be operated by Lawson Kochi, Inc.

For the year ended February 29, 2020, the number of LAWSON stores in the prefecture stood at 139 at the period-end date (a decrease of 1 store compared to the year-ago period), and the operating income of Lawson Kochi, Inc. amounted to 400 million yen. We will continue to have Lawson Kochi strive to build a store environment

meeting local needs appropriately, thus growing Lawson chain stores in Kochi in the coming years.

■ Lawson Kochi, Inc. (Millions of Yen)					
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2
Gross operating revenues	4,426	4,388	4,321	4,482	4,208
Operating income	411	387	498	463	430
Net income	269	300	290	298	286

* Income began to be reflected in the consolidated accounts, starting from April 2015

SEIJO ISHII CO., LTD. (consolidated subsidiary)

The company became a wholly-owned subsidiary of Lawson, Inc. in October 2014. The number of company-operated stores reached 154 as of the end of February 2020 (an increase of 8 stores compared to the year-ago period). Its well-selected original delicatessen items have been popular among many customers and sales have been solid.

With regard to performance of the year ended February 29, 2020, due mainly to stable sales of original delicatessen and dessert items, sales of existing stores were favorable as 102.9% compared to the previous fiscal year and operating income stood at 9.1 billion yen, an increase of 900 million yen compared to the previous fiscal year.

Leveraging its strengths such as product development capabilities, knowhow as a manufacturing retailer and sales techniques, the company will continue to strive to enhance the brand appeal of "Seijo Ishii."

■ SEIJO ISHII CO., LTD. (Millions of Yen)						
(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2015.12	2014.12
Gross operating revenues	93,769	87,229	81,957	85,824	68,993	17,881
Operating income	9,105	8,171	7,611	7,795	5,795	1,547
Net income	5,348	4,885	4,339	4,616	2,625	1,086

* Consolidated starting from October 2014

Lawson Entertainment, Inc. (consolidated subsidiary)

Lawson Entertainment, Inc. ("Lawson Entertainment") distributes tickets for concerts, sporting events, theaters and cinemas mainly through the multimedia information terminal "Loppi" in Lawson stores and the "L-Tike.com" website. The company is particularly strong in the areas of J-pop and sporting event ticket sales. Holding a top-class position in the industry in ticket sales quantity, Lawson Entertainment has been expanding its operations in a steady manner.

Established in 1992 as RIZA JAPAN, primarily a ticket distributor, the company changed its name to Lawson Ticket in 1996 before being included in Lawson, Inc.'s scope of consolidation as a subsidiary in 1997. In July 2009, the company changed its name to Lawson Entermedia, Inc. It was listed on the Osaka Securities Exchange JASDAQ Market but was delisted in June 2010. The company then became a wholly-owned subsidiary of Lawson, Inc. in July 2010 through a share swap transaction.

In September 2011, Lawson Entermedia, Inc. and our subsidiary HMV Japan K.K. merged to form Lawson HMV Entertainment with the aim of achieving increased synergy between the entertainment and e-commerce (EC) businesses of the Lawson Group, going forward. In June 2018, the corporate name was changed to Lawson Entertainment, Inc.

We leverage the Group's solid e-commerce business platform to provide one-stop shopping convenience to customers by enabling those buying concert tickets and CDs for a given artist separately in the past to make purchases in one single location. The company generates good synergy between the HMV brand's competitive edge in the CD music industry and Lawson Ticket's prowess in the ticket distribution industry.

As for Lawson Entertainment's revenue structure, commission revenues on ticket sales currently account for the bulk of its revenues. Its operating revenues mainly comprising commissions are recorded as "operating revenues-other" in the consolidated statement of income of Lawson, Inc.

For the year ended February 29, 2020, operating income stood at 2.3 billion yen which was about the same level with the previous fiscal year.

■ Lawson Entertainment, Inc.

(Millions of Yen)

(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	58,539	54,541	53,261	50,423	50,205	46,018
Operating income	2,367	2,335	1,851	2,119	2,469	3,094
Net income	2,867	2,470	1,524	1,466	1,644	2,918

United Cinemas Co., Ltd. (consolidated subsidiary)

In August 2014, Lawson, Inc. acquired all shares in United Cinemas Co., Ltd. ("UC"), a cinema operator, in a deal conducted via a newly established subsidiary of present Lawson Entertainment, Inc. Adding the industry's top-class firm, UC, to the Lawson Group steps up its contents holder service as an integrated entertainment distributor and boosts its existing business lines' customer drawing power through collaborating with movie contents holders and encouraging its Lawson, HMV, e-commerce and cinema operations to guide customers to each other's service.

For the year ended February 29, 2020, operating income was 3.4 billion yen, due mainly to hit films.

■ United Cinemas Co., Ltd.

(Millions of Yen)

(Fiscal Year)	2020.2	2019.2	2018.2	2017.2	2016.2	2014.12
Gross operating revenues	26,970	23,653	22,243	22,637	24,960	5,773
Operating income	3,457	2,675	2,512	2,457	2,338	156
Net income (loss)	2,245	2,687	1,694	2,137	2,260	(112)

* Consolidated starting from September 2014

Lawson Bank, Inc. (consolidated subsidiary)

Lawson ATM Networks, Inc. was established in 2001 with investments from Mitsubishi Corporation, partner banks and Lawson, Inc., as a provider of ATM services for LAWSON stores. The company installed ATMs at certain LAWSON stores that year to launch an ATM service. Subsequently, in June 2018, Lawson Bank Preparatory Company, Inc. succeeded to the ATM business of Lawson ATM Networks, Inc. which installed jointly operated ATMs in LAWSON stores through an absorption-type company split. In July 2018, the corporate name was changed to Lawson Bank, Inc. and it started providing services to customers in October 2018. In the jointly operated ATM business, the company focused on strengthening cooperation with financial institutions, and as of end February 2020, the number of ATMs in operation nationwide totaled 13,353, while as for the number of partner financial institutions, the number of direct partners totaled 124 nationwide. Also, in order to contribute to the development of local communities and economy, in cooperation with regional financial institutions, replacement of their ATMs with Lawson Bank ATMs was promoted.

In the retail business, the company focused on deposit account service by sales promotion such as fixed deposit account campaign and strategic revisions to interest on ordinary savings account. Also, the company strengthened "LAWSON Ponta Plus" credit card initiative by offering revised points in accordance with the cashless point rebate program.

For the year ended February 29, 2020, segment profit of Financial service business stood at 3.0 billion yen due mainly to increased revenue in accordance with increased number of ATMs in operation and reduction of costs such as ATM operation cost.

Shanghai Lawson, Inc. (consolidated subsidiary)

At the invitation of the Shanghai city, we were the first Japanese convenience store company to gain a foothold in China and established a joint venture, Shanghai Hualian Lawson, Inc. ("Shanghai Hualian Lawson") in Shanghai, with Lawson, Inc. taking a 70.0% equity stake in the firm and China Hualian Group Co., Ltd. ("Hualian Group"), a Shanghai city government-related company, the remaining 30.0% equity stake in it.

In 2004, we transferred 21.0% of equity interest in Shanghai Hualian Lawson (out of our 70.0% equity interest in the firm) to the Hualian Group, reducing our ownership in it to 49.0%. However, in September 2011, in order to reinforce the Japanese-style convenience store concept in China (Shanghai city), we brought our equity interest in Shanghai Hualian Lawson to 85.0% and the company was included in Lawson, Inc.'s scope of consolidation as a subsidiary. Aiming at strengthening and expanding our China business, this was performed in order to accelerate its efforts to pursue the Japanese-style convenience store business model that is superior in product development, customer interaction, and cleanliness.

Subsequently, our equity interest was raised to 100% in February 2017 and corporate name was changed to Shanghai Lawson, Inc.

The total number of LAWSON stores stood at 1,574 as of February 29, 2020 (an increase of 347 stores compared to the year-ago period).

For the year ended December 31, 2019, the company secured positive operating income while absorbing large store opening cost.

■ Shanghai Lawson, Inc.

(Millions of Yen)

(Fiscal Year)	2019.12	2018.12	2017.12	2016.12	2015.12	2014.12
Gross operating revenues	33,605	24,359	19,905	13,561	8,531	1,360
Operating income (loss)	73	28	(567)	(555)	(755)	(646)
Net income (loss)	(488)	(241)	(1,025)	(1,347)	(1,099)	(925)

* Starting from the year ended December 31, 2015, the profits (losses) of Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd. and Zhejiang Lawson, Inc., each located in Shanghai and surrounding area, were added to the profit (loss) of Shanghai Lawson, Inc.

Chongqing Lawson, Inc. (consolidated subsidiary)

We established Chongqing Lawson, Inc. in April 2010 to gain a foothold in inland China as the first Japanese convenience store company to operate there at the invitation of the city of Chongqing and the first local LAWSON store was opened. The LAWSON store network has continued to grow steadily since, bringing the total store count to 235 as of February 29, 2020 (an increase of 37 stores compared to the year-ago period). For the year ended December 31, 2019, the company decreased operating loss while absorbing store opening cost.

