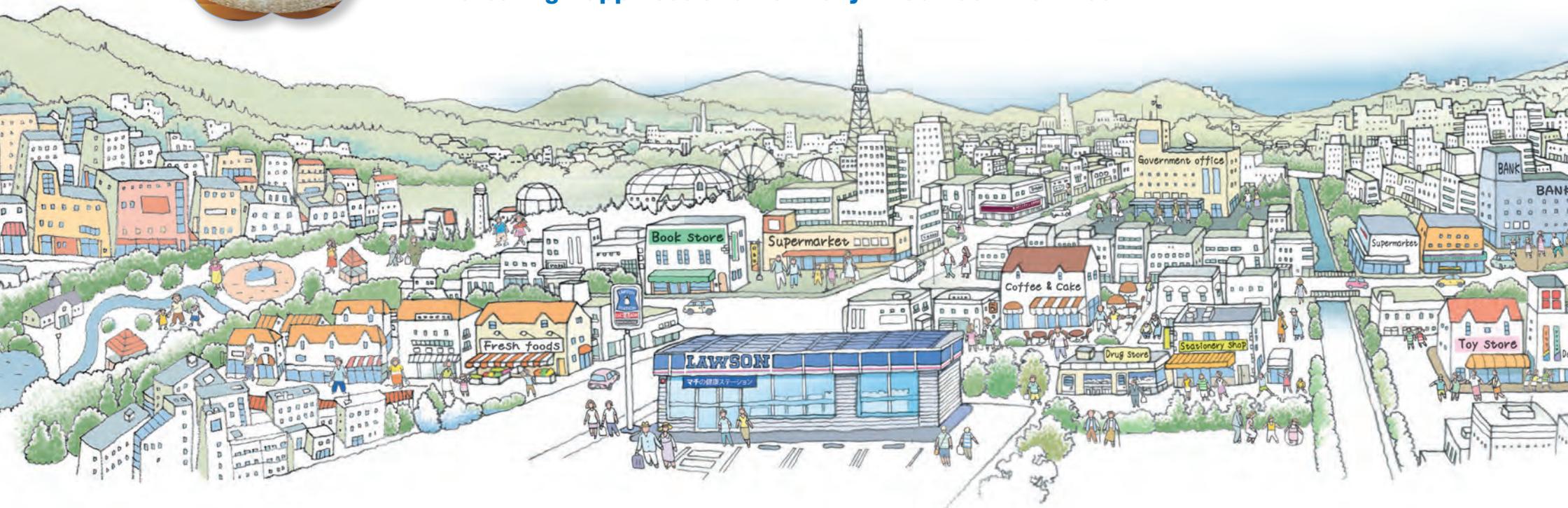


LAWSON

INTEGRATED REPORT 2018



Creating Happiness and Harmony in Our Communities



LAWSON will continue to be “an essential part of our communities offering a full range of daily-life necessities.”

For LAWSON to remain an “essential part” of community life will require it to do even more than serve the community as a convenience store that stays open 24 hours a day and provides convenience as well as peace of mind to our customers. It must also respond quickly to customers’ desires expressed in such terms as, “Do you think it would be possible.”

Lawson seeks to serve as a community hub, where all the key community functions are available and where people come together naturally and happily. We will continue to pursue the things that are uniquely possible to Lawson.

Responding to the diverse needs of the community

We respond to a diverse range of community needs with a product lineup ranging from foods and daily necessities to magazines as well as bill settlement agency services, bank ATMs and event ticket sales. Some stores are even equipped to handle a range of OTC pharmaceuticals.

Supporting our communities as a shopping venue

We also provide “community watch” services comprising mobile stores in regions without nearby convenience stores as well as regular visits to senior households. Other services include the community revitalization and senior household support activities we conduct through our stores.

Always nearby with the necessities on hand

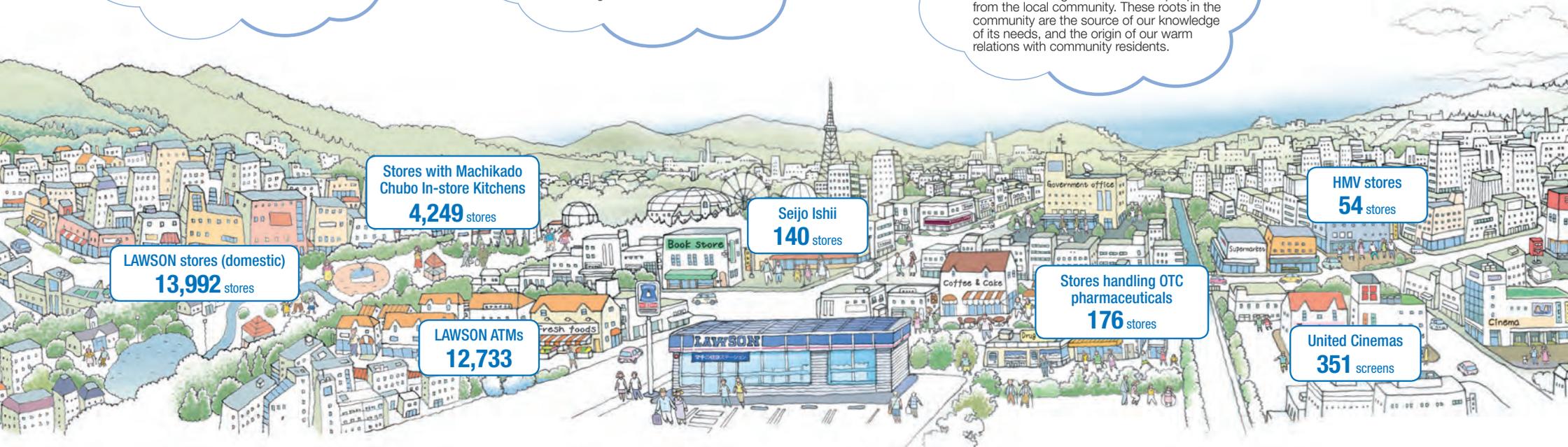
Most homes have a LAWSON store stocked with all the daily necessities within walking distance. We offer convenience for young people and seniors as well as for working women. From a morning coffee and a boxed meal for lunch to prepared foods for dinner, our nearby stores are prepared to meet all our customers’ daily needs.

Supporting community residents’ ability to live in safety with peace of mind

LAWSON keeps its lights on 24 hours a day and serves as a cornerstone of community infrastructure. In addition to concluding the Agreement on Cooperation in Supplying Daily Necessities in Case of Disasters, Etc., with local governments, our stores keep a supply of disaster equipment and manuals on hand.

Treasuring the warmth flowing through our community roots

Many of our franchise store (FC) owners and store managers and crew are people from the local community. These roots in the community are the source of our knowledge of its needs, and the origin of our warm relations with community residents.



Stores with Machikado Chubo In-store Kitchens
4,249 stores

Seijo Ishii
140 stores

HMV stores
54 stores

LAWSON stores (domestic)
13,992 stores

LAWSON ATMs
12,733

Stores handling OTC pharmaceuticals
176 stores

United Cinemas
351 screens

* Figures for LAWSON services are current as of end February 2018.



Lawson Communication Media

Lawson Website

Presents information and data not covered by Lawson publications.

Integrated Report



E S G

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

Financial Section



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

E S G



Living in Harmony with Communities: Initiatives Report

A simple, clearly written report on our activities in response to the social and environmental challenges facing our communities.

Lawson has been adopted as a constituent of the ESG investment stock price index.

* Current as of February 2018

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



FTSE Blossom Japan

"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 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 responsible investment funds and other products."



2018 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.

*THE INCLUSION OF LAWSON, INC. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF LAWSON, INC. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.



2018 Constituent
MSCI ESG
Leaders Indexes

The MSCI Japan Empowering Women Select Index represents the performance of companies that provide leadership in promoting and maintaining gender diversity in their GICS® sector, while also meeting certain quality factor criteria.

*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.

Challenges Facing Lawson in Its Efforts to Realize Its Vision

Top Management Perspectives..... Page 2

- Working together as one, we shall strive to realize our Corporate Philosophy by reinforcing the foundation we have built to date.

Message from the President..... Page 4

- This will be a year for finalizing our various efforts under the 1,000-Day Action Plan we introduced in fiscal 2016 to improve our product offering, reinforce our store capabilities, and increase support for newly opened and franchise stores.

Message from the CFO..... Page 8

- As our investment for growth continues, we shall build a stable business management foundation by adhering to proper financial discipline.

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Management team underpinning

sustainable growth..... Page 14

Outside Directors' Perspectives..... Page 16

- I expect Lawson to achieve further growth by redefining its special corporate powers. (Keiko Hayashi, Representative Director, DoCLASSE Ltd.)
- Further enhancement of the partnership fostered with Mitsubishi Corporation will lead Lawson to sustainable growth. (Yutaka Kyoya, Executive Vice President, Mitsubishi Corporation)

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Sustainable Growth and Business Model

Sustainable Growth and Business Model..... Page 22

- Next-Generation LAWSON Convenience Store model.

Corporate Value Creation Cycle..... Page 24

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

Reinforcing the Foundation for Sustainable Growth

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- Contributing to a Sustainable Society through the Stores
- Social and Environmental Initiatives in Our Core Business

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- Share Information
- Main Lawson Group Member Companies
- Store Network Development
- Main Businesses and Services



Range of the report

Although portions of this report were produced in cooperation with business partners in fields such as logistics, food manufacturing and waste disposal, its focus is primarily on the business activities of Lawson, its franchise stores and certain affiliated companies.

Reporting period

This report covers fiscal year 2017 (March 1, 2017 ~ February 28, 2018), with some reporting on activities before and after this period. See the Lawson website for further details:

<http://www.lawson.co.jp/en/>

Future forecasts, projections and plans

This report's coverage extends beyond current information and data for the Lawson Group to future forecasts based on its plans and perspectives at the time of publication. These forecasts represent assumptions and viewpoints arrived at based on information available as of the report's writing. The actual results may differ from the forecasts due to various circumstances and external environmental factors.

Financial Section

The English version of the Financial Section is the official version, whereas the Japanese version does not contain notes to the financial statements. Refer to the Company's securities report for details concerning the notes.



Corporate Philosophy

Creating Happiness and Harmony in Our Communities

Vision

To be a leading company in execution
Think through customers' needs and changes, execute with speed and become an essential part of our communities.

Code of Conduct

1. Think as customers, communities and stores.
2. Master the basics and strive to innovate.
3. Improve the quality and speed of the Plan-Do-Check-Act cycle.
4. Act with discipline, take initiative and succeed as a team.
5. Grow as individuals and support the growth of our team members.

Working together as one, we will strive to realize our Corporate Philosophy by reinforcing the foundation we have built to date.



About four decades have passed since Japan's first convenience store opened. The ongoing diversification of customer needs through the years has made today's convenience store much more than a convenient place to shop. As a facility whose lights stay on 24 hours a day, and which serves as a reliable cornerstone of community infrastructure in emergencies and times of disaster, the convenience store has emerged as an "essential part of people's daily lives." The role it is expected to play has expanded to unprecedented significance.

Always carefully monitoring these social trends, and striving to realize its Corporate Philosophy of "Creating Happiness and Harmony in Our Communities," Lawson has consistently been among the first to undertake various new ventures.

The business environment has been changing almost daily in recent years, as exemplified by the labor shortage due to the combination of a declining birthrate with an aging population, the structural reorganization of industry, and innovations in digital technologies. Determined to achieve sustainable growth while continuing to meet the needs of society, Lawson launched its 1,000-Day Action Plan in fiscal 2016. The Plan is designed to realize our Corporate Philosophy through creation of a Next-Generation LAWSON Convenience Store model that satisfies the needs customers encounter in every aspect of daily life.

Fiscal 2018 is the final year of the Plan. We are continuing to build on the firm foundation we have established over the years by reinforcing our product lineup, sales floor functions and newly opened store operations while upgrading all our stores' productivity through introduction of next-generation systems.

Deployment of the latest technologies will contribute to maintaining LAWSON's signature warm hospitality by reducing stress on both our stores and our customers.

We cannot achieve all this on our own. Full implementation of our 1,000-Day Action Plan will be accomplished through the combined efforts of everyone associated with the Lawson Group, including our franchise owners, store crews and suppliers, such as our boxed meal makers and delivery centers, as well as our parent company, Mitsubishi Corporation.

All Lawson personnel are without exception warmhearted members of the community who provide essential ongoing support for the daily lives of its residents. Going forward, we will continue our efforts to realize our Vision, "To be a leading company in execution," and to increase our corporate value.

President and CEO, Representative Director,
Chairman of the Board



Message from the President

Creating a Next-Generation LAWSON Convenience Store model.

Advancing our pursuit of sustainable growth

The convenience store based on a small commercial area model is, together with e-commerce, without doubt one of a handful of growth models in Japan's retail market today. With the birthrate declining and the population aging rapidly, growing numbers of customers would rather walk to a neighborhood store than drive to a distant supermarket for shopping. Since double-income households now account for over half the nation's households, meanwhile, more and more people who are busy juggling work with housekeeping and child-rearing responsibilities choose to stop in on their way home to buy the food items they need to prepare dinner or breakfast. Propelled by this tailwind, the convenience store market expanded to approximately 12 trillion yen in 2017, an increase of 2.4% from the previous

year. The domestic LAWSON store chain has enjoyed particularly rapid growth, recording approximately 2.2 trillion yen in overall sales in fiscal 2017, 1.5 times the level 10 years earlier.

At the same time, however, Japan's contracting population makes it difficult to anticipate significant growth in any market involving food distribution, including the food service industry. Competition is intensifying every year, not only among convenience stores but also across different industries, as exemplified by forays into new categories by drugstores and food supermarkets and the introduction of new Internet-based services. LAWSON has adapted to social changes as they occur by introducing such new services as in-store ticket sales and customer pickup services for Internet purchases, for example, and developing unique, wholesome products such as bran bread in response to customers' growing health consciousness. It has met the varied needs of customers in its communities by developing a Group with a multi-format

store structure through the addition of NATURAL LAWSON and LAWSON STORE 100 as well as HMV stores, United Cinemas Co., Ltd. and SEIJO ISHII CO., LTD. Lawson's corporate culture and climate encourage ongoing efforts to challenge introduction of such innovations.

Against the backdrop of a declining working-age population, meanwhile, a shortage of human resources and resultant rise in labor costs are becoming major issues. This has created a pressing need to improve store productivity. If we are to continue offering products and services that satisfy customer needs, we must make full use of leading-edge IT and digital technologies and construct a new model for operations that breaks with conventional thinking. This will mean further mechanizing and automating tasks machines can handle, while assigning crew to tasks human beings should handle, thus managing LAWSON stores with human hands in order to provide the warmhearted services for which

LAWSON is known. Guided by this thinking, we are advancing the creation of a unique Next-Generation LAWSON Convenience Store model and working together with our franchise owners and store crews to achieve sustainable growth.