■ Chongqing Lawson, Inc. (Millions of Yen)						
(Fiscal Year)	2019.12	2018.12	2017.12	2016.12	2015.12	2014.12
Gross operating revenues	3,104	3,461	3,225	3,586	4,400	3,474
Operating income (loss)	(101)	(282)	(306)	(452)	(778)	(904)
Net income (loss)	(245)	(378)	(413)	(623)	(973)	(1,047)

Dalian Lawson, Inc. (consolidated subsidiary)

Following an invitation by the city of Dalian to commence convenience store operations there, we established Dalian Lawson, Inc. in September 2011 as a joint venture with local enterprise Dalian Acasia Fast Foods Co., Ltd. before opening the first local LAWSON store in November the same year. Currently, our equity stake in the company is 98.3%. The number of its LAWSON stores stood at 192 as of February 29, 2020 (an increase of 46 stores compared to the year-ago period). For the year ended December 31, 2019, operating income turned positive as an increase of franchise stores improved profit, among other factors.

■ Dalian Lawson, Inc. (Millions of Yen)						
(Fiscal Year)	2019.12	2018.12	2017.12	2016.12	2015.12	2014.12
Gross operating revenues	3,298	2,463	2,371	2,043	1,502	995
Operating income (loss)	13	0	4	(183)	(312)	(313)
Net income (loss)	(32)	(31)	(28)	(190)	(344)	(338)

Beijing Lawson, Inc. (consolidated subsidiary)

We established Beijing Lawson, Inc. in May 2013. The total number of stores stood at 153 as of February 29, 2020 (an increase of 45 stores compared to the year-ago period). For the year ended December 31, 2019, the company decreased operating loss while absorbing store opening cost.

■ Beijing Lawson, Inc. (Millions of Yen)				
(Fiscal Year)	2019.12	2018.12	2017.12	2016.12
Gross operating revenues	4,942	4,480	3,106	2,168
Operating income (loss)	(261)	(463)	(635)	(643)
Net income (loss)	(313)	(591)	(687)	(634)

* Beijing Lawson, Inc. has been included in the scope of consolidation from 2016. The operating result above of Beijing Lawson, Inc. includes the operating result of BEIJING LUOSONG Co., Ltd.

Saha Lawson Co., Ltd. (consolidated subsidiary)

In Thailand, we established Saha Lawson Co., Ltd. in November 2012 as a joint venture principally with the SAHA Group, Thailand's leading consumer goods distributor. In March 2013, this joint venture launched Lawson convenience stores under the "LAWSON 108" brand in Bangkok. The number of stores stood at 133 as of February 29, 2020 (an increase of 13 stores compared to the year-ago period). For the year ended December 31, 2019, the company decreased operating loss while absorbing store opening cost.

■ Saha Lawson Co., Ltd. (Millions of Yen)						
(Fiscal Year)	2019.12	2018.12	2017.12	2016.12	2015.12	2014.12
Gross operating revenues	10,792	9,851	8,271	7,171	6,962	7,800
Operating income (loss)	(267)	(299)	(653)	(305)	(251)	(655)
Net income (loss)	(282)	(280)	(767)	(396)	(308)	(831)

* Consolidated starting from January 2013

Our Initiatives for SDGs

Based on our corporate philosophy “Creating Happiness and Harmony in Our Communities,” On March 1, 2019, we established the “SDGs Committee” aiming to realize a sustainable society through Lawson’s business activities. Centering on this Committee we have promoted initiatives leading to solutions for social issues through a step by step approach. Specifically, we clarified issues with heavy impacts on the environment, society and economy in our business activities including our value chain, identified social issues with high priority, and then determined Lawson’s own “six material issues.”

<Lawson’s Six Material Issues>

1. Providing Safety/Security-Oriented Overwhelmingly High Value-Added Products and Services Friendly to Society and the Environment
2. Supporting Health Promotion for All People Through Products and Stores
3. Providing Comfortable Work Environment Leading to Job Satisfaction
4. Supporting Women, Senior People as well as Children’s Growth
5. Coexisting Synergistically with Communities by Serving as Part of Social Infrastructure
6. Sustainable Environment Preservation Activities Toward Carbon-Free Society

In particular, regarding the sixth Material Issue (Sustainable Environment Preservation Activities), as social environment issues, “Goals for 2030 (KPI)” have been set as goals (KPIs) focusing on: (1) Reducing food waste, (2) Reducing plastic (for containers and packaging) and (3) Reducing CO₂ emissions, and we are addressing initiative. In addition, aiming for achieving a better world by 2050, under the theme of “Lawson Blue Challenge 2050! - “Save our blue planet!” we take on more difficult challenges to contribute to achieve higher goals so that we can create a carbon-free society and contribute to the ideal world that the SDGs aim to realize.

Issues	2030 KPI	2050 KPI
Reducing food waste	Reduce by 50% v. 2018 levels	Reduce by 100%
Reducing plastic (*plastic for containers and packaging)	Reduce by 30% v. 2017 levels * For Lawson’s original products, eco-friendly materials: 50% usage	* For Lawson’s original products, eco-friendly materials: 100% usage
Reducing plastic (for plastic shopping bags)	Reduce by 100% v. 2017 levels for plastic shopping bags	—
Reducing CO ₂ emissions	Reduce by 30% v. 2013 levels	Reduce by 100%

For reducing food waste, a food loss reduction experiment “Another Choice” was conducted at 216 stores in Ehime prefecture and 236 stores in Okinawa prefecture for 82 days from June 11 to August 31, 2019, for a total of 452 stores (as of the end of August 2019). As a result, 3,254,673 yen from Ehime prefecture and 5,036,165 yen from Okinawa prefecture, a total of 8,290,838 yen was donated to support children’s summer vacation meals.

For reducing plastic, in addition to replacing plastic S size cups of iced coffee for in-store freshly brewed coffee service “MACHI café” with paper cups, we also adopted a lid that does not require a straw. With these actions, 8g plastic for 1 cup can be reduced.

As for plastic shopping bags, from July 1, 2020, it becomes mandatory to charge for plastic shopping bags nationwide. In accordance with this change, we charge 3 yen for each plastic shopping bag, and at the same time, we are working to reduce plastics by blending 30% of plant-derived materials.

In order to prevent global warming and reduce the amount of electricity used in stores, we promoted the introduction of “non-fluorocarbon (CO₂ refrigerant) freezer/refrigeration system” and the system was installed to approximately 3,700 stores by the end of February 2020 (an increase of approximately 300 stores compared to the year-ago period).

Other than above, we are maintaining Scholarship Program for children from single-parent families to support the dreams of students who have difficulty paying school tuitions in single-parent families, and 400 students were selected and offered scholarship for fiscal year 2019. Also, we conducted fund-raising campaigns in the event of a disaster such as Typhoon No. 15 and Typhoon No. 19, and in the event of the Shurijo Castle Fire in Okinawa Prefecture, we placed donation boxes at stores or other places in Okinawa Prefecture to raise fund.

As a member of society, Lawson Inc. will continue to work with franchise stores, customers and business partners to contribute to the promotion of the SDGs through initiatives to resolve social and environmental issues.

Consolidated Balance Sheet

Lawson, Inc. and its Consolidated Subsidiaries
February 29, 2020

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT ASSETS:			
Cash and cash equivalents	¥343,583	¥354,236	\$3,139,751
Time deposits	4	4	37
Accounts receivable:			
Due from franchised stores (Note 3)	47,367	47,180	432,852
Other	162,142	124,067	1,481,696
Allowance for doubtful accounts	(43)	(124)	(393)
Lease receivables (Note 4)	17,877	19,121	163,365
Inventories	20,985	20,862	191,766
Other	44,783	54,258	409,239
Total current assets	636,698	619,604	5,818,313
PROPERTY AND STORE EQUIPMENT:			
Land (Notes 6 and 7)	8,913	9,053	81,449
Buildings (Note 6)	387,223	387,981	3,538,545
Furniture, fixtures, and equipment (Note 6)	79,188	74,729	723,641
Lease assets (Note 6)	261,556	252,577	2,390,167
Other (Note 6)	22,875	817	209,038
Total	759,755	725,157	6,942,840
Accumulated depreciation	(366,817)	(342,857)	(3,352,070)
Net property and store equipment	392,938	382,300	3,590,770
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	9,948	13,549	90,907
Investments in associated companies	20,518	18,297	187,499
Long-term loans receivable	42,488	44,024	388,266
Goodwill (Note 6)	42,382	46,836	387,298
Software (Note 6)	45,152	49,792	412,611

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Trademark right	8,850	9,468	80,874
Lease deposits	107,193	107,034	979,558
Deferred tax assets (Note 15)	34,378	30,995	314,155
Other (Note 6)	17,818	21,266	162,825
Allowance for doubtful accounts	(630)	(835)	(5,757)
Total investments and other assets	328,097	340,426	2,998,236
TOTAL	¥1,357,733	¥1,342,330	\$12,407,320

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 8 and 19)	¥129,398	¥123,409	\$1,182,473
Due to franchised stores (Note 9)	1,860	1,611	16,997
Other	94,448	101,693	863,091
Short-term loans (Note 10)	39,850	126,600	364,160
Current portion of long-term debt (Note 10)	45,610	88,750	416,796
Income taxes payable	7,916	6,684	72,338
Deposits received	193,097	131,805	1,764,571
Other (Note 12)	49,784	17,971	454,939
Total current liabilities	561,963	598,523	5,135,365
LONG-TERM LIABILITIES:			
Net defined benefit liability (Note 11)	16,246	15,126	148,460
Allowance for retirement benefits to executive officers and audit and supervisory board members	283	301	2,586
Long-term debt (Note 10)	446,666	391,441	4,081,751
Asset retirement obligations (Note 12)	35,336	31,102	322,910
Deferred tax liabilities (Note 15)	522	551	4,770
Other	21,370	23,304	195,285
Total long-term liabilities	520,423	461,825	4,755,762
EQUITY (Note 13):			
Common stock—authorized, 409,300,000 shares in 2020 and 2019; issued, 100,300,000 shares in 2020 and 2019	58,507	58,507	534,652
Capital surplus	44,605	46,984	407,612
Stock acquisition rights	256	216	2,339
Retained earnings	165,081	166,188	1,508,553

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Treasury stock—at cost, 237,762 shares in 2020 and 241,897 shares in 2019	(1,011)	(1,029)	(9,238)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	1,497	3,349	13,680
Land revaluation difference (Note 7)	(208)	(567)	(1,901)
Foreign currency translation adjustments	3,341	3,931	30,531
Defined retirement benefit plans	(935)	(848)	(8,544)
Total	271,133	276,731	2,477,684
Noncontrolling interests	4,214	5,251	38,509
Total equity	275,347	281,982	2,516,193
TOTAL	¥1,357,733	¥1,342,330	\$12,407,320

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

Consolidated Statement of Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥314,261	¥302,136	\$2,871,799
Net sales	302,843	288,580	2,767,459
Other	113,133	109,932	1,033,839
Total operating revenues	730,237	700,648	6,673,097
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 19)	205,746	198,040	1,880,161
Selling, general, and administrative expenses	461,548	441,826	4,217,746
Total costs and operating expenses	667,294	639,866	6,097,907
Operating income	62,943	60,782	575,189
OTHER INCOME (EXPENSES):			
Interest expense—net	(3,284)	(1,735)	(30,010)
Compensation income	681	382	6,223
Loss on cancellation of leases	(3,675)	(1,655)	(33,583)
Equity in earnings of unconsolidated subsidiaries and associated companies	571	321	5,218
Gain on sales of investment securities	165	738	1,508
Loss on sales of non-current assets	(508)	(225)	(4,642)
Loss on disposal of property and store equipment	(6,121)	(4,142)	(55,935)
Impairment of long-lived assets (Note 6)	(18,722)	(13,892)	(171,087)
Other—net	(1,730)	(697)	(15,809)
Other expenses—net	(32,623)	(20,905)	(298,118)
INCOME BEFORE INCOME TAXES	30,320	39,877	277,072

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
INCOME TAXES (Note 15):			
Current	12,814	18,329	117,098
Deferred	(2,563)	(4,015)	(23,422)
Total income taxes	10,251	14,314	93,676
NET INCOME	20,069	25,563	183,396
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(39)	(23)	(357)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥20,108	¥25,586	\$183,752

	Yen		U.S. Dollars
	2020	2019	2020
PER SHARE OF COMMON STOCK (Notes 2.t and 21):			
Net income—basic	¥200.95	¥255.71	\$1.84
Net income—diluted	200.84	255.59	1.84
Cash dividends applicable to the year	202.5	255	1.85

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥20,069	¥25,563	\$183,396
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	(1,852)	1,265	(16,924)
Land revaluation difference			
Foreign currency translation adjustments	(543)	(674)	(4,962)
Remeasurements of defined benefit plans	(87)	19	(795)
Total other comprehensive income	(2,482)	610	(22,681)
COMPREHENSIVE INCOME	¥17,587	¥26,173	\$160,715
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥17,580	¥26,204	\$160,651
Noncontrolling interests	7	(31)	64

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

Consolidated Statement of Changes in Equity

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 29, 2020

	Thousands of Shares/Millions of Yen													
	Common Stock				Retained Earnings	Treasury Stock		Accumulated other comprehensive income				Total	Noncontrolling Interests	Total Equity
	Shares	Amount	Capital Surplus	Stock Acquisition Rights		Shares	Amount	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurements of defined benefit plans			
BALANCE, FEBRUARY 28, 2018	100,300	¥58,507	¥46,690	¥195	¥166,125	(244)	¥(1,041)	¥2,084	¥(576)	¥4,596	¥(727)	¥275,853	¥5,593	¥281,446
Net income attributable to owners of the parent					25,586							25,586		25,586
Change in the parent's ownership interest due to transactions with noncontrolling interests														
Year-end cash dividends, ¥127.5 per share					(12,757)							(12,757)		(12,757)
Interim cash dividends, ¥127.5 per share					(12,757)							(12,757)		(12,757)
Change of scope of consolidation					(0)							(0)		(0)
Capital increase of consolidated subsidiaries			(4)									(4)		(4)
Increase by corporate division			70									70		70
Tax effect adjustment on change in equity of prior period			224									224		224
Reversal of land revaluation difference					(9)							(9)		(9)
Purchase of treasury stock							(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			4			3	13					17		17
Disposal of treasury stock			0				0					0		0
Others—net				21				1,265	9	(665)	(121)	509	(342)	167
BALANCE, FEBRUARY 28, 2019	100,300	¥58,507	¥46,984	¥216	¥166,188	(241)	¥(1,029)	¥3,349	¥(567)	¥3,931	¥(848)	¥276,731	¥5,251	¥281,982
Cumulative effects of changes in accounting policies					(593)							(593)		(593)
Restated balance	100,300	58,507	46,984	¥216	165,595	(241)	(1,029)	3,349	(567)	3,931	(848)	276,136	5,251	281,388
Net income attributable to owners of the parent					20,108							20,108		20,108
Change in the parent's ownership interest due to transactions with noncontrolling interests			(2,375)									(2,375)		(2,375)
Year-end cash dividends, ¥127.5 per share					(12,758)							(12,758)		(12,758)
Interim cash dividends, ¥75.0 per share					(7,505)							(7,505)		(7,505)
Reversal of land revaluation difference					(359)							(359)		(359)
Purchase of treasury stock							(1)					(1)		(1)
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(4)			4	19					15		15
Others—net				40				(1,852)	359	(590)	(87)	(2,130)	(1,037)	(3,167)
BALANCE, FEBRUARY 29, 2020	100,300	¥58,507	¥44,605	¥256	¥165,081	(237)	¥(1,011)	¥1,497	¥(208)	¥3,341	¥(935)	¥271,133	¥4,214	¥275,347

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated other comprehensive income				Total	Noncontrolling Interests	Total Equity
						Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurements of defined benefit plans			
BALANCE, FEBRUARY 28, 2019	\$534,652	\$429,352	\$1,974	\$1,518,669	\$(9,403)	\$30,604	\$(5,181)	\$35,923	\$(7,749)	\$2,528,841	\$47,985	\$2,576,826
Cumulative effects of changes in accounting policies				(5,419)						(5,419)		(5,419)
Restated balance	\$534,652	\$429,352	\$1,974	\$1,513,250	\$(9,403)	\$30,604	\$(5,181)	\$35,923	\$(7,749)	\$2,523,422	\$47,985	\$2,571,407
Net income attributable to owners of the parent				183,752						183,752		183,752
Change in the parent's ownership interest due to transactions with noncontrolling interests		(21,703)								(21,703)		(21,703)
Year-end cash dividends, \$1.17 per share				(116,586)						(116,586)		(116,586)
Interim cash dividends, \$0.69 per share				(68,583)						(68,583)		(68,583)
Reversal of land revaluation difference				(3,280)						(3,280)		(3,280)
Purchase of treasury stock					(9)					(9)		(9)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		(37)			174					137		137
Others—net			365			(16,924)	3,280	(5,392)	(795)	(19,466)	(9,476)	(28,942)
BALANCE, FEBRUARY 29, 2020	\$534,652	\$407,612	\$2,339	\$1,508,553	\$(9,238)	\$13,680	\$(1,901)	\$30,531	\$(8,544)	\$2,477,684	\$38,509	\$2,516,193

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

Consolidated Statement of Cash Flows

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 29, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥30,320	¥39,877	\$277,072
Adjustments for:			
Income taxes paid	(11,436)	(18,706)	(104,505)
Depreciation and amortization	79,183	66,844	723,595
Impairment of long-lived assets	18,722	13,892	171,087
Loss on disposal of property and store equipment	6,121	4,142	55,935
Changes in assets and liabilities:			
Increase in accounts receivable	(38,594)	(41,112)	(352,682)
Increase (decrease) in accounts payable	(896)	53,697	(8,188)
Increase in deposits received	61,293	22,179	560,111
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	766	906	7,000
Net increase (decrease) in call loans for banking business	10,000	(20,000)	91,383
Net increase in call money for banking business	19,000		173,627
Other—net	28,225	6,876	257,927
Total adjustments	172,384	88,718	1,575,290
Net cash provided by operating activities	202,704	128,595	1,852,362
INVESTING ACTIVITIES:			
Purchases of property and store equipment	(33,852)	(43,284)	(309,348)
Purchases of software and other intangible assets	(10,931)	(18,060)	(99,890)
Increase in long-term loans receivable	(5,961)	(7,389)	(54,473)
Proceeds from collection of long-term loans receivable	5,736	5,111	52,417
Payments for guarantee deposits	(18,023)	(24,239)	(164,699)
Proceeds from collection of guarantee deposits	17,836	18,428	162,990
Long-term prepaid expenses	(797)	(5,752)	(7,283)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Purchase of investment securities	(129)	(5,757)	(1,179)
Proceeds from sales of investment securities	243	7,157	2,221
Acquisition of associated companies	(2,246)	(3,597)	(20,525)
Payments for transfer of business		(2,731)	
Other—net	(950)	(905)	(8,681)
Net cash used in investing activities	(49,074)	(81,018)	(448,451)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	(86,750)	90,260	(792,744)
Repayments of long-term debt	(103,319)	(46,727)	(944,156)
Cash dividends paid	(20,263)	(25,514)	(185,169)
Proceeds from long-term loan-payable	50,000	260,000	456,913
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation	(3,521)		(32,176)
Other—net	(58)	(82)	(529)
Net cash provided by (used in) financing activities	(163,911)	277,937	(1,497,862)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(372)	(1,409)	(3,399)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,653)	324,105	(97,350)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	354,236	30,121	3,237,101
CASH AND CASH EQUIVALENTS IN SUBSIDIARIES RESULTING FROM CHANGES IN SCOPE OF CONSOLIDATION		10	
CASH AND CASH EQUIVALENTS, END OF YEAR	¥343,583	¥354,236	\$3,139,751

* See notes to consolidated financial statements.