Completing reinforcement of our foundation for growth in the final year of the 1,000-Day Action Plan

This is the last year of the 1,000-Day Action Plan we introduced in fiscal 2016. It will be a year for finalizing our various efforts to improve our product offering, reinforce our store capabilities, and increase support for new store opening operations and franchise stores. Let us take a moment to review some of our accomplishments so far: First, we introduced the semi-automatic ordering system as a cornerstone of our new business model in fiscal 2015, the year before implementation



of the Plan, and conducted a review of our franchise contract packages. We followed this by introducing measures for construction of a Next-Generation LAWSON Convenience Store model one after another beginning with the launch of the Plan in fiscal 2016. We carried out renovations at almost all the LAWSON stores to reinforce their ability to receive daily deliveries of fresh and frozen foods. This involved such measures as installing additional freezer cases and refrigerated showcases and increasing the number of items on the shelves to as many as 3,500 SKUs, or 15% above the previous level. In fiscal 2017, we introduced tablet devices into all the LAWSON stores and made tremendous strides in our brand conversion of stores joining us from other convenience store chains and our preparations

for entry into the financial services field. We began to accelerate our efforts to incorporate leading-edge digital technologies, moreover, including verification testing of RFID tracking and establishment of the Lawson Open Innovation Center.

In fiscal 2018, we plan to install new POS cash registers equipped with automatic change-dispensing machines in all the stores. The rebranding of stores from the Save On chain is expected to be complete by fiscal year-end, raising the number of LAWSON stores in Japan to nearly 15,000. The preparations for entry into the financial services business we began last year are well under way, while experiments with in-store remote smartphone payments have also begun. We are taking up the challenge of not

only selling products and providing services over the counter, but of enabling customers to pay for them conveniently as well. Thus, having designated fiscal 2018 as our first year of digital operations, we are making optimal use of leading-edge technologies to realize them.

payments, deployment of the latest digital technologies and initiation of LAWSON Fresh Pick. Since all these undertakings incur up-front expenses, we project a decrease in operating profit for fiscal 2018, as in the previous year. Although this will place us in a difficult situation in the short term, it cannot be avoided if we are to realize sustainable growth into the future. We will strive to achieve our Mid-term Management Vision, and will certainly attain results and return to profit growth after fiscal 2019.

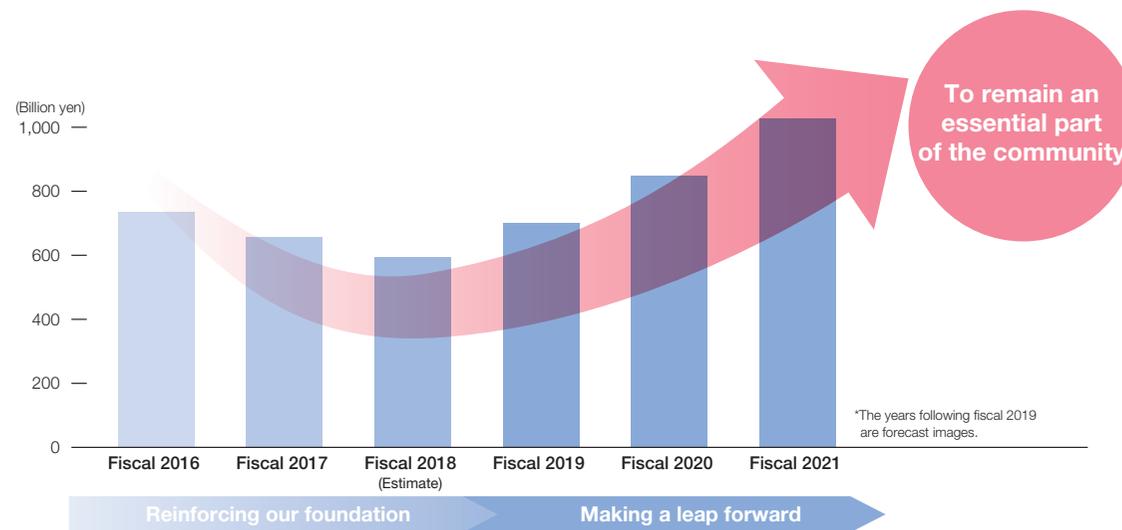
Completing reinforcement of our foundation for the future and resumption of an earnings growth trend after fiscal 2019

Clearly then, the 1,000-Day Action Plan calls for various investments in IT systems, and we continue to face an array of challenges involving them, including entry into the financial services business, introduction of smartphone

1,000-Day Action Plan



Growing image of consolidated operating profit



Creating a sales floor that meets customer needs during the evening and nighttime

LAWSON stores are responding to the needs of a new generation of female and senior customers who rely on us especially during evening and nighttime hours, when the convenience store has traditionally done comparatively little business. In the past, LAWSON stores have also arranged their sales floors with an eye to meeting demand during the morning commuting and lunchtime hours. More recently, however, we have found it advisable to shift our focus to the evening-to-nighttime period. But it takes more than a call for change to motivate actual sales floor renovation. The stores' relatively small crews are kept busy with tasks from attending customers and operating cash registers to placing inventory orders, receiving merchandise and straightening display shelves.

All these tasks have been standardized in the past based on the assumption that morning and early afternoon were the peak hours. Nor was this assumption limited to the stores: our entire supply chain—from the boxed meal and rice ball manufacturers to the delivery centers that ship these products to stores—had streamlined their operations according to these conditions. More recently, however, we have dared to change these assumptions dramatically. We altered the deadlines for order placements along with the timing of truck deliveries to enable optimization of the sales floor by 4:00 p.m. to cater to the needs of evening and nighttime shoppers. This project is aimed at reconstructing conventional systems throughout the Lawson Group, including our franchise headquarters and suppliers such as factories and delivery centers. After more than a half-year of careful preparation, we implemented the new system in June 2018. I feel sure that the switch will

begin to bear fruit gradually in the relatively near future.

Moving forward as a company in which diverse human capital work together enthusiastically

Achieving diversity is more than a matter of increasing the ratio of female and foreign national employees; it also involves acquiring new insights and new value through clashes between different perspectives in an organization. Guided by its Corporate Philosophy, Lawson has instituted a system of promoting diversity and introduced One Lawson management involving participation by all its employees, regardless of gender, nationality, place of origin or background. Determined to become a company where women remain active over the long term, for example, it pursues measures aimed at diversifying working styles, such as providing

leadership training for selected employees, while reinforcing the maternity leave system and encouraging male employees to take paternity leave. Mental and physical health is another extremely important issue. Not only do we support customers' general health through LAWSON stores in their role as "community health hubs," but we also promote employees' compliance with regular medical checkups and implement a health promotion program for franchise owners. Going forward, we will continue our efforts to streamline operations and achieve a positive work/life balance that enables all Lawson personnel to lead cheerful, energetic daily lives. I will personally transmit messages to this effect Group-wide at every opportunity. Every Lawson Group entity will strive to promote diversity, improve work environments and challenge achievement of highly productive working styles.



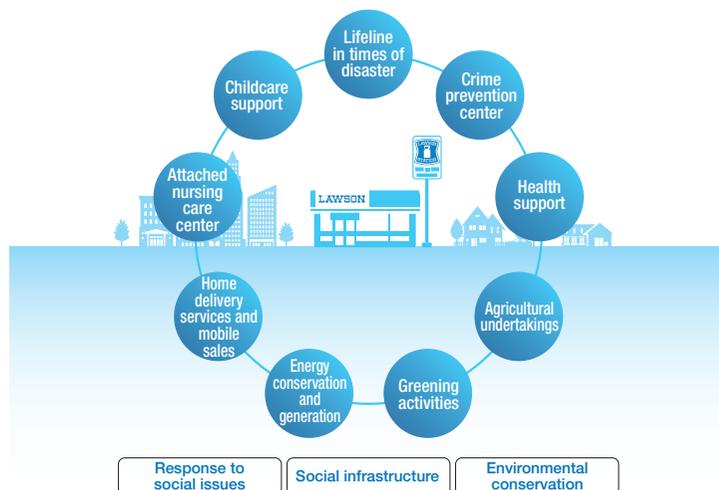
Continuing to challenge realization of a sustainable society

The convenience store, which keeps its lights on 24 hours a day and supports people with various daily life services while also serving as a community emergency lifeline, has become an indispensable community institution. Committed to “Creating Happiness and Harmony in Our Communities,” Lawson must develop stores that satisfy customer needs more fully while striving to realize a sustainable society. Assured that these efforts will lead to realization of the Sustainable Development Goals (SDGs) adopted in September 2015, we are pursuing challenges in various areas.

With respect to the global environment, in particular, we recognize reducing CO₂

emissions from electricity consumption at the stores as a major issue. We have responded by targeting a 20% reduction (compared with fiscal 2010) in electricity consumption per store by fiscal 2020. Specific measures to this end have included formulating the Ten Energy-saving Rules and implementing them at every store as well as introducing more energy-efficient store equipment, such as freezer and refrigeration systems cooled by CO₂ refrigerants. We recognize the necessity, moreover, of communicating a high level of awareness and knowledge as well as of pertinent information to individuals throughout the Lawson Group. We seek to achieve these aims by conducting social and environmental education targeting not only Headquarters employees but also franchise owners, store managers and crews.

Contributing as infrastructure to regional society



Battling to overcome fierce market competition with support from Mitsubishi Corporation, while maintaining independence as a listed company

Although a year has passed since Mitsubishi Corporation became our parent company through ownership of a majority of Lawson shares, our development strategy remains substantially unchanged. Maintaining transparency and independence as a company listed on the First Section of the Tokyo Stock Exchange is obviously of enormous significance in light of the support we receive from our many stakeholders, including our franchise owners, and the expectation that we serve as a cornerstone of the community infrastructure. Three of the eight members of Lawson’s Board of Directors are independent directors, for example, and five of the six members of our Nomination and Compensation Advisory Committee are independent officers. We are committed to maintaining such considerations for ensuring proper functioning of our corporate governance. Our partnership with Mitsubishi

Corporation dates back many years to the conclusion of a business alliance agreement in 2000. As we engage in fierce competition to survive and flourish in our harsh operating environment, we will make full use of Mitsubishi Corporation’s resources to construct a Next-Generation LAWSON Convenience Store model supported by a global network of food raw material procurement routes and a fully developed food distribution network in Japan.





Message from the CFO

As our investment for growth continues, we will build a stable business management foundation by adhering to proper financial discipline.



Satoshi Nakaniwa

Member of the Board
Senior Vice President, CFO

Review of fiscal 2017

Lawson suffered negative business results in fiscal 2017, with both consolidated operating profit and consolidated net profit falling below their previous-year levels. In the domestic convenience store business—the Company’s core business—existing store sales were nearly unchanged at 0.1 percentage point down from the previous year and the Lawson Group added a total of 1,250 stores. At the same time, however, an increase in the cost of supporting franchise stores, combined with a heavy burden on the Company’s finances from new business ventures such as preparations for entry into the financial services business, pushed down consolidated operating profit by 7.9 billion

yen from the previous year to 65.8 billion yen.

Consolidated net profit also turned downward, falling by 9.5 billion yen from the previous year to 26.8 billion yen, due primarily to an extraordinary loss resulting from an IT system-related impairment loss of 6 billion yen. These austere business results notwithstanding, the fruits of measures implemented under the 1,000-Day Action Plan also began to appear during the year. These included a recovery in sales of such staple products as boxed meals and rice balls, an expanded range of supermarket-alternative products, and daily delivered fresh and frozen foods, introduction of next-generation systems such as tablet devices, and preparations for entry into the financial services business led by Lawson Bank Preparatory Company.

Impact of an IT system-related impairment loss

A key factor contributing to the decrease in net profit was an IT system-related impairment loss. Investment in next-generation systems in accordance with the 1,000-Day Action Plan conceived in fiscal 2015 has been pursued as a Companywide project on a scale expected to reach tens of billions of yen in the three-to-four year period from fiscal 2016 forward. The project has already begun to bear fruit in such ways as improved store operating efficiency stemming from the introduction of hardware such as tablet devices and new POS cash registers. We also made an unprecedented effort to achieve full conversion of our next-generation systems to the cloud. We encountered a greater variety of technical difficulties than we had anticipated in ensuring reliable operation of our systems

and networks 24 hours a day, 365 days a year at our approximately 14,000 stores in Japan, however, which forced us to record impairment losses for parts of the next-generation systems we had already developed. Development of IT systems employing leading-edge technologies is nevertheless essential if we are to achieve sustainable growth in an environment of intensifying cross-industry competition and workforce contraction that requires us to improve our store productivity year after year. After this initial experience with cloud computing, we plan to pursue phased conversion to the cloud and increase our ranks of IT staff in order to pursue IT system development supported by appropriate risk control.

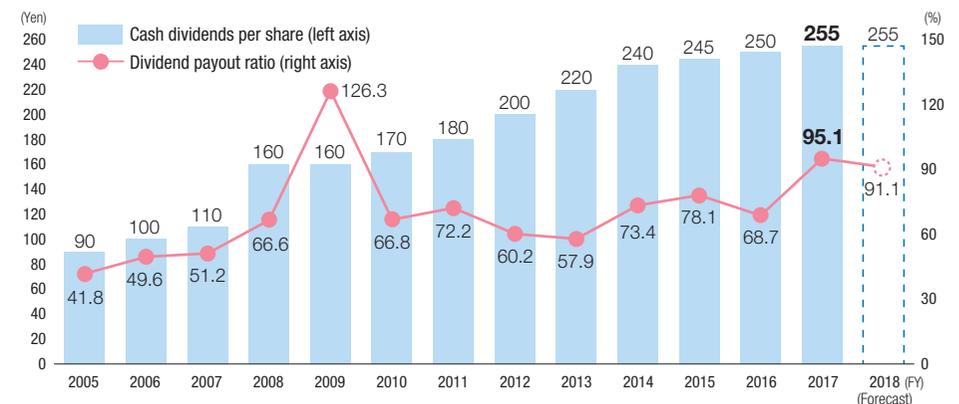
Financial discipline and returns to shareholders

We expect to record consolidated operating profit of 60 billion yen in fiscal 2018, falling short of the previous year’s level once more due to the considerable impact of our investments for sustainable growth. We anticipate consolidated operating cash flows of 128 billion yen under these circumstances, however, mainly from the domestic convenience store business. This

exceeds our projected consolidated investment cash flows of 95 billion yen, including investments in new store openings and new-generation system development. We recorded short-term borrowings of 35 billion yen as of end February 2018 as a means of securing liquidity. We are considering increasing the amount of borrowings for capital expenditures depending on future circumstances, but we are determined not to rely excessively on borrowings and to maintain proper financial discipline indicated by a D/E ratio of below 1, as specified in our Mid-Term Management Vision. We will strive to achieve an ROE greater than the 15 percent specified in the Mid-Term Management Vision, meanwhile, by maintaining a healthy balance between earnings growth and returns to shareholders through value creation.

We will plan to pay a dividend of 255 yen in fiscal 2018, unchanged from the year before. While projecting negative growth for fiscal 2018, we remain committed to realizing earnings growth in the medium term and to achieving operating profit of above 100 billion yen as stated in our Mid-term Management Vision. We intend to maintain stable dividend payments while enhancing our corporate value in the medium-to-long term.

Transitions in cash dividends per share and dividend yield



Consolidated Financial Results

Lawson's consolidated financial results for the fiscal year ended February 2018

Lawson recorded consolidated operating profit of 65.8 billion yen for the term ended February 2018 (down 10.8% from the previous year) and consolidated net profit attributable to shareholders of the parent of 26.8 billion yen (down 26.3% from the previous year). ROE was 9.7%, thus remaining at a relatively high level among domestic retailers.*

There were a total of 13,992 LAWSON stores in Japan at end February 2018 (a net increase of 881 stores) as a result of store openings, including brand conversions of stores from other convenience store chains through business alliances. Net sales by existing LAWSON stores in Japan remained nearly unchanged at 0.1% below of the previous year's level, while gross operating revenues registered 657.3 billion yen (up 4.1% from the previous year). Selling, general and administrative expenses rose to a total of 410.1 billion yen (up 7.0% from the previous year), meanwhile, driven upward by increased equipment costs stemming from the addition of new stores as well by higher support costs for franchise stores, including defrayment of disposal losses, and expenditures related to

Fiscal 2017 (Consolidated)

(Unit: Million yen)

	2018.2	YoY	2017.2
Gross operating revenues	657,324	+4.1%	631,288
Operating profit	65,820	-10.8%	73,772
Recurring profit	65,141	-10.8%	73,014
Net income	26,828	-26.3%	36,400

new businesses such preparations for entry into the the financial services business. These factors resulted in a decline in operating profit from the year-before level to 65.8 billion yen. Net income also turned downward from the previous year to 26.8 billion yen due primarily to the recording of such extraordinary losses as an IT-related impairment loss.

*Except for specialty shops

Consolidated business results for the fiscal year ending February 2019 (forecast)

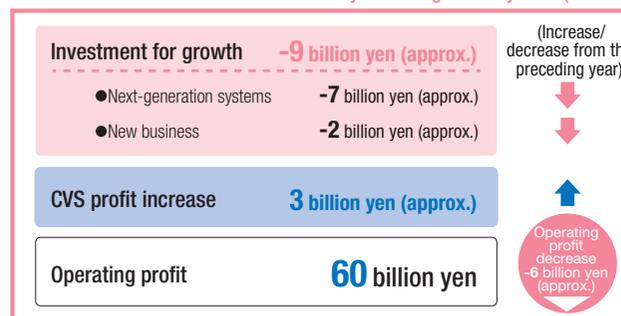
We recognize the current fiscal year as a year of conducting investments, as in the fiscal year ended February 2018, to fortify our foundations for sustainable growth. Thus, we project a decline in operating profit to 60 billion yen (down 8.8% from the preceding year) due to the significant impact of increased expenditures related to IT investment and new businesses. Net profit attributable to shareholders of the parent, meanwhile, is expected to increase to 28 billion yen (up 4.4% from the preceding year).

In the domestic convenience store business, to begin with, we are determined to achieve a 1.0% year-on-year increase in sales by existing stores and a gross profit margin of 31.4% through continued efforts to strengthen the product offering, reinforce store capabilities, provide support for newly opened stores and support the franchise stores as well as by expanding our base of new customers—centered on working women and seniors—and increasing sales during the evening-to-nighttime period. As concerns store openings, we plan to open 1,200 stores, including stores converted from other convenience store chains through business alliances, thus raising the number of LAWSON stores in Japan to

14,792 as of end February 2019. We forecast an increase of approximately 3 billion in operating profit for the existing convenience store business through enhancement of our domestic convenience store operations and improved profitability of our overseas business. Expenditures are expected to increase as well, meanwhile, as investments to fortify our foundations for sustainable growth continue. We anticipate a decrease in profit totaling approximately 9 billion yen attributable to installation of new POS cash registers

equipped with automatic change dispensing machines in all LAWSON stores and increased spending on new businesses such as the entry into the financial services business. Our projections consequently call for operating profit of 60 billion yen, down 5.8 billion yen from the preceding year. We are forecasting net income of 2.8 billion yen, up 1.1 billion yen from the preceding year, meanwhile, primarily in reaction to the IT-related impairment loss recorded in the previous year.

Consolidated financial results for the fiscal year ending February 2019 (forecast)



Mid-term Management Vision

- Daily sales **600,000** yen
- Operating profit **Over 100 billion** yen
- D/E ratio **Below 1** (excluding financial services business)
- ROE **Over 15%**
- No. of domestic stores **18,000**

CVS = Convenience store

World retailers ROE

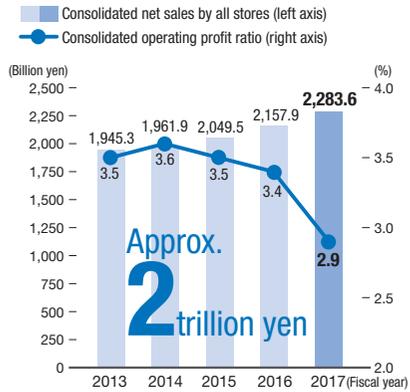


*For the period from the fiscal term ended August 2017 to the fiscal term ended February 2018

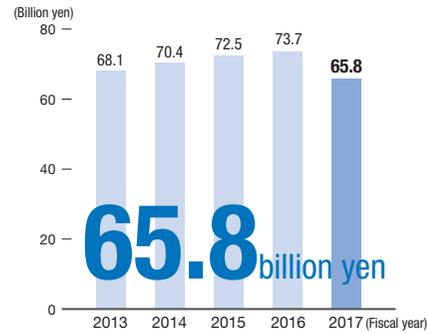


Financial Highlights

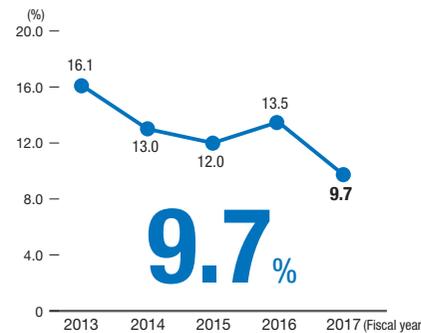
Consolidated net sales by all stores



Consolidated operating profit



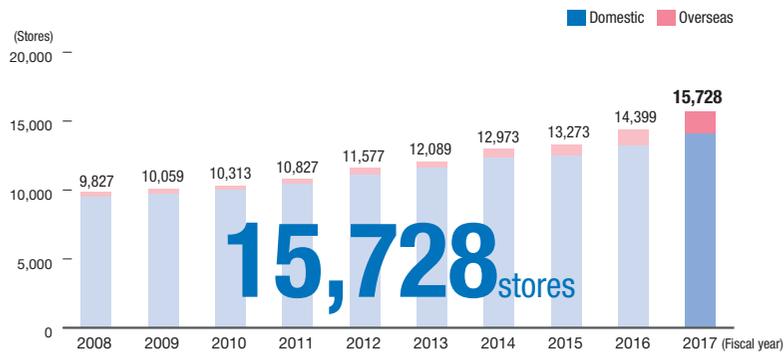
ROE (return on equity)



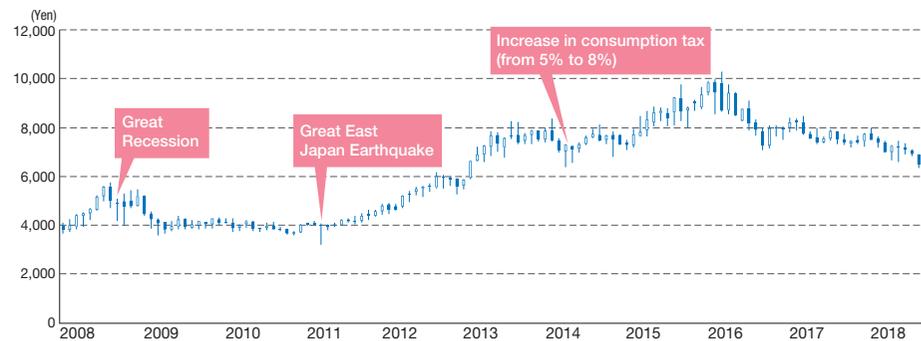
Average daily store sales in Japan



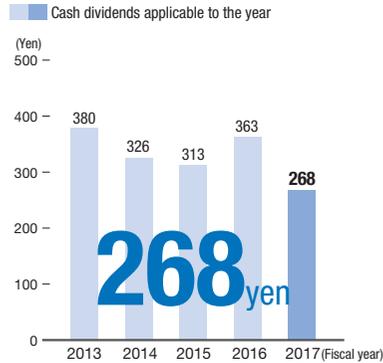
Changes in the number of stores



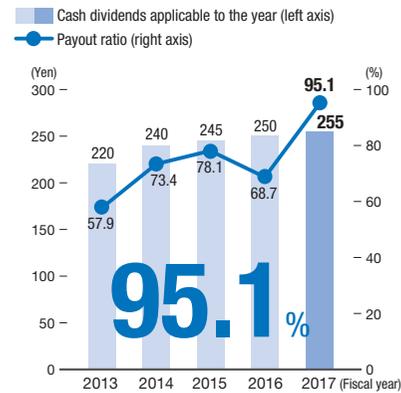
Changes in share prices (monthly)



Net income per share

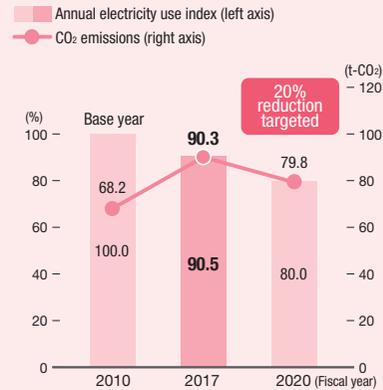


Payout ratio



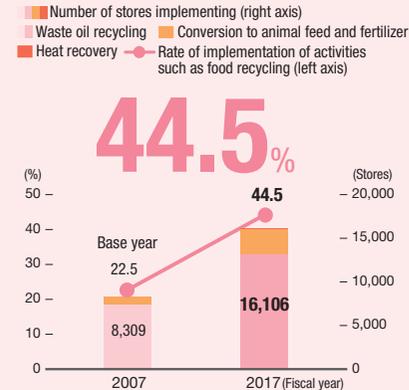
Non-financial Highlights

Electricity use (index) and CO₂ emissions per store



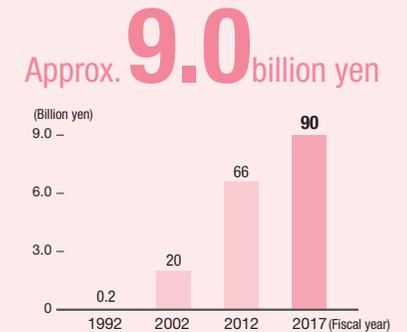
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Rate of food recycling & number of participating stores



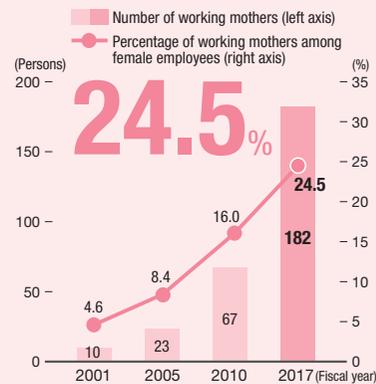
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Total customer donations received since 1992 (including disaster relief funds)



▶▶▶▶P41

Number of working mothers & their proportion among female employees



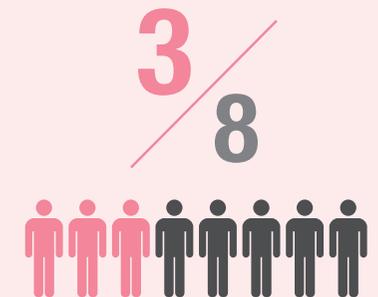
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Percentage of male employees taking paternity leave



▶▶▶▶P38

Ratio of independent directors among directors



▶▶▶▶P18



Eleven-Year
Financial Summary

	(Millions of yen)			
(Fiscal year)	2017	2016	2015	2014
For the year:				
Gross operating revenues				
Franchise commissions from franchise stores	¥ 289,232	¥ 275,312	¥ 261,681	¥ 247,681
Net sales	264,734	254,169	227,606	174,044
Other	103,357	101,806	94,166	76,188
Total operating revenues	657,324	631,288	583,453	497,913
Operating profit	65,820	73,772	72,542	70,482
Net profit	26,828	36,400	31,381	32,687
Net cash provided by operating activities	113,938	99,864	112,205	110,568
Net cash used in investing activities	(91,209)	(76,227)	(68,657)	(100,434)
Net cash used in financing activities	(61,238)	(25,638)	(50,201)	(3,289)
Capital expenditures	140,495	119,784	106,747	141,251
Depreciation and amortization ²	58,601	56,199	49,293	41,826
At year-end:				
Total assets	¥ 900,256	¥ 866,577	¥ 803,212	¥ 764,614
Net assets	281,446	285,995	272,997	263,798
Shareholders' equity ratio	30.6%	31.7%	32.9%	33.5%
Cash and cash equivalents	30,120	67,692	69,793	76,755
Total number of stores in Japan	13,992	13,111	12,395	12,276
Number of employees (full-time)	10,028	9,403	8,377	7,606
Per share data:				
Net profit (yen/ U.S. dollars ¹)	¥ 268	¥ 363	¥ 314	¥ 327
Cash dividends (yen/ U.S. dollars ¹)	255	250	245	240
Payout ratio	95.1%	68.7%	78.1%	73.4%
Financial data:				
Return on equity (ROE)	9.7%	13.5%	12.0%	13.0%
Return on assets (ROA)	3.0%	4.4%	4.0%	4.7%
Net sales by all stores (Domestic convenience store business):				
Net sales by store format ^{3,4}				
Franchise stores	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395	¥ 1,827,779
Company-operated stores	91,075	84,736	79,872	105,019
Net sales by product category ^{3,4}				
Processed foods	1,138,966	1,073,044	1,033,449	1,034,355
Fast foods	509,415	481,267	463,432	429,212
Daily delivered foods	314,481	294,141	276,886	277,210
Non-food products	197,821	194,833	186,500	192,020
Net sales by all stores	¥ 2,160,684	¥ 2,043,287	¥ 1,960,267	¥ 1,932,798
Ratio of operating profit to net sales by all stores	2.9%	3.4%	3.5%	3.6%

Notes: 1. The U.S. dollar amounts represent the Japanese yen exchange rate with respect to the US dollar as of February 28, 2018 (\$1 = ¥107.37).
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 and 2017 represent sales by stores operated by Lawson, Inc. as well as those by Lawson Sanin, Inc.
5. Amounts under 1 million yen are rounded down.