* Figures are rounded off less than a unit.

Notes to Consolidated Financial Statements

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 29, 2020

1 | BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Lawson, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥109.43 to \$1, the approximate rate of exchange at February 29, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Mitsubishi Corporation ("Mitsubishi") owns 50,150 thousand shares of common stock of the Company (including indirect holdings) as of February 29, 2020, which represents 50.12% of the total voting rights of the Company. Accordingly, Mitsubishi is the parent company.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its 21 (21 in 2019) subsidiaries (collectively, the "Companies"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those entities for which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2019) associated companies are accounted for by the equity method. Investments in 22 (22 in 2019) unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these entities, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies has been eliminated.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies over the fair value of the net assets at the dates of acquisition is being amortized over a period not exceeding 20 years.

b. Fiscal Year End of the Consolidated Subsidiaries—The fiscal year end of Chongqing Lawson, Inc.; Shanghai Lawson, Inc.; Dalian Lawson, Inc.; Lawson (China) Holdings, Inc.; Saha Lawson Co., Ltd., Shanghai Le Song Trading Co., Ltd., Shang Hai Gong Hui Trading Co., Ltd., Zhejiang Lawson, Inc.; Beijing Lawson, Inc.; and BEIJING LUOSONG Co., Ltd. is December 31. In order to prepare the consolidated financial statements, the Company used these companies' financial statements prepared as of such fiscal year end, and significant transactions which occur between December 31 and the consolidated fiscal year end are adjusted as required for consolidation.

The fiscal year end of Lawson Bank, Inc. is March 31. In order to prepare the consolidated financial statements, the Company used this subsidiary's provisional settlement of accounts as of the Company's fiscal year end.

The fiscal year end date for the other consolidated subsidiaries is the same as that of the Company.

c. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss related to pensions that has

been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. Unification of Accounting Policies Applied to Foreign Associated Companies Accounted for by Using the Equity Method—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The standard requires adjustments to be made to conform associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

e. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the

provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interests is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

f. Franchise Agreements and Basis for Recognizing Franchise Commissions—

The Company operates principally in a single industry, referred to as the convenience store business, with its own stores and franchised stores. The Company allows each independent franchisee to operate relatively small-sized convenience stores using specific designs and LAWSON brand names, and provides related managerial or technical know-how under a franchise agreement. Under the agreement, all franchised stores are provided with a variety of services and advice on the operation of convenience stores from the Company as the franchisor. In return, such franchised stores are required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin. As the franchisor, the Company accounts for franchise commissions on an accrual basis by reference to the gross margin earned by each franchised store and the applicable commission percentage. According to the franchise agreement, a franchised store may pay

additional guarantee deposits equal to twice the average monthly sales amounts of the respective store and pay a lower commission percentage.

The term of a franchise agreement is effective primarily for 10 years from the commencement date of a new store's operation as a franchised store and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee.

The franchise agreement usually provides that the franchised store shall make a cash payment to the Company in the amount of ¥1 million upon commencement. Upon receipt of such payment, ¥1 million is credited to income of the Company as "Operating revenues—Franchise commissions from franchised stores" for services related to the opening of the LAWSON store. The remaining amount received by the Company is credited to the "Due to franchised stores" account and then applied to working capital for purchases of merchandise and supplies for the franchised store.

As part of the contractual obligations of the franchisor under the agreement, the Company generally provides franchisees with furniture, fixtures, and equipment designed for the LAWSON stores. In some cases, franchisees may also be provided with the land or buildings for the stores. However, the Company does not require the franchisees to make lease payments related to the stores. Instead, a higher percentage applicable to the gross margin would be used as the basis for determining the franchise commissions. The portion of franchise commission attributable to property and store equipment leases is not separately accounted for by the Company.

g. Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which mature or become due within three months of the date of acquisition and which are readily convertible into cash and are exposed to insignificant risk of changes in value.

h. Inventories—Substantially all inventories are stated at the lower of cost, determined by the retail method as generally applied in the retail industry or by the gross average method, or net selling value.

i. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity, with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value based on market quotations. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Nonmarketable investment securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable investment securities are reduced to net realizable value by a charge to income.

j. Property and Store Equipment—Property and store equipment are stated at cost, except for land (see Note 7). Depreciation is computed mainly by the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 34 years for buildings and structures and from 5 to 8 years for furniture, fixtures, and equipment.

The useful lives for lease assets are the terms of the respective leases.

k. Long-Lived Assets—The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group, mainly by each store, may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition.

l. Software—Software used by the Companies is amortized using the straight-line method based on the estimated useful life (primarily five years).

m. Trademark Rights—Trademark rights are amortized using the straight-line method based on the estimated useful life (primarily 20 years).

n. Net Defined Benefit Liability—In calculating the retirement benefit obligation, in order to attribute the estimated amount of retirement benefits in the period up to the end of the current fiscal year, the obligation is based on the benefit formula method.

Prior service cost is amortized starting from the fiscal year incurred mainly on a straight-line basis over a certain period (10 years) within the average remaining service period of employees at the time of occurrence.

Actuarial differences are mainly amortized from the following fiscal year on a straight-line basis over a certain period (10 years) within the average remaining service period of employees at the time of occurrence.

Certain consolidated subsidiaries apply the simplified method to estimate the

amount required for voluntary resignations at the end of the fiscal year as the retirement benefit liability in order to calculate net defined benefit liabilities and retirement benefit expenses.

- o. Allowance for Retirement Benefits to Executive Officers and Audit and Supervisory Board Members**—The provisions are calculated as liabilities at 100% of the amount that would be required if all executive officers and audit and supervisory board members resigned as of each balance sheet date.
- p. Asset Retirement Obligations**—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

- q. Stock Options**—Compensation expenses for employee stock options which were granted on and after May 1, 2006 are recognized based on the fair value at the

date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, “Accounting Standard for share-based payment”. Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right and are included as a separate component of equity until exercised.

- r. Income Taxes**—The Companies provide for income taxes applicable to all items included in the consolidated statement of income regardless of when such taxes are payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying current income tax rates to the temporary differences.

The Company and certain consolidated subsidiaries adopted the consolidated taxation system.

- s. Foreign Currency Financial Statements**—The balance sheet accounts of associated companies denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” and “Noncontrolling interests” in separate components of equity. Revenue and expense accounts of affiliated companies denominated in foreign currencies are translated into yen at the current exchange rate.
- t. Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

The number of shares used in computing net income per share was 100,061 thousand shares for 2020 and 100,057 thousand shares for 2019.

Diluted net income per share for the years ended February 29, 2020 and February 28, 2019 was computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

u. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies

When a new accounting policy is applied following the revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

The Company’s foreign consolidated subsidiaries have applied International Financial Reporting Standard 16 (IFRS 16), “Leases,” from the fiscal year ended February 29, 2020. IFRS 16, “Leases,” requires lessees to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities.

The impact of the application of IFRS 16 on the Company’s consolidated financial statements is immaterial.

(2) Changes in presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors

When an error in prior-period financial statements is discovered, those statements are restated.

v. New Accounting Pronouncements

Accounting Standard for Revenue Recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition.” The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when or as the entity satisfies a performance obligation

The Company expects to apply the accounting standard and guidance for annual periods beginning on March 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Fair Value Measurement

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost.

The Company expects to apply the accounting standard and guidance for annual periods beginning on March 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

w. Changes in Presentation of Financial Statements

(Changes resulting from application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28; February 16, 2018) from the beginning of the fiscal year ended February 29, 2020. Consequently, "Deferred tax assets" are presented under "Investments and other assets" and "Deferred tax liabilities" are presented under "Long-term liabilities."

As a result, 4,395 million yen that was presented as "Deferred tax assets" under "Current assets" and 160 million yen that was presented as "Deferred tax liabilities" under "Long-term liabilities" in the Consolidated Balance Sheet for the previous fiscal year are now presented as 30,995 million yen of "Deferred tax assets" under

"Investments and other assets" and 551 million yen of "Deferred tax liabilities" under "Long-term liabilities."

(Consolidated Statement of Income)

In the "Other income (expenses)" section, "Loss on disaster" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Loss on disaster" is now included in "Other-net". To reflect these changes in method of presentation, the Consolidated Statement of Income for the previous fiscal year has been reclassified.