(Millions of yen)

(Thousands of U.S. dollars 1)

	2013		2012		2011		2010		2009		2008		2007		2017	
	¥	242,079	¥	230,003	¥	215,574	¥	197,673	¥	185,656	¥	186,928	¥	177,443	\$	2,693,797
		168,159		192,942		208,063		192,330		233,694		119,944		84,266		2,465,633
		75,010		64,500		55,320		51,275		47,842		42,604		39,468		962,625
		485,248		487,445		478,957		441,278		467,192		349,476		301,177		6,122,055
		68,127		66,246		61,769		55,541		50,276		49,186		46,610		613,030
		37,966		33,183		24,885		25,387		12,562		23,807		22,119		249,874
		81,503		85,189		86,357		72,210		40,696		51,717		55,771		1,061,181
		(47,924)		(54,196)		(52,912)		(30,522)		(42,596)		(15,647)		(36,525)		(849,492)
		(39,650)		(31,980)		(27,545)		(28,799)		(27,239)		(14,911)		(31,973)		(570,355)
		84,032		77,361		74,572		50,326		71,399		42,907		64,413		1,308,512
		47,889		43,886		37,846		33,084		27,468		20,879		21,469		545,785
	¥	620,993	¥	579,810	¥	531,454	¥	476,037	¥	448,132	¥	436,096	¥	397,108	\$	8,384,614
		250,498		230,182		214,663		208,467		198,136		201,167		188,574		2,621,272
		39.5%		39.1%		39.7%		42.7%		42.8%		44.8%		46.6%		
		68,760		72,766		73,670		67,712		54,843		83,982		62,823		280,535
		11,606		11,130		10,457		9,994		9,761		9,527		8,587		
		6,336		6,404		6,475		5,703		5,236		5,186		3,735		
	¥	380	¥	332	¥	249	¥	255	¥	127	¥	240	¥	215	\$	2.50
		220		200		180		170		160		160		110		2.37
		57.9%		60.2%		72.2%		66.8%		126.3%		66.6%		51.2%		
		16.1%		15.2%		12.0%		12.8%		6.5%		12.5%		11.6%		
		6.3%		6.0%		4.9%		5.5%		2.8%		5.7%		5.6%		
	¥	1,810,418	¥	1,747,915	¥	1,651,433	¥	1,499,576	¥	1,433,678	¥	1,434,166	¥	1,331,785	\$	22,221,391
		126,873		156,339		173,820		183,205		232,459		124,614		83,321		977,872
		1,060,455		1,063,120		1,022,378		897,415		902,306		844,324		726,750		10,607,860
		408,672		372,706		345,226		321,851		324,197		332,894		327,501		4,744,481
		275,437		271,920		263,101		264,166		239,088		186,109		162,625		2,928,946
		192,726		196,506		194,546		199,348		200,544		195,453		198,230		1,842,423
	¥	1,937,292	¥	1,904,254	¥	1,825,253	¥	1,682,782	¥	1,666,136	¥	1,558,781	¥	1,415,106	\$	20,123,721
		3.5%		3.5%		3.4%		3.3%		3.0%		3.2%		3.3%		



Executives Management team underpinning sustainable growth



Keiko Hayashi
Outside Director

Years on Board: 2
Company's shares held: 300

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

Reinstatement Outside Independent

Kazunori Nishio
Outside Director

Years on Board: 2
Company's shares held: 0

Kazunori Nishio has extensive knowledge of the living essentials field with specialization in the retail industry acquired through experience in the employ of Mitsubishi Corporation.

Reinstatement

Satoshi Nakaniwa
Member of the Board
Senior Vice President,
Chief Financial Officer

Years on Board: 1
Company's shares held: 0

Satoshi Nakaniwa has extensive knowledge of finance and accounting as well as of business investment and evaluation acquired in the employ of Mitsubishi Corporation.

Reinstatement

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

Years on Board: 4
Company's shares held: 1,700

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

Reinstatement

Katsuyuki Imada
Member of the Board
Senior Executive Vice President,
Director of Corporate Strategy

Years on Board: 1
Company's shares held: 1,700

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

Reinstatement

Yutaka Kyoya
Outside Director

Years on Board: 5
Company's shares held: 0

Yutaka Kyoya has a broad understanding of the living essentials field, primarily as it relates to foods, acquired in the employ of Mitsubishi Corporation

Reinstatement

Emi Osono
Outside Director

Years on Board: 6
Company's shares held: 500

Emi Osono is an academic with in-depth knowledge of global corporate management, corporate strategies and organizational behavior.

Reinstatement Outside Independent

Miki Iwamura
Outside director

Years on Board: 0
Company's shares held: 0

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



Tetsuo Ozawa
Outside Corporate Auditor

Years as auditor: 15
Company's shares held: 600

Tetsuo Ozawa is an attorney with specialization in the fields of corporate law and risk management and extensive knowledge in the areas of corporate finance and accounting.



Toshio Takahashi
Standing Corporate Auditor (Outside)

Years as auditor: 2
Company's shares held: 0

Toshio Takahashi has years of experience as an employee of a major bank and as a standing corporate auditor for a major IT company as well as extensive knowledge in the fields of corporate finance and accounting.



Masakatsu Gonai
Standing Corporate Auditor

Years as auditor: 1
Company's shares held: 6,600

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

Eiko Tsujiyama
Outside Corporate Auditor

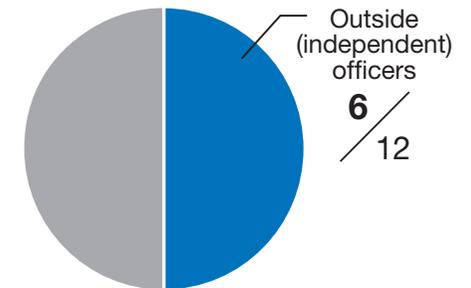
Years as auditor: 7
Company's shares held: 800

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.



Reinforced independence through an increased ratio of outside officers

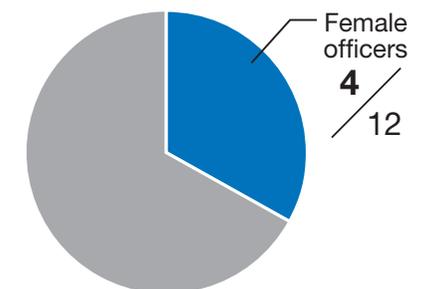
Increasing the ratio of outside officers with diverse backgrounds who bring a high level of expertise to their office has produced a system capable of verifying the appropriateness of business execution and supervising the observance of laws from an independent, objective viewpoint.



● 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

Outside Directors' Perspectives



Keiko Hayashi

Outside Director

President and CEO, DoCLASSE Corporation

Continuous pursuit of Lawson's unique strengths. I expect Lawson to achieve further growth by redefining its special corporate powers.

The convenience store plays an important role in Japan, where the population is aging and contracting at the same time. The support provided for senior customers through warmhearted services by neighborhood LAWSON stores within walking distance of their homes is a case in point. Another notable social change that is creating pressing needs is the increasing number of women entering the workforce to alleviate Japan's manpower shortage. Lawson has responded with offerings such as

the recently introduced LAWSON Fresh Pick service, which enables customers to order items in the morning by smartphone and pick them up at a LAWSON store on their way home the same evening. LAWSON stores offer a broad assortment of foods and daily necessities, and the chain is gradually expanding its network of stores selling OTC medicines as well. I believe the addition to these of a variety of new added-value services is creating the potential for the stores to develop an unprecedented service hub

format unique to Lawson.

The convenience store industry is undoubtedly entering a new era that will require dramatic reforms. The LAWSON store must develop highly appealing new characteristics if it is to win precedence over its competitors. I would like to see Lawson identify the characteristics that distinguish it from other chains, whether services, newsworthiness or products, and emphasize them more strongly.

When a market continues to contract due to a declining population, the best response is to redefine the market from the perspective of identifying a niche market in which your business can become the dominant player. This will enable a company not only to prevail, but also to make a significant impact. The favoritism shown by women toward LAWSON stores, for example, is one of the Company's distinguishing features. Both NATURAL LAWSON and Seijo Ishii are popular among women, who are especially sensitive to trends. We can also see potential in this. The health-conscious product lineups LAWSON has developed are warmly welcomed by both women and seniors. Thus, reinforcing the product lines centered on fashionable lifestyles and healthful foods can create new markets. The process through which this is achieved—the means employed to define the product lines and assign them to categories—is also important. Thus, I believe the LAWSON chain still has immense potential for growth.

The measures LAWSON is pursuing to increase sales in the evening-to-nighttime period are also promising. It has reformed its merchandise ordering and delivery systems, spending over half a year reconstructing the processes involved all the way down to those of its boxed meal makers and delivery centers. I sense a tremendous amount of energy in the

way the Company takes up new challenges involving suppliers one after another. This energy is invisible, of course, but it is this corporate climate or culture in which Lawson is changing itself on its own initiative that will solidify its strength as it advances into the future.

I am also impressed by the Company's executive power. It is important to have a strategy to begin with, but the ability to execute it, or carry it through, is of paramount importance. Change does not occur overnight. This may be a time to be patient. A year has passed since President Takemasu took the helm, and I believe Lawson is advancing in a positive direction. A keen sense of direction and the capabilities to match—characteristics of a trading company—combine nicely with powers of thought acquired on the retailing front. This combination results in superior capabilities.

The primary role we outside directors play involves increasing corporate value. We monitor the corporate executives' management decisions closely to make sure they are sound. We never hesitate to speak up in meetings, even to say things that may be unpopular. Improving corporate value, achieving growth and generating profit are the shared goals of individual investors and Mitsubishi Corporation. I see no contradiction in this.

I myself shop at LAWSON stores quite often. I find that they have a homey feel, and that NATURAL LAWSON is a store with stylish appeal. Impressions such as these are among the strengths that provide unseen value. I think there are many hidden clues to improving daily sales. Warm-hearted hospitality is Lawson's corporate DNA. I'm confident that Lawson can realize its potential for further growth by continuously trying out new ideas and optimizing the appealing characteristics of its LAWSON convenience stores.

Outside Directors' Perspectives



Yutaka Kyoya

Member of the Board

Executive Vice President,
Mitsubishi Corporation
Group CEO, Living Essentials Group

I'm convinced that further enhancement of the partnership fostered with Mitsubishi Corporation over the years will lead Lawson to sustainable growth.

There can be no doubt that the convenience store is already established in Japan as a mainstay of infrastructure essential to the lives of community residents. Although market growth in terms of number of stores is slowing as the population declines, the process of evolution achieved by leveraging the stores' respective strengths will accelerate in the future.

With social change becoming increasingly rapid and dramatic, however, businesses of various types, from food supermarkets and drugstores to e-commerce companies, are venturing into the convenience store's traditional areas of specialization, raising competition into new dimensions. If we are to advance and transform the convenience store's functions further, I believe we must incorporate the

constantly changing needs of consumers as well as an ability to combine and provide services and products that contribute to solution of social issues as future challenges for management.

Lawson has built warm relationships with the people of the communities in which it operates. Maintaining and enhancing this warmth in the current atmosphere of manpower shortages and a resulting need for enhanced labor efficiency at the stores may be incompatible propositions. Lawson's franchise owners and crews are passionate and highly motivated, however, and Lawson has instituted a system of hiring and fostering excellent human assets. From this perspective, I feel certain that Lawson's future is extremely bright, and that the Company has enormous potential for further growth.

One of Lawson's strengths is the spirit to take up challenges without fear of failure ingrained in its corporate culture. It is essential that we take advantage of such strengths as part of our ongoing review and renewal process, reflecting on our failings and rectifying them swiftly in implementing strategies. This is precisely the role we directors should play.

I also consider it my role, moreover, to make the most of the knowledge and experience I've acquired during my long tenure at Mitsubishi Corporation. Because Mitsubishi Corporation is involved in nearly every industry at home and abroad in one way or another, I seek to grasp changes in society—including changes in areas from which Lawson has been excluded in the past—from a wider perspective, and to offer ideas from various angles at Board of

Directors' meetings.

Lawson has implemented a variety of initiatives through its partnership with Mitsubishi Corporation. Since Lawson became a Mitsubishi subsidiary last year, these measures have been gathering speed and expanding in scope. In the past, the two companies have pursued streamlining of their distribution networks and global supply chains jointly. In the future, as well, I expect this collaboration to expand with full deployment of the networks and know-how of Mitsubishi Corporation in various area, such as in tackling the challenges of labor-saving and automation of production lines at subcontractors' factories and creating new services in various digital fields.

As the operator of stores based on a small commercial area nationwide that offer a high degree of customer convenience, Lawson is a dependable partner for Mitsubishi Corporation. Now is the time to construct a solid foundation for continuous growth in a severe competitive environment. The partners must join forces to chart a path to the future with a sense of urgency and with a will to work effectively together. I have no doubt that this path will lead to Lawson's growth. Going forward in unity, we will seek happiness for the people of the community as the thing we value above all else.



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 our Corporate 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 eleven. Thus, we have constructed a system that enables full consideration and deliberation by the Board of Directors at their meetings without lessening their responsive. 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.

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:
http://www.lawson.co.jp/company/corporate/system/governance/pdf/governance_201806.pdf

(In Japanese only)

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.

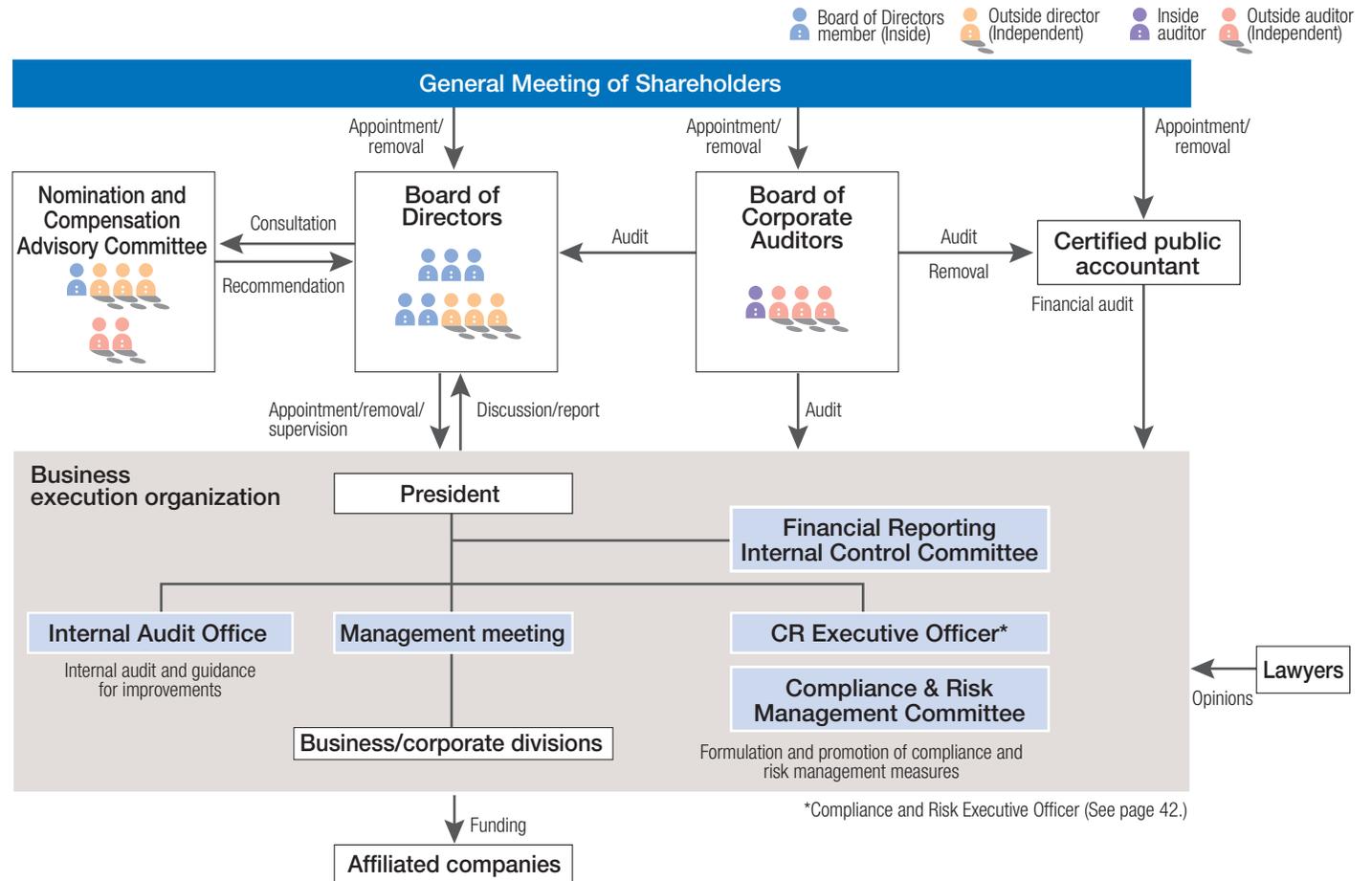
Details of major corporate governance measures implemented since 2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Board of the Directors membership (number)	18	20	8	9			7				9*	8							
Outside directors (number)	2		3	5			3			4	5								
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.													2001 April 2015 33.4%		2001 February 2017 50.1%			

*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.

Corporate Governance System

Equipped with an agile decision-making process, Lawson has moved quickly to construct a highly transparent and independent corporate governance system. Six independent officers who are considered to have no conflict of interest with the general shareholders comprise half the total of 12 directors and corporate auditors. Four 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 to recommend candidates for the positions of director and representative director on the Board of Directors, meanwhile, independent officers have been selected to fill 5 of the 6 positions as Committee members, thus creating a system that can make recommendations 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

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 director's position
- 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 2017)

Total compensation, total amounts by type of compensation and number of eligible directors per company director category

(Millions of yen)

Category	Total compensation	Total by type of compensation		Number of eligible officers
		Base compensation	Stock options	
Directors	227	169	107	10
(of which outside directors)	(38)	(30)	(8)	(3)
Auditors	71	71	—	5
(of which outside auditors)	(47)	(47)	—	(3)
Total	348	241	107	15

(Note) There were 8 directors and 4 auditors as of end February 2018.

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 42).

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 Nomination and Compensation Advisory Committee serves as an advisory body, moreover, that makes recommendations to the Board of Directors regarding nominations of candidates for the positions of director and representative director. Since 5 of the 6 members are currently independent officers, this system also enables the Committee to make recommendations 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 Board of Corporate Auditors.

<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 8 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 Board of Auditors meetings held and attendance rates

		Board of Directors	Board of Auditors
Number of meetings held		13 times	17 times
Attendance rate	Outside directors	92.3%	—
	Outside auditors	97.4%	98.0%

Related sites

For details of basic principles concerning information disclosure
<http://www.lawson.co.jp/company/corporate/system/disclose/>

For details concerning trade policies
<http://www.lawson.co.jp/company/corporate/system/torihiki/>

(In Japanese only)



Lawson continues to grow by basing its business on a “customer-oriented” perspective and accurately discerning the needs of society.

Lawson has responded proactively to changes in society since its founding, continually identifying customer needs and developing new products and services. To ensure its position as an essential part of its communities that provides support for residents’ lives, Lawson is determined to continue pursuing and advancing the Next-Generation LAWSON Convenience Store model from the customer’s perspective.



24-hour

Growth as a conventional convenience store

Innovation

Evolution as a manufacturing retailer based on a small commercial area

The “fourth component” of infrastructure

Contributing to communities as a neighborhood store

We will continue to advance in our role as an essential part of our communities

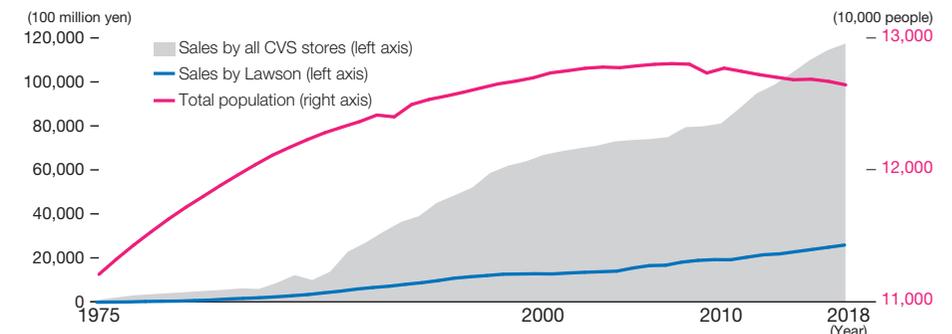
1975-

2016-

Against the backdrop of changing community needs as the population ages and growing numbers of nuclear families, coupled with accelerating industrial reorganization, today’s convenience store industry finds itself at a significant turning point. With people’s dietary lives changing as their lifestyles diversifying, convenience stores are forced to implement appropriate measures in response. These circumstances notwithstanding, the convenience store market has expanded in size to as many as 56,374 stores with annual sales of ¥11,745.1 billion (figures as of end December 2017).

Determined to remain an essential part of its communities that meets needs as they arise in customers’ daily lives, Lawson will advance its business model as a manufacturing retailer based on a small commercial area and increase its store productivity to an unprecedented high level.

● Changes in sales by all convenience stores versus sales by LAWSON convenience stores



Source: “Population Estimates,” Statistics Bureau, Ministry of Internal Affairs and Communications
“Franchise Chain Statistics Investigation,” Japan Franchise Chain Association (~1996)
“Current Survey of Commerce,” Ministry of Economy, Trade and Industry (1997~)

Foundation Supporting Value Creation



Developing Human Capital ▶Page 38

To put its Corporate Philosophy into practice, Lawson has adopted supportive personnel management systems that contribute to a corporate culture in which individual employees are encouraged to think and act voluntarily. We have clarified the scope of employees’ responsibilities and the role they should play according to individual duties. Their performance and skills are evaluated in accordance with this clarified scope and role.



Innovation ▶Page 32

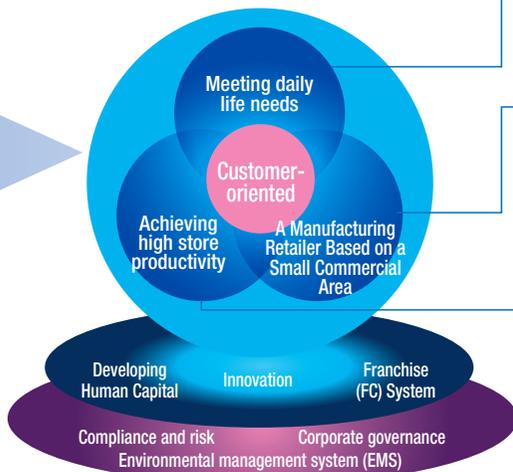
Lawson has sought innovation that takes social change into consideration in conducting a number of advanced investments and experiments. These efforts are not confined to the development of new businesses such as NATURAL LAWSON and new products such as bran breads; we are also working to establish a completely new store operating system based on IC tags.



Franchise (FC) System ▶Page 36

Lawson’s franchise (FC) system is designed to enable the franchise stores— which know their communities best— and headquarters to grow together in a spirit of cooperative business. We are building strong relationships through the Management Owner (MO) system, which assists entrepreneurial franchise owners in managing multiple stores, as well as through various other support systems.

Next-Generation LAWSON Convenience Store model



Meeting daily life needs

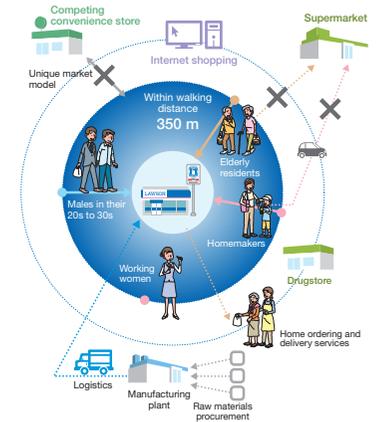
“A place where daily-life essentials are always available, even at night.” This is the conventional view of the convenience store. Lawson is not satisfied with that definition; instead, we strive to be a neighborhood store that anyone might find indispensable at any time in the daily life of the community. We stock essential products for daily life, while also making every effort to meet particular needs for such items as healthful, small-portioned products, especially for elderly customers who are unable to travel long distances for shopping and customers with limited time. Lawson is expanding its services at the stores as well, adding new offerings such as ATM and financial services and temporary reception of Internet orders for customer pick-up. By transitioning from a “merely convenient” store to an “essential part of our communities,” LAWSON is helping community residents live safe, healthy lives.



A manufacturing retailer based on a small commercial area model

As a neighborhood store located within easy walking distance of customers' homes and workplaces, Lawson offers the most appropriate items from a unique product and service lineup closely related to customers' daily lives in a timely manner to a wide range of customers— including elderly neighbors and working women as well as young community residents.

To fulfill this aim, we need a mechanism for managing the overall supply-chain processes, from product design, raw materials procurement and manufacturing to distribution and sales, so that finished products are delivered safely and reliably. Lawson is determined to continue improving added value as a manufacturing retailer through measures such as increasing our commitment to optimizing raw materials procurement and manufacturing.



Achieving high store productivity

It is the individual stores that encounter customers in their communities. As products and services grow in number and variety and store operations increase in complexity, improving store productivity has become an important issue. To provide our increasingly diversified human capital with ample opportunities to utilize their capabilities, we seek to develop simplified operations that anyone can handle easily through the use of leading-edge digital technologies. Lawson will continue to improve its store productivity by leaving the tasks machinery can take care of to machinery, while focusing on warmhearted service that only human beings can provide.

Constructing a Next-Generation LAWSON Convenience Store model



Compliance Risk

▶Page 42

Besides establishing the Compliance and Risk Management Office and Information Security Management Office at headquarters, the Group has assigned a CRO (compliance and risk management officer) to each department in every area. Faced with increasing risk as society changes and the Lawson Group's business expands, Lawson is establishing a system capable of grasping risk information promptly and responding to it in the shortest time possible.



Corporate Governance

▶Page 18

Lawson has led the industry in constructing a responsive, highly transparent corporate governance system. The recent introduction of the Executive Officer System has separated the executive and management functions. Of the 12 officers comprising the Board of Directors and Corporate Auditors, six are independent officers and four are female officers, a balance established to promote diversity.



Environmental Management System ▶Page 40

In accordance with its Environmental Policy, Lawson actively conducts business with consideration for society and the environment. We implement the ISO 14001 Environmental Management System in pursuing achievement of a sustainable society and contributing to maintaining happiness in our communities and on Earth as a whole.



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

Lawson will continue to increase its corporate value by leveraging its unique customer-oriented business model as a Manufacturing Retailer Based on a Small Commercial Area model. This means meeting daily life needs and achieving high store productivity while executing appropriate management strategies. Lawson's business model is designed to increase both its visible capital, including physical assets and funds specified in the financial statements, and its invisible but tangible capital, such as human capital and information, through appropriate investment in these areas. Lawson will continue to contribute to its customers' local communities as an essential company through continued application of its corporate value creation cycle.

Social challenges Lawson is tackling

A number of worries persist about the effects on people's lives of future developments, such as global environmental issues and the serious challenges facing Japan due to its low birthrate and aging population.

Decreasing number of nearby stores (Decline in the number of retailers)
Compared to 1991 **Approx. 30% decrease**

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

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

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

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

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



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



Human capital (human resources)

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



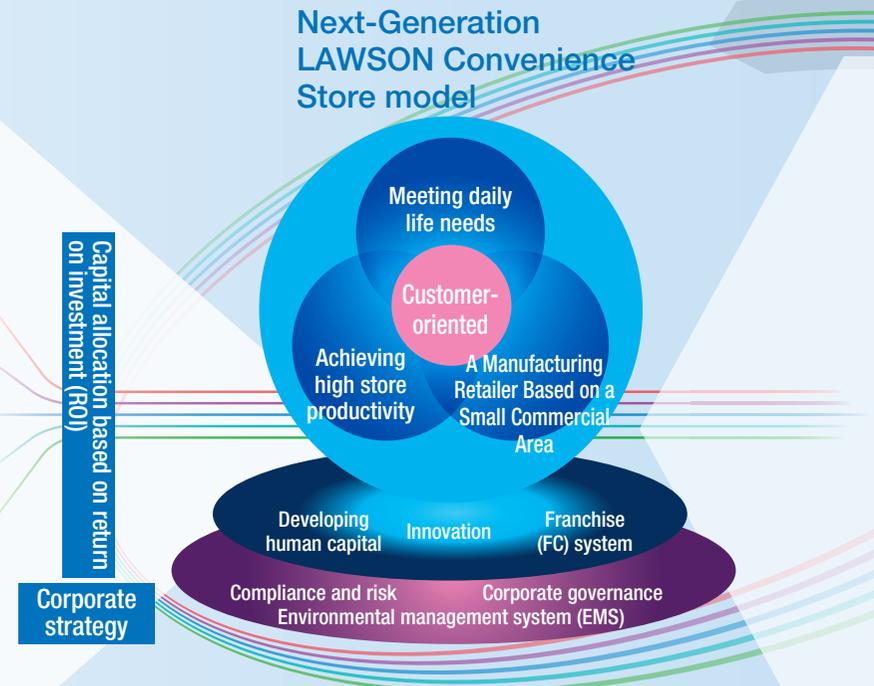
Intellectual capital (technologies and brands)

General intangible assets including brands, reputation, intellectual property and software



Social capital (resources and social norms)

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



Outputs



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



Nurturing human resources who are self-motivated and innovative to satisfy local community needs appropriately



Cultivating innovation based on prompt perception of changes in local communities



Contributing to communities as social infrastructure in careful consideration of society and the environment

Outcomes

Contributions as a nearby neighborhood store and a component of social infrastructure

LAWSON stores contribute to their local communities and society as neighborhood stores where senior citizens and busy customers with time constraints can purchase foods and daily necessities, and as emergency evacuation sites in times of disaster.