As a result, in the "Other income (expenses)" section, 817 million yen that was presented as "Loss on disaster" and 120 million yen that was presented as "Other-net" in the Consolidated Statement of Income for the previous fiscal year is now presented as 697 million yen of "Other-net."

x. Additional Information

(Accounting estimates relating to the impact of the COVID-19 pandemic)

The COVID-19 pandemic has brought about changes in the Group in terms sales trends for some products as well as customer visits to stores. Based on the actual performance data pertaining to store sales and others after March that was available at the time of preparation of the financial statements, the Group has determined that the above changes will not have a significant impact on accounting estimates such as impairment accounting for non-current assets for the end of the 2020 fiscal year.

3 | ACCOUNTS RECEIVABLE—DUE FROM FRANCHISED STORES

Under the franchise agreements, the Company is responsible for providing architectural and design services with respect to the franchised stores' facilities, for training of the franchisees' personnel, and for the centralized processing of invoices from suggested vendors of merchandise and subsequent payments of amounts payable to such vendors.

The EDP system of the Company generates a record of merchandise purchased by each franchised store and accumulates the amounts payable to respective vendors. Under the franchise agreements, the Company, as a representative for all franchised stores, pays amounts payable to the vendors on the stores' behalf. When the merchandise is received by each franchised store, the Company records the cost of the merchandise in the "Accounts receivable—Due from franchised stores" account since such costs shall be subsequently recovered from the respective franchised stores.

The "Accounts receivable—Due from franchised stores" account represents net amounts recoverable from the franchised stores.

4 | LEASES

As lessee:

Finance lease transactions that do not transfer ownership.

(1) Components of leased assets

The Companies lease certain store facilities and other assets.

(2) Accounting method for depreciation of leased assets

The accounting method for depreciation of leased assets is as described in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (j) Property and Store Equipment."

As lessor:

Lease receivables as of February 29, 2020 and February 28, 2019, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Lease fee receivable	¥18,349	¥19,608	\$167,678
Interest income equivalents	(472)	(488)	(4,313)
Lease receivables	¥17,877	¥19,120	\$163,365

Maturities of lease receivables for finance leases deemed to transfer leased property to the lessee at February 29, 2020 are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2021	¥2,575	\$23,531
2022	2,240	20,470
2023	2,168	19,812
2024	1,868	17,070
2025	1,581	14,447
2026 and thereafter	7,917	72,348
Total	¥18,349	167,687

5 MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 29, 2020 and February 28, 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-current			
—Marketable and other equity securities	¥9,880	¥13,342	\$90,286
Non-current—Corporate bonds	68	207	621
Total	¥9,948	¥13,549	\$90,907

The costs and aggregate fair values of marketable and investment securities as of February 29, 2020 and February 28, 2019, were as follows:

February 29, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale —Equity securities	¥6,719	¥1,648	¥27	¥8,340

February 28, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale —Equity securities	¥6,796	¥4,383	¥17	¥11,162

February 29, 2020	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale —Equity securities	\$61,400	\$15,060	\$247	\$76,213

The proceeds, realized gains, and realized losses on the available-for-sale securities which were sold during the years ended February 29, 2020 and February 28, 2019, were as follows:

February 29, 2020	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥319	¥165	¥106

February 28, 2019	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥7,156	¥738	

February 29, 2020	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	\$2,915	\$1,508	\$969

6 | LONG-LIVED ASSETS

The Companies mainly identify individual stores as the smallest cash generating units. The Companies recognize an impairment loss in cases where the value of long-lived assets has declined, primarily as a result of continuous operating losses. The carrying amounts of those assets are written down to the recoverable amounts and an impairment loss is recorded in other expenses in the consolidated statement of income.

The Companies recognized an impairment loss in the following asset categories for the years ended February 29, 2020 and February 28, 2019:

Category	Related Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2020	2019	2020
Stores	Buildings and	Tokyo	¥2,533	¥1,591	\$23,147
	Furniture, fixtures, and equipment	Osaka	1,689	1,505	15,435
		Others	13,435	10,241	122,773
Other	Land		117	51	1,069
	Software		948	503	8,663
	Goodwill			1	
Total			¥18,722	¥13,892	\$171,087

The above noted assets which incurred impairment losses for the years ended February 29, 2020 and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Buildings	¥10,774	¥7,981	\$98,456
Furniture, fixtures, and equipment	709	587	6,479
Lease assets	6,104	4,693	55,780
Land	117	51	1,069
Software	948	503	8,663
Goodwill		1	
Other	70	76	640
Total	¥18,722	¥13,892	\$171,087

The recoverable amount of these assets was measured based on net selling price or value in use. The net selling price of land was calculated based on the appraised value by a real estate appraiser or the expected contract price. The value in use was calculated by discounting estimated future cash flows. The discount rates used were mainly 3.8% and 3.6% for the years ended February 29, 2020 and February 28, 2019, respectively.

7 | LAND REVALUATION

Under the “Law of Land Revaluation,” promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company opted for a one-time revaluation of its own-use land to a value based on real estate appraisal information as of February 28, 2002.

The resulting land revaluation difference represents unrealized depreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at February 29, 2020, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥81 million (\$740 thousand).

8 | ACCOUNTS PAYABLE—TRADE

The balances of “Accounts payable—trade” represent the amounts payable to vendors for merchandise purchased by the Company-operated stores and franchised stores. The Company centralizes all merchandise purchasing procedures both for the Company-operated stores and franchised stores and makes collective payments to vendors (see Note 3).

“Accounts payable—trade” as of February 29, 2020 and February 28, 2019, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Accounts payable			
—trade for franchised stores	¥108,546	¥104,274	\$991,922
Accounts payable			
—trade for the Company-operated stores	20,852	19,135	190,551
Total	¥129,398	¥123,409	\$1,182,473

9 | ACCOUNTS PAYABLE—DUE TO FRANCHISED STORES

The cost of merchandise supplied to franchised stores is recorded as “Accounts receivable—Due from franchised stores” as described in Note 3.

All franchised stores make remittances of cash proceeds from daily sales to the Company. In certain instances, the remittance from a franchised store exceeds the balance of “Accounts receivable—Due from franchised stores.” In the accompanying consolidated balance sheet, such excess balances are presented as “Accounts payable—Due to franchised stores.”

10 | SHORT-TERM LOANS AND LONG TERM DEBT

Short-term loans February 29, 2020 and February 28, 2019, consisted of notes to banks.

The annual interest rates applicable to the short-term loans were 0.08% and 0.12% at February 29, 2020 and February 28, 2019, respectively.

Long-term debt at February 29, 2020 and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks and financial company, due serially to 2024 with a weighted-average interest rate of 0.21% (2020)	¥310,000	¥310,000	\$2,832,861
Obligations under finance leases	187,311	170,192	1,711,697
Less current portion	(45,945)	(88,750)	(419,857)
Long-term debt, less current portion	¥451,366	¥391,441	\$4,124,751

The aggregate annual maturities of long-term debt, excluding finance leases, at February 29, 2020, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2021		
2022	¥180,000	\$1,644,887
2023	20,000	182,765
2024	80,000	731,061
2025 and thereafter	30,000	274,148
Total	¥310,000	\$2,832,861

The aggregate annual maturities of finance lease obligations at February 29, 2020, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2021	¥45,945	\$419,857
2022	37,962	346,917
2023	35,621	325,523
2024	27,178	248,360
2025 and thereafter	40,602	371,032
Total	¥183,710	\$1,711,688

Lease obligations are presented on a net basis by offsetting with long-term loans receivable as the arrangement meets the offsetting requirements. The amounts offset for the lease obligations due within one year and those due over one year are ¥335 million (\$3,061 thousand) and ¥4,699 million (\$42,941 thousand), respectively.

The Company and certain consolidated subsidiaries have entered into loan commitment agreements to efficiently finance working capital.

The balances of unused loans at February 29, 2020 and February 28, 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Total loan commitments	¥220,000	¥220,000	\$2,010,418
Outstanding balance of used loans	3,000	79,800	27,415
Net amount	¥217,000	¥140,200	\$1,983,003

11 EMPLOYEES' RETIREMENT BENEFITS

For employees' retirement benefits, the Company and certain consolidated subsidiaries adopt a funded or unfunded defined benefit-type lump-sum retirement allowance plan and a defined contribution-type pension plan.

The lump-sum retirement allowance plan (generally unfunded, with some plans being funded in accordance with an employee pension trust) pays a lump sum as a retirement benefit based on salary and length of service of the employee.

The lump-sum retirement allowance plan employed by some consolidated subsidiaries calculates liabilities related to retirement benefits and retirement benefit expenses by the simplified method.