Responding to lifestyle diversification accompanying the empowerment of women and other initiatives

Working women and single-person households find it convenient to have a store that offers daily-life essentials in their neighborhood. LAWSON grasps these changing trends and social needs and provides appropriate lifestyle support services.

Developing products and stores dedicated to promoting health

Lawson is developing menus and stores offering a focus on customer health. We are working to help them maintain good physical health through a healthful daily diet, while also selling pharmaceutical products, operating stores with dispensing pharmacies on the premises, and strengthening partnerships with local municipalities.

Supporting senior citizens' efforts to lead fulfilling lives in a comfortable environment

Lawson promotes measures that respond to the needs of senior citizens by offering smaller, more healthful meal products and introducing stores that sell pharmaceuticals and provide health consultation services. It also contributes to creation of a social environment in which senior citizens do not have to live in isolation by employing staff over the age of 60.

Seeking to improve employee productivity and to create an environment in which anyone can work

Lawson is creating an environment that provides jobs for a diverse range of human capital—including senior citizens, women, young people and foreign nationals—by realizing store operations that anyone can conduct easily through such means as digital technologies.

Considering the environment in every aspect of operations, including store operation, manufacturing and distribution

Lawson contributes to realizing a sustainable society by addressing environmental issues from every perspective, including installing store equipment such as refrigeration and freezer systems that use natural (CO₂) refrigerants and employing eco-friendly containers and packaging materials, manufacturing platforms and distribution procedures.

“Creating Happiness and Harmony in Our Communities”

Lawson's business is supported by seven core stakeholders, including the community as a whole (local society).

We will continue to provide unique new value by leveraging our stores' accessibility to local community residents to address a variety of challenges facing society and our customers.



The Sustainable Development Goals (SDGs) were adopted unanimously by 193 member countries of the United Nations Sustainable Development Summit convened at the United Nations Headquarters in September 2015. The Summit set 17 goals and 169 targets for achieving the SDGs on a global scale by 2030. Lawson is contributing proactively to these efforts in the areas of economy, society, environment, human rights and governance.



Reinforcing the Foundation for Sustainable Growth



Responding to Various Community Feedback

Besides taking steps to improve its current products, LAWSON is providing newly created value in response to a diverse range of functions required by the community.

LAWSON makes it available

What is the ideal convenience store closely related people's lives? Lawson has been searching continuously for the answer. The convenience store must provide the products and services people require, of course, but we also consider its mission as a cornerstone of community infrastructure to include such functions as uncovering and responding to hidden needs.

LAWSON's identity is no longer that of a "store for quick purchasing of necessities." Rather, it is a store with a diverse, multifunctional offering that includes the functions of a supermarket, café, event ticket vendor, pharmacy, bank and much more. It is a store that supports the people of its communities in virtually every aspect of their lives.

The newly updated staple merchandise selection includes desserts, a strong LAWSON food line containing some of our most popular products. Renewed ingredients and preparation methods have enhanced the product appeal of our boxed meals and rice balls, and sweets developed in collaboration with prestigious makers have won strong support primarily from female customers. Among Group member companies, Seijo Ishii specialty supermarkets and United Cinemas movie theaters add pleasure to various aspects of community residents' lives. We are forwarding our preparations to enter the banking business to make shopping at LAWSON even more convenient, moreover, while the introduction of LAWSON Fresh Pick, a system that permits customers to pick up fresh foods ordered by smartphone app at a nearby LAWSON store, has recently begun at selected stores.

LAWSON continues to take up new challenges without interruption in its efforts to remain an essential presence on the lives of community residents.

Boxed meals & rice balls

In 2017, we launched our Korega ("This is it!") series of boxed lunches centered on such classic favorites as nori ("edible seaweed") and makunouchi boxed lunches. We also went to great lengths to improve other products such as rice balls, paying strict attention to raw materials and manufacturing methods to instill the attitude, "Lawson' means 'rice balls,'" in customers' minds.



Note: The featured products are examples only.

Tasty, nutritious foods

In its role as a support for health and wellness in our communities, Lawson is responding to changes such as the aging of society and people's growing health-consciousness by engaging actively in development and sales of products with a focus on "good taste and nutrition." Our bran bread series is representative of these products.

Lawson's original blending reduces the unique smell of bran (grain husks) to ensure that customers enjoy the bread's delicious flavor every time.



Collaborations



Our product lineup enhancement also extended to desserts, a particular LAWSON strength. Collaborations in this area began with GODIVA in 2017. This year we are commemorating the first anniversary of that collaboration by introducing "Godiva + Japanese sweets," an innovative project that is possible only because of LAWSON's expertise in the area of sweets.

Seijo Ishii



The first "grocerant," a new type of business combining supermarket shopping with restaurant dining, has opened at Trie KEIO CHOFU. The pleasant dining area

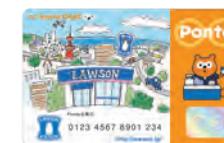
offers hamburgers, pasta and other meals prepared with fresh seasonal ingredients according to recommended methods. Customers can pick up recipe cards and use them to purchase the ingredients they need to make their favorite grocerant menu items at home.

Entertainment

Lawson Entertainment, Inc. (new company name as of June 2018), the top-performing ticket vendor in the industry is also the parent company of HMV stores, a popular CD, DVD and book retailer. United Cinemas, Japan's third-ranked cinema company in terms of number of screens, has also joined Lawson Entertainment, enabling it to meet customers' total entertainment needs, from musical events and spectator sports to movies, reading and collaboration events with popular characters.



Point card system



Ponta Cards are in integral part of the LAWSON store. Card membership now totals 87.33 million (as of June 2018), and roughly half of LAWSON sales are to point card members. The system not only offers enhanced customer satisfaction through beneficial membership programs, but it also equips the Company to analyze purchasing information as Big Data and apply the results in new merchandise development or for projecting demand at individual stores.

LAWSON Fresh Pick

This new service enables customers to order specialty products by 8:00 a.m. using a smartphone app and pick them up at a nearby LAWSON store after 6:00 p.m. on the same day (service limited to stores in certain areas of Tokyo and Kanagawa Prefecture). Arrangements can be made to pick up products LAWSON stores do not usually handle — including fresh vegetables and fruits, a full selection of meal preparation ingredients, sweets and desserts from Seijo Ishii and other specialty stores as well as easily cooked meal kits — from a local LAWSON store at a convenient predetermined time.



Financial services business



Lawson Bank, Ltd. has acquired a license to engage in the banking business and is currently preparing (as of August 2018) to open a store-based bank. We will take full advantage of our stores' existing ATM network, and pursue proactive efforts to improve convenience further for LAWSON customers.

Overseas operations



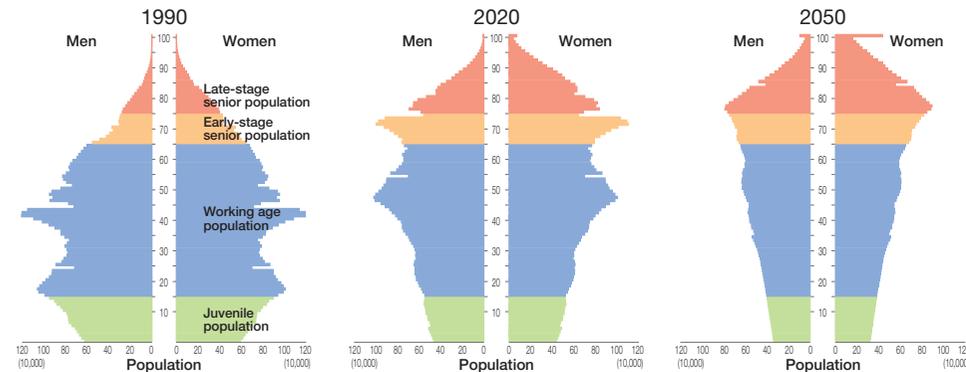
The number of LAWSON stores in Shanghai surpassed 1,000 in 2018, and our stores are open for business in 1,596 overseas locations (as of February 2018), primarily in Asia and extending from China to Thailand, the Philippines and Indonesia, among others.



Expanding the Customer Base

A place for anyone in the community to shop any time of day or night

Our stores are open all the time, 24 hours a day, 365 days a year, meeting people's needs with everything from food to daily necessities. The convenience store has become an essential part of the community infrastructure. Lawson is upgrading its products and services further with the aim of expanding and deepening its customer base. We provide everyone in our communities with "what they want, when they want it."



Source: National Institute of Population and Social Security Research homepage (<http://www.ipss.go.jp/>)

"What they want, when they want it."

The decline of the birthrate and aging of the population are progressing rapidly in Japan today, with a significant reduction in the population of young people clearly coming in the future. Sustaining this society will require increasing numbers of working women and energetic senior citizens. Under these circumstances, LAWSON has been conducting various activities to extend convenience to a broader range of customers to encourage daily shopping by women and senior citizens, for instance, rather than maintaining its focus on males in their thirties, the convenience store's traditional customer base. Our aim is to become the "first choice for neighborhood shopping" as a store that can provide customers with "what they want, when they want it."

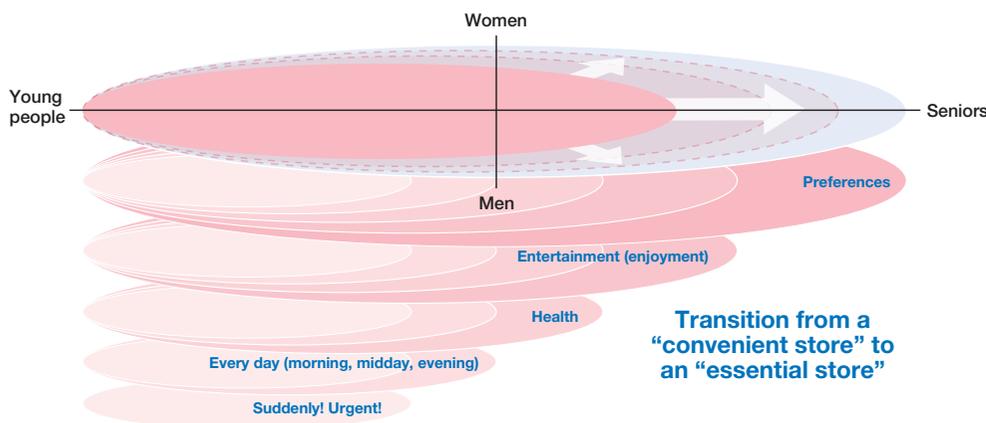
which are packaged in portions suitable for one to two people and include an extensive selection of prepared foods and cut vegetables as well as more substantial prepared foods such as grilled fish and stewed meals, and a wider range of merchandise prepared with the health conscious in mind, such as our bran bread series and GreenSmoothies as well as our Motto! Yasai ("more vegetables") series of boxed meals. The number of HealthCare LAWSON stores that offer health consultations in addition to a selection of OTC pharmaceuticals has increased, meanwhile, to 182 locations throughout Japan (as of end June 2018).

Convenience in daily shopping

We have assembled a substantial product offering for the convenience of working women and housewives who are kept busy with housekeeping and childrearing duties. Prepared foods that can be served as side dishes for dinner and frozen foods as well as bread and milk for breakfast can all be picked up on the way home from work at a LAWSON store. Nor are our offerings limited to foods. The daily necessities in the LAWSON Select series are also available at reasonable prices. In the morning or late at night, customers can walk to one of our nearby stores whenever the need arises and find what they are looking for quickly.

A product lineup responding to demand for smaller portions and more healthful food items

Daily shopping can be a difficult chore for the elderly. This is particularly true for those who do not drive, which makes shopping at distant supermarkets challenging and contributes to the need for purchasing in smaller portions, such as vegetables cut into one or two servings. Lawson is responding by offering an expanded lineup of our LAWSON Select private brand products,



In-store Kitchens: Machikado Chubo In-store Kitchens and Over-the-counter Fast Foods

“Tasty!” Expressing LAWSON’s value in one word

Activities in search of “tastiness” have been a LAWSON obsession for many years. The taste of foods prepared by store crews and served personally to individual customers are infused with the pride of all those involved in our product development. We will maintain our constant efforts to make improvements, motivated by our commitment to preparing warm, good-tasting foods at our stores, which have close ties to community residents.

Tastiness born of the in-store kitchen’s history

LAWSON initiated warm, tasty over-the-counter fast foods (“over-the-counter FF” hereinafter), getting the jump on other members of the convenience store industry, with the launch of Kara-age Kun (chicken nuggets) in 1986. Preparing foods inside the counter area and placing them in insulated thermal cases was a startling innovation in the industry of that time. The taste, arrived at after a series of improvements, has made the handy snacks immensely popular to this day.

The over-the-counter FF product line has become increasingly substantial over the years. Besides our snack series, we now offer a number higher-volume prepared foods such as Genkotsu (“clenched-fist”) Croquettes and Genkotsu Menchi minced-beef patties. The Deka Yakitori (mega grilled chicken) we introduced in 2017 has proved a particular favorite on LAWSON’s over-the-counter FF menu. Roasted over Bincho charcoal and seasoned with domestic soy sauce brewed naturally in wooden barrels, it has gained immense popularity as both a dinner dish and a snack accompaniment for after dinner drinks.

Restaurant taste from the Machikado Chubo in-store kitchen

It is at the Machikado Chubo in-store kitchen that over-the-counter FF is evolving at about 4,300 LAWSON stores across Japan (as of February 2018). Kitchens with strict hygiene management are set up in the stores to provide chef’s delicacies prepared by store crew.

Meticulous care goes into LAWSON’s selection of raw materials and preparation methods. The white rice cooked in most stores is Yudai 21, a new variety developed by Utsunomiya University. LAWSON concluded an agreement with the university to obtain preferential access to this rare, delicious rice, which remains sticky even when cooled. Some stores feature good-tasting Koshiibuki rice from Niigata Prefecture.