Year Ended February 29, 2020

(1) Changes in defined benefit obligations for the year ended February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥20,316	\$183,653
Current service cost	1,881	17,189
Interest cost	64	585
Actuarial losses	332	3,034
Benefits paid	(1,191)	(10,884)
Others	7	64
Balance at end of year	¥21,409	\$195,641

(2) Changes in plan assets for the year ended February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,582	\$51,010
Actuarial gains	(3)	(28)
Balance at end of year	¥5,579	\$50,982

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥19,418	\$177,446
Plan assets	(5,579)	(50,982)
	13,839	126,464
Unfunded defined benefit obligation	1,991	18,194
Net liability arising from defined benefit obligations	¥15,830	\$144,658

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥15,830	\$144,658
Net liability arising from defined benefit obligations	¥15,830	\$144,658

(4) Components of net periodic benefit costs for the year ended February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,881	\$17,189
Interest cost	64	585
Recognized actuarial losses	177	1,617
Amortization of prior service cost	5	46
Others	(17)	(155)
Net periodic benefit costs	¥2,110	\$19,282

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial losses	¥(157)	\$(1,435)
Total	¥(157)	\$(1,435)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost		
Unrecognized actuarial losses	¥1,346	\$12,300
Total	¥1,346	\$12,300

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended February 29, 2020, were set forth as follows:

Discount rate	0.3% (mainly)
Expected rate of return on plan assets	0%

(9) Contributions to the defined contribution pension plan for the year ended February 29, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥564	\$5,154

Year Ended February 28, 2019

(1) Changes in defined benefit obligations for the year ended February 28, 2019, were as follows:

	Millions of Yen
Balance at beginning of year	¥19,091
Current service cost	1,820
Interest cost	64
Actuarial losses	357
Benefits paid	(1,015)
Others	(1)
Balance at end of year	¥20,316

(2) Changes in plan assets for the year ended February 28, 2019, were as follows:

	Millions of Yen
Balance at beginning of year	¥5,587
Actuarial gains	(5)
Balance at end of year	¥5,582

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows:

	Millions of Yen
Funded defined benefit obligation	¥18,493
Plan assets	(5,582)
	12,910
Unfunded defined benefit obligation	1,823
Net liability arising from defined benefit obligations	¥14,733

	Millions of Yen
Liability for retirement benefits	¥14,733
Net liability arising from defined benefit obligations	¥14,733

(4) Components of net periodic benefit costs for the year ended February 28, 2019, were as follows:

	Millions of Yen
Service cost	¥1,820
Interest cost	64
Recognized actuarial losses	185
Amortization of prior service cost	1
Others	(31)
Net periodic benefit costs	¥2,039

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2019, were as follows:

	Millions of Yen
Prior service cost	¥1
Actuarial losses	(178)
Total	¥(177)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2019, were as follows:

	Millions of Yen
Unrecognized prior service cost	
Unrecognized actuarial losses	¥1,190
Total	¥1,190

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Cash and cash equivalents	100%
Total	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended February 28, 2019, were set forth as follows:

Discount rate	0.5% (mainly)
Expected rate of return on plan assets	0%

(9) Contributions to the defined contribution pension plan for the year ended February 28, 2019, were as follows:

	Millions of Yen
Net periodic benefit cost	¥526

12 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥31,118	¥29,109	\$284,364
Additional provisions associated with the acquisition of property, plant, and equipment	1,414	2,385	12,922
Reconciliation associated with passage of time	384	396	3,509
Reduction associated with settlement of asset retirement obligations	(1,525)	(772)	(13,936)
Additional provisions associated with changes in accounting estimates	3,950		36,096
Total	35,342	31,118	322,964
Less current portion	(6)	(16)	(55)
Asset retirement obligations, less current portion	¥35,336	¥31,102	\$322,910

Changes in accounting estimates were recorded as it became evident that the estimate of the discounted cash flows required for future asset retirement would change, due to certain events. A reconciliation has been prepared for the change, which resulted in an increase of the asset retirement obligation for the year ended February 29, 2020, by ¥3,950 million (\$36,096 thousand).

13 | EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides for common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings to be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides for companies to purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14 STOCK OPTIONS

The Company has stock option plans as an incentive for directors, executive officers, and selected employees.

The stock options outstanding as of February 29, 2020, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
5th Stock Option	9 directors	22,400 shares	2005.10.12	¥1 (\$0.01)	From October 13, 2005 to May 31, 2025
6th (a) Stock Option	9 directors	21,300 shares	2006.10.26	¥1 (\$0.01)	From October 27, 2006 to May 26, 2026
7th (a) Stock Option	7 directors	18,000 shares	2007.9.5	¥1 (\$0.01)	From September 6, 2007 to August 20, 2027
8th (a) Stock Option	7 directors	26,400 shares	2009.1.16	¥1 (\$0.01)	From January 17, 2009 to December 15, 2028
9th Stock Option	7 directors	21,500 shares	2010.2.17	¥1 (\$0.01)	From February 18, 2010 to February 1, 2030
10th Stock Option	7 directors	18,900 shares	2011.2.25	¥1 (\$0.01)	From February 26, 2011 to February 10, 2031
11th Stock Option	7 directors	27,000 shares	2012.2.17	¥1 (\$0.01)	From February 18, 2012 to February 1, 2032
12th Stock Option	7 directors	26,900 shares	2013.4.12	¥1 (\$0.01)	From April 12, 2013 to March 26, 2033
13th Stock Option	7 directors	25,400 shares	2014.4.10	¥1 (\$0.01)	From April 10, 2014 to March 23, 2034
14th Stock Option	8 directors	12,400 shares	2015.4.10	¥1 (\$0.01)	From April 10, 2015 to March 24, 2035
16th Stock Option	8 directors	15,100 shares	2016.5.2	¥1 (\$0.01)	From May 2, 2016 to April 12, 2036
17th Stock Option	8 directors	20,100 shares	2017.5.1	¥1 (\$0.01)	From May 1, 2017 to April 11, 2037
18th Stock Option	12 executive officers	5,100 shares	2017.7.21	¥1 (\$0.01)	From July 21, 2017 to July 4, 2037
19th Stock Option	7 director 9 executive officers	14,700 shares	2018.6.8	¥1 (\$0.01)	From June 8, 2018 to May 21, 2038
20th Stock Option	8 director 10 executive officers	17,800 shares	2019.6.7	¥1 (\$0.01)	From June 7, 2019 to May 20, 2039

Stock option activity is as follows:

	5th Stock Option	6th (a) Stock Option	7th (a) Stock Option	8th (a) Stock Option	9th Stock Option	10th Stock Option	11th Stock Option	12th Stock Option	13th Stock Option	14th Stock Option	15th Stock Option	16th Stock Option
Year Ended February 28, 2019												
<u>Non-vested</u>												
February 28, 2018—Outstanding												
Granted												
Canceled												
Vested												
February 28, 2019—Outstanding												
<u>Vested</u>												
February 28, 2018—Outstanding	500	2,700	3,100	4,500	1,000	1,000	5,300	500	1,000	4,200		5,300
Vested												
Exercised										500		500
Canceled		2,300	2,700	3,900	500	500	500					
February 28, 2019—Outstanding	500	400	400	600	500	500	4,800	500	1,000	3,700		4,800
Year Ended February 29, 2020												
<u>Non-vested</u>												
February 28, 2019—Outstanding												
Granted												
Canceled												
Vested												
February 29, 2020—Outstanding												
<u>Vested</u>												
February 28, 2019—Outstanding	500	400	400	600	500	500	4,800	500	1,000	3,700		4,800
Vested												
Exercised							4,300					
Canceled												
February 29, 2020—Outstanding	500	400	400	600	500	500	500	500	1,000	3,700		4,800
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1		¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)		(\$0.01)
Average stock price at exercise							¥5,040					
							(\$46.06)					
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146	¥6,251		¥6,254
		(\$29.04)	(\$26.06)	(\$31.77)	(\$24.24)	(\$24.57)	(\$30.51)	(\$50.41)	(\$47.03)	(\$57.12)		(\$57.15)

Stock option activity is as follows:

	17th Stock Option	18th Stock Option	19th Stock Option	20th Stock Option
Year Ended February 28, 2019				
<u>Non-vested</u>				
February 28, 2018—Outstanding				
Granted			14,700	
Canceled				
Vested			14,700	
February 28, 2019—Outstanding				
<u>Vested</u>				
February 28, 2018—Outstanding	8,700	4,700		
Vested			14,700	
Exercised	500	1,300	300	
Canceled				
February 28, 2019—Outstanding	8,200	3,400	14,400	
Year Ended February 29, 2020				
<u>Non-vested</u>				
February 28, 2019—Outstanding				
Granted				17,800
Canceled				
Vested				17,800
February 29, 2020—Outstanding				
<u>Vested</u>				
February 28, 2019—Outstanding	8,200	3,400	14,400	
Vested				17,800
Exercised				
Canceled				
February 29, 2020—Outstanding	8,200	3,400	14,400	17,800
Exercise price	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise				
Fair value price at grant date	¥5,343	¥5,363	¥4,833	¥3,047
	(\$48.83)	(\$49.01)	(\$44.17)	(\$27.84)

The assumptions used to measure the fair value of the 20th stock options were as follows:

	20th Stock Option
Estimate method	Black-Scholes option pricing model
Volatility of stock price	21.16%
Estimated remaining outstanding period	10 years
Estimated dividend	¥255.0 per share
Risk-free interest rate	(0.12%)

15 INCOME TAXES

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate, resulted in a normal statutory tax rate of approximately 30.6% and 30.9% for the years ended February 29, 2020 and February 28, 2019.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 29, 2020 and February 28, 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Accrued enterprise taxes	¥959	¥1,114	\$8,764
Accrued employees' bonuses	1,514	1,343	13,835
Excess of depreciation	9,427	9,724	86,146
Excess of amortization of software	616	529	5,629
Employees' retirement benefits	6,772	6,400	61,884
Allowance for doubtful accounts	198	283	1,809
Impairment losses	12,741	10,466	116,431
Tax loss carryforwards	6,381	7,984	58,311
Other	5,907	6,221	53,980
Total of tax loss carryforwards and temporary differences	44,515	44,063	406,790
Less valuation allowance for tax loss carryforwards	(5,101)		(46,614)
Less valuation allowance for temporary differences	(2,878)		(26,300)
Total valuation allowance	(7,980)	(10,759)	(72,923)
Total	36,535	33,305	333,866
Deferred tax liabilities:			
Trademark rights	2,679	2,861	24,481
Net deferred tax assets	¥33,856	¥30,444	\$309,385