Another popular menu item is our 20 mm thick deep-fried pork loin cutlets. Our standard products include a thick-sliced pork cutlet sandwich on special Japanese utane-and-malt sandwich bread and a thick-sliced pork cutlet curry prepared with curry using 21 different spices developed in technical collaboration with the renowned Shinjuku Nakamura restaurant.

The menu of foods prepared in LAWSON's in-store kitchens has grown to include boxed meals, Donburi rice bowl dishes and sandwiches that are popular for their traditional taste. The Machikado Chubu in-store kitchen serving warm tasty foods in a special section of the store has become a significant LAWSON strength.

Enhanced delicacies for home enjoyment

The number of customers who purchase dishes for dinner is increasing every year. LAWSON is responding by strengthening its product assortment further in response to this demand.

New over-the-counter FF items, prepared with meticulous care for ingredients and taste and suitable for serving for dinner at home, include our Hokkaido Croquettes and Minced Beef Cutlets with Hokkaido Onions launched in June and our Nagasaki Prefecture Fried Horse Mackerel, a Nagasaki specialty, scheduled for release sometime this autumn. The wonderful tastes and selection of over-the-counter FF LAWSON has developed through years of experience, and research will continue to evolve into the future.

We plan to increase the number of stores with Machikado Chubu in-store kitchens to 6,000

throughout Japan. We will strive to construct systems to make such popular products as boxed meals and sandwiches available for customers to purchase whenever they want.

Aside from Machikado Chubu in-store kitchens and over-the-counter FF, LAWSON has boxed meal and delicatessen corners offering a growing number of side dishes for evening drinks and 2/3-sized Donburi rice bowl dishes that combine nicely with other dishes for dinner as well as salads with ample volume and ingredients to serve as the main dish in a meal.

LAWSON launched a campaign in 2018 called "Gochiro," short for "gochiso LAWSON", or "LAWSON delicacies." The name refers to delicacies that cheer people up, including side dishes, boxed meals, noodles and desserts, whose availability at the stores makes it easy for customers to enjoy them, however busy they may be. Any community resident can drop by LAWSON to purchase good-tasting foods. This is the kind of store we aim to be.



MACHI café coffee, made with care for taste and nature



MACHI café coffee is brewed exclusively at LAWSON stores using coffee beans grown on farms with Rainforest Alliance Certification, which is awarded to farms that meet rigorous standards for environmental preservation and improved farm worker living standards. Sourcing of beans (Arabica variety)*1 from designated farms and production regions in four countries, where rigorous control can be exercised in everything from individual bean selection to shipping, assures a smooth, aromatic, fruity taste. We use only 100% fresh milk*2 in our caffè latte to obtain the rich, sweet taste characteristic of milk.

*1 Single origin series—decaffeinated series are not eligible.

*2 Our fresh milk is pasteurized.



32 years of Kara-age Kun history

Not only is Kara-age Kun a popular over-the-counter FF at LAWSON stores, but it is also beloved for its taste, even when compared with similar snacks sold at specialty stores and supermarkets. It first appeared in 1986, just 11 years after the first LAWSON store opened. The product has undergone a number of improvements through its first 32 years, with particular care for the ingredients and frying oil. Some 230 versions have been released, including "local specialties" developed independently by individual store managers throughout Japan, with about 3 billion servings sold. And it continues to enjoy overwhelming popularity to this day.



Enhanced Evening and Nighttime Operation

Being prepared to give customers what they want: Welcoming LAWSON's "first year of priority evening and nighttime operation."

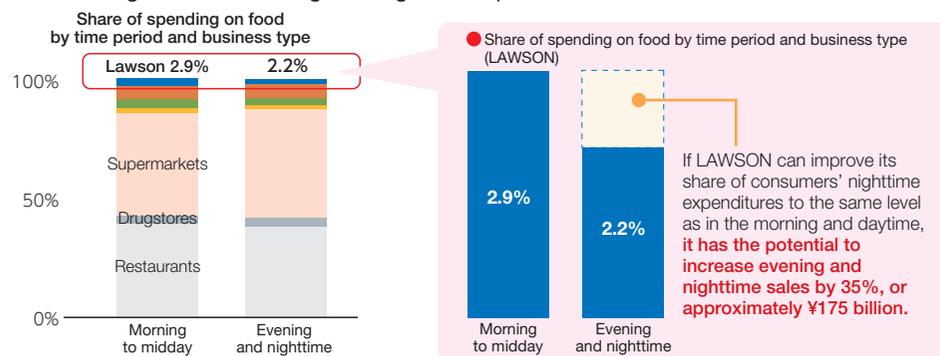
LAWSON has designated fiscal 2018 as its "first year of priority evening and nighttime operation." We will continue to welcome customers in the morning and throughout the day, of course, but will make a special effort to have a full merchandise assortment in the evening and nighttime as well. Our aim is to keep everything customers want available with no overstocking or shortages.

Focusing on sales potential after 4:00 p.m.

The greatest number of customers patronize convenience stores at around noontime. Many come to purchase boxed meals, rice balls, sandwiches and beverages for lunch as well as daily necessities. At the same time, the number of visitors to the stores in the evening and later is increasing, including many who live alone, working women, students and housewives who are busy with childrearing. It is important for the stores to greet these customers with a full complement of merchandise to ensure that they have a sufficient selection available to enjoy shopping at LAWSON.

Having designated fiscal 2018 as its "first year of priority evening and nighttime operation,"

Marketing share of evening and nighttime operation



LAWSON is placing greater emphasis on the merchandise selection available after 4:00 p.m. LAWSON's share of the market for foods in terms of the amount spent, including restaurants, supermarkets and drugstores, is 2.9% during the morning and daytime hours and 2.2% in the evening and nighttime. If our percentage of the evening expenditures can be improved to the same level as our morning and daytime performance, we will see evening and nighttime sales increase by 35%.

While seeking to maximize this hidden potential and provide fuller support than ever for the residents of its communities, LAWSON is currently implementing one initiative after another to enhance its offering of boxed meals and side

dishes during evening and nighttime hours, and to make significant improvements in its ordering and distribution systems.

Dramatic efforts to enhance store performance

The items customers need or want must never be out of stock. LAWSON has consequently conducted various activities to expand its customer base and enhance its evening and nighttime product lineup.

In 2015, LAWSON introduced a semi-automatic ordering system that analyzes Ponta card members' purchasing data to simplify ordering based on demand forecasting for targeted categories, such as boxed meals, at individual stores. With the total number of Ponta members surpassing 70 million, prediction accuracy has substantially improved. Since 2016, we have added a selection of supermarket-alternative products for customer convenience and increased our LAWSON stores' product offering, including the numbers of daily delivered foods, frozen foods and others, by 15%.

Our improvement efforts progressed further in 2017 with the enhancement of the stores' over-the-counter FF operations. We also introduced tablet devices into the stores to "visualize" work schedules, such as the timing of cooking. We also increased our selection of over-the-counter FF items such as "Deka Yakitori" (mega grilled chicken) and other side dishes suitable for serving for dinner.

Besides expanding the installation of new POS cash registers with automated change dispensers in 2018, we introduced dishwashers into about 3,000 stores, mainly stores with Machikado Chubo in-store kitchens. Installing these new facilities has made store operation more efficient, freeing up time for over-the-counter FF and in-store kitchen operations. We also reviewed the ordering and delivery schedules for each store to achieve further enhanced ordering accuracy through improved store operation efficiency and shortened delivery lead times in order to prepare the stores better than ever for evening and nighttime operations. The Lawson Group as whole, including the partner factories that prepare its boxed meals and onigiri rice balls as well as the distribution centers and all the other business partners supporting its supply chain,





has renovated the mechanisms of its evening and nighttime logistics to facilitate improved responsiveness to customer needs after 4:00 p.m.

LAWSON's goal is to have an abundance of the things customers want on the shelves when they stop by after work in the evening and nighttime. LAWSON Fresh Pick, a new service enabling customers to order fresh foodstuffs in the morning and pick them up the same evening, is now offered by some stores. Many customers who stop by to pick up their orders after work linger in the store to shop for other things they need while they are there.

As a presence that supports the lives of people in the community, LAWSON will continue to improve its product lineup and enhance its services in pursuit of further growth, encouraged in its efforts by customers' smiles.



● **Activities toward establishment of the next-generation convenience store**

FY2015	<ul style="list-style-type: none"> • Introduction of semi-automatic ordering systems • Promotion of the transition to new FC contracts
▼	
FY2016	<ul style="list-style-type: none"> • Increase in number of refrigeration and freezer showcases • Enhancement of daily delivered and frozen foods
▼	
FY2017	<ul style="list-style-type: none"> • Enhancement of side dish FF menu (Deka Yakitori) • Introduction of tablet devices • Enhancement of ready-made foods (Onigiriya rice balls and boxed meals) • Establishment of Lawson Innovation Laboratory
▼	
FY2018	<ul style="list-style-type: none"> • Change of ordering deadlines • Introduction of new POS cash registers • Review of timetables • LAWSON Fresh Pick





● **Strengthening store capabilities: Mechanisms for welcoming customers after 4:00 p.m.**

Change of ordering deadlines

- Shortening lead times
- Ordering outside peak times

Distribution framework

- Change of timetables
- Product category configuration review for each delivery

Merchandise assortment

- Use of semi-automatic ordering to increase number/assortment of items contained in 3rd daily delivery (late afternoon)

Work schedule review

- Use of tablet devices
- Standardization of over-the-counter FF preparation processes



Digital Innovation

Innovation with digital technologies for greater efficiency and comfort

Increasing numbers of seniors and foreign nationals will be involved in store operations in the future. Lawson is improving the efficiency of its store operations by maximizing the use of digital technologies. We aim to establish systems that offer customers smooth, stress-free shopping experiences and that free store crews to concentrate on services only human beings can provide.

Simplified payments using smartphones

Waiting in line at cash registers during peak hours in the morning or at lunchtime places significant stress on customers. LAWSON Smartphone Pay is an innovation aimed at eliminating this waiting time while reducing working time and improving store crew productivity.

Merchandise information is scanned using the customer's own smartphone and payment is made by credit card, Rakuten Pay or Apple Pay. The system is already in operation at all LAWSON stores in Shanghai, and demonstration testing and verification of its usage conditions began at three stores in the Tokyo Metropolitan Area in April 2018. We are considering introducing the system to stores throughout Japan, where it is expected to produce positive effects based on customer needs.

LAWSON Smartphone Pay is simple to use. Once an official LAWSON app has been downloaded into a smartphone, bar codes on merchandise purchased at the stores can be scanned with the smartphone camera, and payments can be made from anywhere in the

store. Except for over-the-counter FF items or products such as alcoholic beverages and cigarettes that require age verification, there is no need go to the cash register. Payments are verified by scanning a QR code displayed on the smartphone with a special scanner and an electronic receipt is issued as the customer leaves the store. The system requires installation of almost no new equipment in the stores.

Combining crew-operated cash registers with Lawson Smartphone Pay during peak shopping periods can significantly alleviate the problem of waiting in line at cash registers. This is expected to improve both shopping convenience for customers and the productivity of store operations.

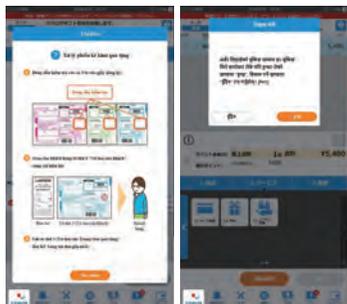
Reducing the burden of cash register work will free store crew to focus on things that "only human beings can do." The source of LAWSON's warmhearted services is the thoughtful consideration shown customers by individual crew members. Cutting-edge digital technologies support this kind of service.

Lawson Smartphone Pay





New POS cash register



Multilingual support

Maximizing use of IT technologies as we evolve into a next-generation convenience store

All the stores were supplied with tablet devices in 2017 to facilitate smooth work processes, even when crew members had little experience, by displaying work schedules in terms of “when, what and how,” with accompanying photos for some tasks. Recommendations are provided for the timing of cooking over-the-counter FF items and for the quantities to be prepared based on sales data for individual stores. This reduces the number of lost opportunities, improving both productivity and sales.

The introduction of the new POS cash registers is progressing, and they have already been installed at about 2,600 stores (as of July 2018). We have introduced the very first cash registers whose main body offers full touch-panel operation and which are also equipped with automatic change dispensers. A navigation function enables anyone to operate them easily, and discrepancies between the amounts of cash taken in and cash in the register can be reduced, shortening the time required to close out cash registers. The system has also been equipped with multilingual support in consideration of foreign national crew members (with simplified Chinese as well as Vietnamese and Nepalese supported).

We are also conducting activities related to the use of RFID*, moreover, as part of efforts to realize the next-generation convenience store. A demonstration test using completely automated Regi-Robo self-checkout machines and RFID tags was conducted in 2017, followed in February of 2018 by an experiment in store inventory

information sharing conducted with merchandise manufacturers and distribution centers at the LAWSON Marunouchi Park Building Store in Tokyo.

We will be using the Lawson Innovation Laboratory established in October 2017 as well as other resources and IT technologies to improve customer convenience and productivity in our store operations.

* RFID (Radio Frequency Identification) is a system that identifies individual products through wireless detection of information stored in electronic tags. The price and other information is inscribed in small tags on each product as data to be read by electromagnetic wave radiation. This system is expected to reduce the crews' workload significantly, not only at the checkout counter but also in their inspection and stocktaking duties.

Regi-Robo



Graphic image of digital tags attached to merchandise



Official “Akikochan” character

The official LAWSON character, “LAWSON Crew Akikochan,” is a chatbot that employs AI to engage in dialog communication using the LINE app. New LAWSON products and stores are introduced on the site, and games and chats are available, with coupons of recommended merchandise distributed through interactive contents. The chatbot's friend total on LINE has surpassed 23 million, and it conducts conversations with several hundred thousand people each day. The usage rate of the periodically distributed coupons has also increased significantly.



Ensuring diversification of human resources selected to work at Lawson

Lawson Staff is a Lawson Group company that provides temporary staffing service as part of an employment system that enables people to work with peace of mind, while matching jobs with the temp staffs' diversified needs. Dedicated trainers with abundant experience provide the training newly hired staff require to work at LAWSON stores, regardless of age, gender or nationality, and new crew members are assigned to appropriate stores with schedules that take their convenience into consideration.



Supply Chain

We aim to advance the manufacturing retailer business model in consideration of society and the environment as well as of quality and cost.

Customers' wide-ranging needs include good taste, safety and peace of mind as well as healthfulness and price. LAWSON is constantly planning and developing original merchandise based on these customer needs, and sales of these products now account for one-third of total sales. Our original merchandise represents not only differentiation from the competition but also improvement of the overall gross profit margin. We are deeply involved in the entire supply chain, thoroughly implementing "visualization" to reduce inefficiency and waste out of consideration for the environment by reducing CO₂ emissions and sustaining biodiversity and, at the same time, to improve quality while reducing costs. Our collaboration with the Mitsubishi Corporation Group will be strengthened in the future to promote development of our manufacturing retailer based on a small commercial area model.