The amount of valuation reserves decreased by ¥2,779 million (\$25,395 thousand). This primarily reflects a decrease in valuation reserves relating to tax loss carried forward at the consolidated subsidiary.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 29, 2020 and February 28, 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6 %	30.9 %
Change in valuation allowance	(5.1)	(2.5)
Non-deductible permanent differences such as entertainment expenses	0.6	0.5
Non-taxable permanent differences such as dividend income	(0.0)	(2.3)
Per-capita inhabitant tax	1.3	1.0
Difference in tax rates of foreign consolidated subsidiaries	2.2	1.5
Reduction of ending deferred tax balance due to change in statutory tax rate	0.5	0.4
Amortization of goodwill	3.9	3.0
Other-net	(0.2)	3.4
Actual effective tax rate	33.8 %	35.9 %

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of February 29, 2020, were as follows:

February 29, 2020	Millions of Yen						
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥655	¥1,939	¥729	¥1,129	¥1,131	¥798	¥6,381
Less valuation allowances for tax loss carryforwards	(655)	(777)	(729)	(1,129)	(1,131)	(680)	(5,101)
Net deferred tax assets relating to tax loss carryforwards		1,163				117	1,280

February 29, 2020	Thousands of U.S. Dollars							Total
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years		
Deferred tax assets relating to tax loss carryforwards	\$5,986	\$17,719	\$6,662	\$10,317	\$10,335	\$7,292	\$58,311	
Less valuation allowances for tax loss carryforwards	(5,986)	(7,100)	(6,662)	(10,317)	(10,335)	(6,214)	(46,614)	
Net deferred tax assets relating to tax loss carryforwards		10,628				1,069	11,697	

We believe the tax loss carried forward to be recoverable since taxable income is expected in and after the next consolidated fiscal year.

16 | SUPPLEMENTAL CASH FLOW INFORMATION

- (1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 29, 2020, amounted to ¥50,007 million (\$456,977 thousand).
- (2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 29, 2020, amounted to ¥5,363 million (\$49,008 thousand).

IFRS16, "Leases," has been applied to foreign consolidated subsidiaries since FY2020, as described in "Changes in Accounting Policies." Accordingly, lease transactions entered into by such subsidiaries are included in the amounts of assets and liabilities relating to the above finance lease transactions.

17 | OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 29, 2020 and February 28, 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain on available-for-sale securities			
Gains (losses) arising during the year	¥(2,510)	¥2,474	\$(22,937)
Reclassification adjustments to loss	(121)	(676)	(1,106)
Amount before income tax effect	(2,631)	1,798	(24,043)
Income tax effect	779	(533)	7,119
Total	¥(1,852)	¥1,265	\$(16,924)
Foreign currency translation adjustments			
Adjustments arising during the year	(543)	(674)	(4,962)
Total	¥(543)	¥(674)	\$(4,962)
Remeasurements of defined benefit plans			
Losses arising during the year	¥(335)	¥(177)	\$(3,061)
Reclassification adjustments to profit	178	202	1,626
Amount before income tax effect	(157)	25	(1,435)
Income tax effect	70	(6)	640
Total	¥(87)	¥19	\$(795)
Total other comprehensive income	¥(2,482)	¥610	\$(22,681)

18 | SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No.17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information", and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments

The Company's financial information is provided separately by reportable segment and is subject to regular review by the Board of Directors with regard to the allocation of managerial resources and performance evaluation.

The Group operates primary businesses Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business and Financial Services Business while incorporating other related businesses.

Therefore, the Group has made the Domestic Convenience Store Business, Seijo Ishii Business, Entertainment-related Business and Financial Services Business units its main reportable segments, based on consideration of financial characteristics and the nature of the services provided.

Regarding the Domestic Convenience Store Business, Lawson, Inc. operates a franchise system as well as undertaking company-owned stores in Japan as the parent company of LAWSON, NATURAL LAWSON, and LAWSON STORE100. Lawson Sanin, Inc. undertakes company-owned LAWSON stores in the Sanin area.

Lawson Urbanworks, Inc. undertakes company-owned LAWSON stores mainly in Tokyo and Chiba prefectures. Lawson Store100, Inc. undertakes company-owned LAWSON STORE100 stores. SCI, Inc., a functional subsidiary which comprehensively manages the process from procurement to sale, aims to improve the efficiency of the entire process.

Regarding the Seijo Ishii Business, SEIJO ISHII CO., LTD. operates SEIJO ISHII supermarkets.

Regarding the Entertainment-related Business, Lawson Entertainment, Inc. conducts the management and sales of concert tickets at LAWSON stores and others, music and video software products at HMV stores and others. In addition, United Cinemas Co., Ltd. operates multiplex movie theatres.

Regarding the Financial Services Business, Lawson Bank, Inc. carries out a banking business.

(b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The segment accounting policies are the same as those described in "Accounting Policies for the Preparation of Consolidated Financial Statements." Segment profit is based on operating income. Intersegment sales or transfers are based on market values.

(c) Information about sales, profit (loss), assets, and other items is as follows:

	Millions of Yen							
	2020							
	Reportable Segments					Other	Total	Reconciliations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business					
Sales:								
Sales to external customers	¥465,333	¥93,120	¥83,961	¥31,646	¥56,177	¥730,237		¥730,237
Intersegment sales or transfers	6,219		1,386	2,443	1,098	11,146	¥(11,146)	
Total	¥471,552	¥93,120	¥85,347	¥34,089	¥57,275	¥741,383	¥(11,146)	¥730,237
Segment profit (loss)	¥47,122	¥8,348	¥5,313	¥3,089	¥(929)	¥62,943		¥62,943
Segment assets	908,974	71,903	69,737	395,854	42,498	1,488,966	¥(131,233)	1,357,733
Other:								
Depreciation	57,755	1,888	2,365	6,401	6,334	74,743		74,743
Amortization of goodwill	2,444	1,437	502		57	4,440		4,440
Investments in associated companies	5,100					5,100		5,100
Increase in property, plant, and equipment and intangible assets	33,165	1,045	2,772	2,587	5,214	44,783		44,783

	Millions of Yen							
	2019							
	Reportable Segments					Other	Total	Reconciliations
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business					
Sales:								
Sales to external customers	¥462,633	¥86,672	¥76,662	¥30,356	¥44,325	¥700,648		¥700,648
Intersegment sales or transfers	6,060		1,409	217	1,079	8,765	¥(8,765)	
Total	¥468,693	¥86,672	¥78,071	¥30,573	¥45,404	¥709,413	¥(8,765)	¥700,648
Segment profit (loss)	¥48,263	¥7,414	¥4,500	¥2,224	¥(1,619)	¥60,782		¥60,782
Segment assets	893,711	66,421	70,354	386,267	25,237	1,441,990	¥(99,660)	1,342,330
Other:								
Depreciation	52,266	1,844	2,245	4,594	1,480	62,429		62,429
Amortization of goodwill	2,417	1,437	502		59	4,415		4,415
Investments in associated companies	5,009					5,009		5,009
Increase in property, plant, and equipment and intangible assets	47,106	688	1,332	8,494	3,724	61,344		61,344

Thousands of U.S. Dollars

	2020							Reconcil- iations	Consol- idated
	Reportable Segments				Other	Total			
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment related Business	Financial Services Business					
Sales:									
Sales to external customers	\$4,252,335	\$850,955	\$767,257	\$289,189	\$513,361	\$6,673,097		\$6,673,097	
Intersegment sales or transfers	56,831		12,666	22,325	10,033	101,855	\$(101,855)		
Total	\$4,309,166	\$850,955	\$779,923	\$311,514	\$523,394	\$6,774,952	\$(101,855)	\$6,673,097	
Segment profit (loss)	\$430,613	\$76,286	\$48,552	\$28,228	\$(8,489)	\$575,190		\$575,189	
Segment assets	8,306,442	657,068	637,275	3,617,418	388,358	13,606,561	\$(1,199,242)	12,407,320	
Other:									
Depreciation	527,780	17,253	21,612	58,494	57,882	683,021		683,021	
Amortization of goodwill	22,334	13,132	4,587		521	40,574		40,574	
Investments in associated companies	46,605					46,605		46,605	
Increase in property, plant, and equipment and intangible assets	303,070	9,549	25,331	23,641	47,648	409,239		409,239	

Notes: 1. The business segments within the "Other" category that do not fall under the main reportable segments, include Overseas Business operated by Shanghai Lawson, Inc. and others.

2. Adjustments to segment assets are due to the elimination of intra-segment transactions.

3. Segment profit (loss) corresponds to consolidated operating income.

(d) Information regarding loss on impairment of long-lived assets of reportable segments

Millions of Yen								
2020								
Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥18,359	¥17	¥73		¥273	¥18,722		¥18,722

Millions of Yen								
2019								
Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	¥13,274		¥50		¥ 567	¥ 13,892		¥13,892

Thousands of U.S. Dollars								
2020								
Reportable Segments								
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Loss on impairment of long-lived assets	\$167,769	\$155	\$667		\$2,496	\$171,087		\$171,087

(e) Information regarding the carrying amount of goodwill by reportable segments

		Millions of Yen							
		2020							
		Reportable Segments							
		Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2020		¥13,654	¥20,958	¥7,185		¥584	¥42,382		¥42,382

		Millions of Yen							
		2019							
		Reportable Segments							
		Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 28, 2019		¥16,096	¥22,396	¥7,687		¥655	¥46,837		¥46,836

		Thousands of U.S. Dollars							
		2020							
		Reportable Segments							
		Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Financial Services Business	Other	Total	Reconciliations	Consolidated
Goodwill at February 29, 2020		\$124,774	\$191,520	\$65,658		\$5,337	\$387,298		\$387,298

The amount under "Other" is attributable to the overseas business.

19 | RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 29, 2020 and February 28, 2019, were as follows:

(1) Transactions between the Company and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Mitsubishi Corporation			
Acceptance of debt guarantees	¥3,000	¥9,800	\$27,415
Payment of guarantee fees	0	0	0
Mitsubishi Shokuhin Co., Ltd.			
Accounts payable—trade	¥61,836	¥59,898	\$565,074
Purchases	773,366	754,005	7,067,221
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable	¥3,000	¥9,800	\$27,415
Accrued interest	1	1	9

Purchase prices and other conditions are determined on an arm's-length basis.

(2) Transactions between subsidiaries and related parties

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Mitsubishi Corporation			
Acceptance of debt guarantees	¥130,000	¥200,000	\$1,187,974
Payment of guarantee fees	16	8	146
Accrued expenses	2		18
Mitsubishi Corporation Financial & Management Services (Japan) Ltd.			
Short-term loans payable		¥70,000	
Accrued interest		29	
Long-term loans payable	¥130,000	¥130,000	\$1,187,974
Accrued interest	62	79	567
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable—Other	¥28,872	¥29,243	\$263,840
Sales of processed food, etc.	331,938	184,481	3,033,336

Sales prices and other conditions are determined on an arm's-length basis.

20 | FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Company primarily uses short-term deposits, etc., to manage its funds and raises funds as necessary through borrowings from financial institutions and leasing, according to the financing plan.

(2) Nature, Extent of Risk, and Risk Management System for Financial Instruments

Trade receivables, such as accounts receivable due from franchised stores, accounts receivable-other, and lease receivables are exposed to credit risk from business counterparties.

Long-term loans receivable (mainly construction assistance fund receivables) and lease deposits are exposed to credit risks of borrowers and landlords. With regard to this risk, the Company manages credit on a daily basis at the relevant division and aims to identify and minimize collection concerns in the early stages arising from the deterioration in the financial condition of those borrowers and landlords.

Investment securities are primarily shares of companies with which the Company has business relationships and listed shares which are exposed to the risk of market price fluctuation. With regard to this risk, the Company monitors the financial conditions of business counterparties on a regular basis.

For trade payables, most of the accounts payable-trade, accounts payable due to franchised stores, accounts payable-other, and deposits received as a result of bill settlement services have payment due dates within one month, while most deposits received held as a result of ticket sales transactions have payment due dates within six months.

Short-term loans payable are mainly for the purpose of procuring working capital, and are due within 1 year.

Long-term loans from banks and financial company payable are mainly for the purpose

of managing a banking business and funding M&A, and are due within five years.

The primary purpose of lease obligations related to finance lease transactions is securing the funds required for capital investments, and the maximum redemption period is 15 years after the consolidated balance sheet date.

With regard to the liquidity risk associated with fundraising (risk that payments cannot be executed on the payment due dates), the Company prepares and updates financial plans on a timely basis and manages liquidity risk by measures including maintaining adequate liquidity on hand.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Since multiple factors are considered in the estimation of fair value, the results of the estimation might differ if other valuation techniques were used.

February 29, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	¥47,367	¥47,367	
Lease receivables	17,877	17,598	¥(279)
Accounts receivable	159,097	159,097	
Long-term loans receivable	47,461	46,608	(853)
Investment securities	9,496	9,214	(283)
Lease deposits	106,778	108,386	1,608
Total	¥388,077	¥388,269	193
Accounts payable	¥224,246	¥224,246	
Short-term loans	39,850	39,850	
Deposits received	193,097	193,097	
Long-term debt (including current portion of long-term debt)	497,311	492,060	¥(5,251)
Total	¥954,503	¥949,253	¥(5,251)

February 28, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	¥47,180	¥47,180	
Lease receivables	19,120	18,322	¥(798)
Accounts receivable	120,852	120,852	
Long-term loans receivable	43,965	43,903	(62)
Investment securities	11,162	11,162	
Lease deposits	106,668	106,867	199
Total	¥348,948	¥348,287	(661)
Accounts payable	¥225,405	¥225,405	
Short-term loans	126,600	126,600	
Deposits received	131,805	131,805	
Long-term debt (including current portion of long-term debt)	480,192	474,421	¥(5,771)
Total	¥964,002	¥958,231	¥(5,772)

February 29, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	\$432,852	\$432,852	
Lease receivables	163,365	160,815	\$(2,549)
Accounts receivable	1,453,870	1,453,870	
Long-term loans receivable	433,711	425,916	(7,795)
Investment securities	86,777	84,191	(2,586)
Lease deposits	975,765	990,460	14,694
Total	\$3,546,340	\$3,548,104	\$(1,764)
Accounts payable	\$2,049,218	\$2,049,219	
Short-term loans	364,160	364,160	
Deposits received	1,764,561	1,764,571	
Long-term debt (including current portion of long-term debt)	4,544,558	4,496,573	\$(47,985)
Total	\$8,722,498	\$8,674,523	\$(47,985)

As long-term loans receivable and lease obligations satisfy the offsetting requirements, long-term loans receivable are offset against lease obligations and the net amount is shown in the consolidated balance sheets. The offset amount is 5,034 million yen.

Due from franchised stores and accounts receivables

The carrying values of Due from franchised stores and accounts receivable (including allowance for doubtful accounts) approximate fair value because of their short maturities.

Lease receivables

The fair values of lease receivables are determined by discounting future cash flows, which reflect collectability, using the yield rate of government bonds for the remaining period.

Long-term loans receivable

The fair values of long-term loans receivable (including allowance for doubtful accounts) are determined by discounting the cash flows related to the obligations at the Companies' assumed corporate discount rate.

Investment securities

The fair values of investment securities are measured at the quoted market price on the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments.

Lease deposits

The fair values of lease deposits (including allowance for doubtful accounts) are determined by discounting future cash flows, which reflect the collectability, using the yield rate of government bonds for the remaining period.

Accounts payable and deposits received

The carrying values of accounts payable and deposits received approximate fair value because of their short maturities.

Short-term loans

These instruments are stated at their carrying values. Because they are determined using floating interest rates that reflect market rates in a short-time and have short maturities, their carrying values are approximately the same as their fair values.

Long-term debt (including current portion of long-term debt)

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate discount rate.

(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥309	¥359	\$2,824
Investments in unconsolidated subsidiaries and affiliated companies	19,362	18,298	179,935
Others	1,299	1,441	11,870

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	2020			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Due from franchised stores	¥47,367			
Lease receivables	2,463	¥7,549	¥7,864	
Accounts receivable	159,122			
Long-term loans receivable	356	17,753	15,481	¥13,932
Lease deposits	8,679	24,837	26,743	46,935
Total	¥217,987	¥50,139	¥50,088	¥60,867

	Millions of Yen			
	2019			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Due from franchised stores	¥47,180			
Lease receivables	2,553	¥7,940	¥8,628	
Accounts receivable	120,970			
Long-term loans receivable	744	15,986	17,035	¥10,259
Lease deposits	8,519	24,747	25,961	47,808
Total	¥179,966	¥48,672	¥51,623	¥58,067

	Thousands of U.S. Dollars			
	2020			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Due from franchised stores	\$432,852			
Lease receivables	\$22,508	\$68,985	\$71,863	
Accounts receivable	1,454,098			
Long-term loans receivable	3,253	162,231	141,469	127,314
Lease deposits	79,311	226,958	244,385	428,905
Total	\$1,992,022	\$458,174	\$457,717	\$556,219

21 | NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 29, 2020 and February 28, 2019, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted- Average Shares	EPS	
Year Ended February 29, 2020				
Basic EPS				
—Net income available to common shareholders	¥20,108	100,061	¥200.95	\$1.84
Effect of dilutive securities—Stock options		58		
Diluted EPS—Net income for computation	¥20,108	100,119	¥200.84	\$1.84

	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted- Average Shares	EPS
Year Ended February 28, 2019			
Basic EPS			
—Net income available to common shareholders	¥25,586	100,057	¥255.71
Effect of dilutive securities—Stock options		47	
Diluted EPS—Net income for computation	¥25,586	100,104	¥255.59

22 | SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 27, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥75.0 (\$0.69) per share	¥7,505	\$68,583

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Lawson, Inc.:

We have audited the accompanying consolidated balance sheet of Lawson, Inc. and its consolidated subsidiaries as of February 29, 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lawson, Inc. and its consolidated subsidiaries as of February 29, 2020, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 27, 2020

Member of
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