Planning & development

Raw materials procurement

Business aspects

Pursuing involvement with the entire supply chain to build a true manufacturing retailer business model.

Painstaking product manufacturing

Point card-based purchasing data and feedback gathered through social media are analyzed and employed in our product development.



Use of high-quality ingredients for good taste without waste

The raw materials procurement professionals at our functional subsidiary, SCL, Inc., purchase high-quality raw materials at optimal cost through direct interaction with producers. Benefits of scale acquired by selling merchandise at all the stores across the Japan and the mechanisms in place for use without waste contribute to higher overall gross profit margins.



Social & environmental consideration

Full supply chain transparency and comprehensive consideration of society & the environment

While maintaining our focus on good taste and health as primary concerns, we also take care to avoid waste in our food product development. Vegetables with imperfections grown on Lawson Farms are cut up for use in salads, marinated vegetables, pet foods and other such products to reduce waste.

We use domestically produced and seasonal foodstuffs to the greatest extent possible in preparing such original food products as our over-the-counter FF, boxed meals and desserts. This contributes to revitalization of communities in the respective production areas and reduces transportation energy requirements in comparison with importing the ingredients.





Manufacturing

Proactive engagement in the fabrication process

Lawson is reinforcing its partnerships with three major food manufacturers whose subsidiary production facilities make boxed meals and side dishes. In addition to its collaborations with the Mitsubishi Corporation Group, Lawson has increased its direct participation in the manufacturing sector with the aim of forwarding the evolution of its supply chain even further.



Lawson has introduced a Production Processing Control System to manage the volume of ingredients used as well as production quantities and serving sizes, measured in grams, at the manufacturing stage. This system contributes to preventing over-production and reducing waste.

Distribution

Efficiency enhancement through visualization of distribution

Improving the efficiency of distribution center and truck delivery operations is an important factor in Lawson's efforts to deliver merchandise to stores across Japan without waste. The Company-owned distribution center that went into operation in 2016 conducts basic reviews of distribution procedures through "visualization" made possible by our ownership and operation of the facility.



Efforts to conserve fuel in the delivery process include promoting joint deliveries, optimizing delivery frequency and mounting eco-tires on trucks. We also encourage eco-driving through our operations management system and provide training to stop drivers from letting their vehicles idle.

Stores

Reducing the workload in the stores

Various measures are being taken to improve work efficiency at the stores, including introducing tablet devices and POS cash registers with automatic change dispensers. Systems stressing interaction with customers will be arranged by eliminating waste and improving productivity.



Food recycling is conducted to reduce food waste generation by the stores. Leftover foods are recycled as fertilizer, and waste oils are used as additives for feeds and biodiesel fuel. Daikon radishes for oden hot pot stew are produced at Lawson Farm Tottori using fertilizers created from leftover foods.

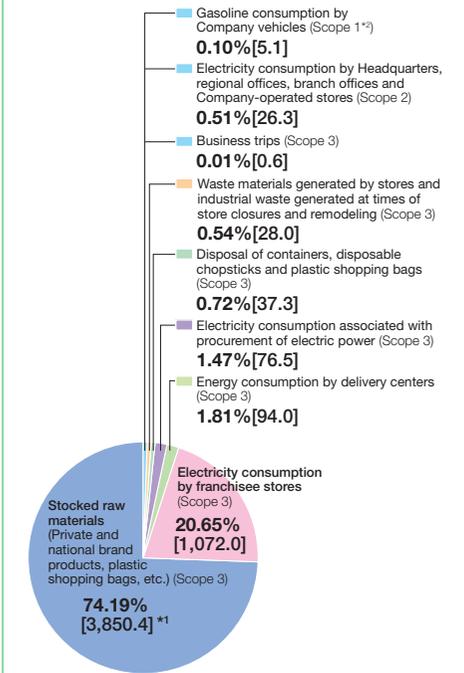
Customer

CO₂ emissions from our supply chain in FY2017

Total CO₂ emissions

Approx. **5,190.2** thousand tons

Method of calculating greenhouse gas emissions from the supply chain
 Calculated based on "Explanations by Industry (Retail Industry) for the Basic Guidelines on Accounting for Greenhouse Gas Emissions throughout the Supply Chain," Ver. 1.0.



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

CO₂ emissions calculation rule

Scope of calculation:
 Use of Company vehicles, LAWSON, NATURAL LAWSON and LAWSON STORE100 (14,428 stores), purchased goods and services for store sales

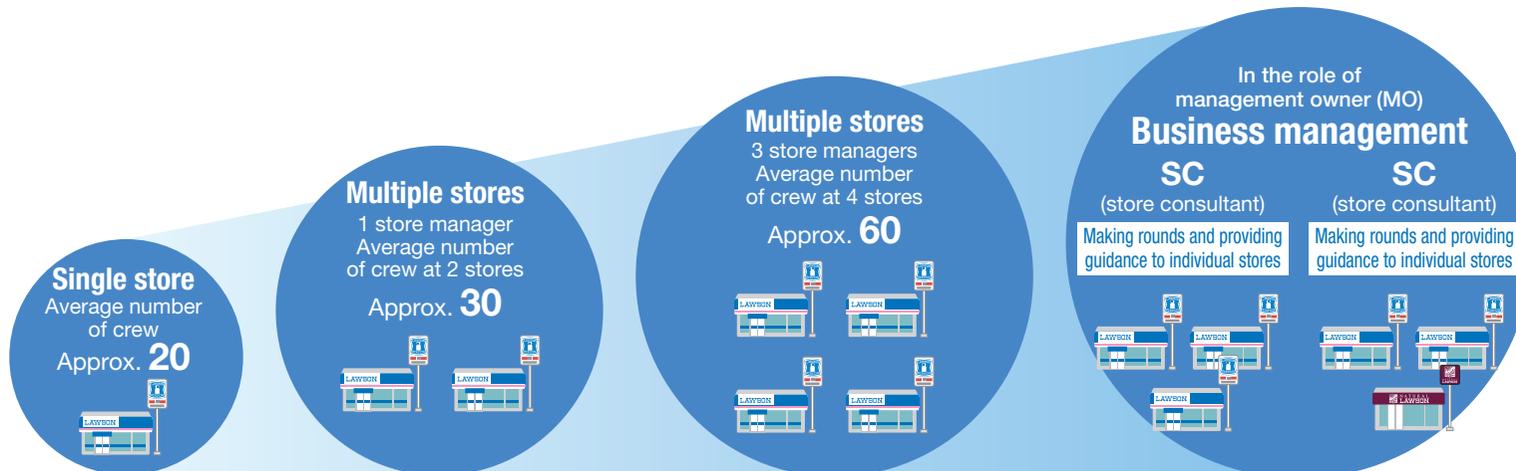
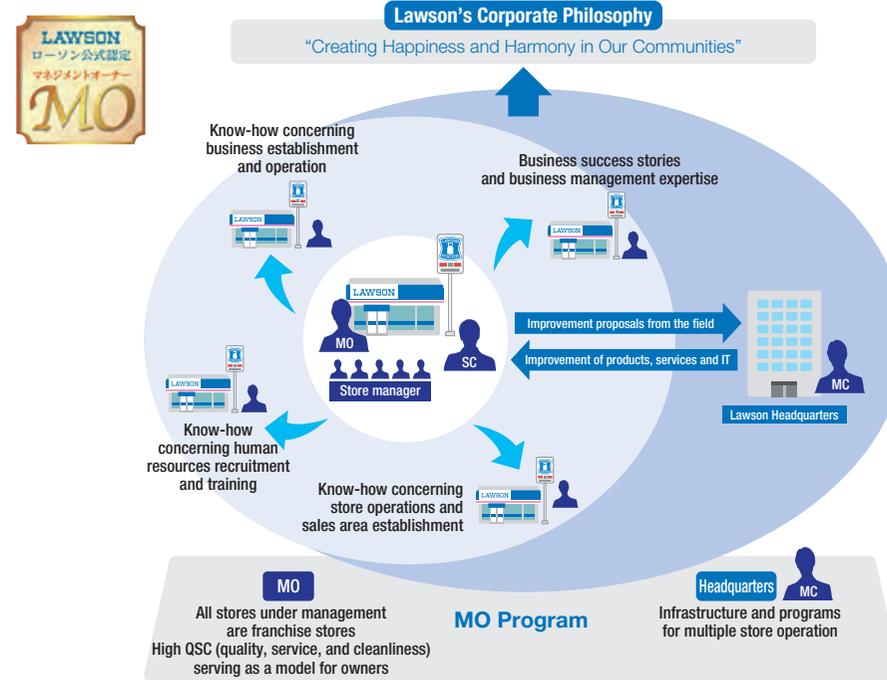
Target period:
 April 1, 2017 to March 31, 2018 (administrative year)



Multiple Store Management and Management Owner Program

Transitioning from Convenience Store Operation to Business Management

Lawson encourages its FC owners to operate multiple stores, while promoting store operation that respects the autonomy of the franchisees. Owners who operate more than one store have the advantages of distributing risks, such as the emergence of rival stores in their territory, to realize stable operation of their stores as a group, and of maintaining close contact with Headquarters, which is a first step toward becoming a business manager. Upwards of 40% of our FC owners are currently managing multiple stores. Under these conditions, Lawson's Management Owner (MO) program provides a unique framework for helping owners transition to multiple store ownership in a strong partnership with Headquarters. They are provided with such high-level support services as priority introduction of new businesses and services and distribution of information appropriate to multiple store development. At the same time, the MOs contribute significantly to the progress of the Lawson chain by serving as models for other franchisees through sharing of know-how they acquire about establishing stores and sales areas, as well as about products and personnel training, and by proposing improvements from the field. About 200 MOs are active throughout Japan as of February 2018.





President and Representative Director,
Tomoyoshi Ltd.
Hiroshi Maeda
Management of 34 stores in Tokyo

“I feel truly empowered by the MO Program, which creates a cycle of profits together with Lawson Headquarters.”

I became self-employed and opened my first store in Tokyo's Suginami Ward in 2002. I had expanded to four stores when the MO Program was established in 2009, and I joined the first class of participants. Owners with the same objectives came together, and the perspective I had developed as an owner of multiple stores was broadened through experiences such as attending seminars at other stores. Since receiving my MO certification, I have been adding stores every year, bringing the total to 34 stores today. All the stores are located in the vicinity of railway stations near residential areas. Rather than going into the city center, I chose to focus on outlying areas where I can acquire personal understanding of the local characteristics.

I have employed several different methods of organizing my business. I currently employ about 550 people, and the organization involves assigning a group leader to handle each business field under a store consultant in collaboration with the store managers assigned to each store. Corporate decision-making is conducted through voting by our executives.

The MO Program offers a variety of advantages. Although ordinary LAWSON stores also receive support from supervisors (SV), all of whom are

specialist instructors, the MO Program enables us to experiment with new activities on our own initiative. When these are successful, the results are often communicated to other stores throughout Japan via supervisors. The MOs share know-how with each other in their own area, and exchange information about personnel management with MOs in other areas as well. The primary cause of the worker shortage is people quitting. I recommend that those who quit for reasons such as moving away find employment at a LAWSON store again in their new location.

Enhancing the attractiveness of our stores such that it reflects back on Headquarters enables Headquarters to pursue more advanced efforts. Many MOs are constantly conscious of this cycle of profits. Ideally, I would like to see more FC owners in every area become MOs. They will benefit from multiple store ownership by hedging the risk of emerging competition, and Headquarters will benefit, in turn, by accumulating more know-how about multiple store management, which will in turn increase its capacity to instruct franchisees. The MOs and Headquarters coexist and share their prosperity. I intend to maintain stable management and a community-based attitude into the future for the further betterment of the LAWSON chain as whole.



Lawson Owner Welfare Association

This organization provides franchise stores with a range of welfare benefits centered on the three principles of “comfort,” “health” and “peace of mind.” It offers a range of benefits for member franchise owners and their families as well as for store crew and staff, including a subsidy system to encourage medical checkups and the use of preferred discounts for health promotion activities.

- Subsidy program for use of sports facilities
- Subsidy program for full medical examinations and health checkups
- Subsidy program for crew who leave children in the care of a nursery or day care center when going to work
- Hosting of parent/child health promotion events & seminars for women
- Program of convenient travel and accommodation services
- Subsidy program for correspondence courses
- Congratulatory and condolence payment system
- Voluntary group insurance system for FC stores
- Discount/preferential systems for leisure activities, entertainment, child-rearing, nursing care and other life-related facilities

Top: A Lawson Owner Welfare Association pamphlet



Bottom: The Owner Welfare Association convenes health promotion seminars.



Developing Human Capital



Development of human capital that contributes to corporate growth through self-motivation and innovation

Both our Corporate Philosophy and our Code of Conduct formulated to contribute to its achievement have been implemented positively and systematically, with accompanying efforts to develop human capital to become core participants in activities to this end.

The image of human capital Lawson seeks to realize is of personnel capable of manifesting the Company's values through teamwork, continuous innovation to create value and determined action to achieve goals. The key behavioral characteristics of these personnel are self-motivation and innovation.

We have introduced a personnel development program to train all our employees to become more self-motivated and innovative. This equips them to identify appropriate employee behavior for achieving the Corporate Philosophy and for fulfilling their individual duties in order to complete their objectives for the year.

We have also developed an employee behavior and skill level evaluation program under our personnel management system with the aim of creating a culture that encourages self-motivation and innovation among employees. The program also seeks to clarify the scope of their responsibilities and the roles they must play to fulfill the duties of their respective posts. The manner of fostering employees as human capital is determined based on two evaluations: an evaluation of their behavior on the job and an evaluation of the business results they achieve.

We employ a Career Development Sheet to ensure employees' ability to determine their own career paths, and individual employees

are also asked to specify their goals for the future in light of their personal histories and current positions. Interviews are conducted to support their growth as individuals.

New ROOKIE AWARD added to Lawson corporate awards program

Lawson has conducted a corporate awards program, the Awards for Promotion of Self-motivated Innovation, since 2015 to give special recognition to employees whose voluntary efforts have led to improvements in operations or business results. We have now expanded this program, which contributes to creating a culture that encourages self-motivation and innovation, by establishing a new ROOKIE AWARD to commemorate young employees' initial steps toward tackling problems and expressing their opinions voluntarily.



Promoting diversity

Contributing to the success of diversified human capital, including female employees and employees of foreign nationalities; encouraging male employees to take paternity leave

Lawson promotes diversity to ensure that all its employees with their widely varying range of values come together and perform to their full potential to strengthen its franchise chain business further. Having constructed systems for promoting diversity, the Company is pursuing such additional efforts as forming a special subsidiary to promote employment of people with disabilities, creating on-site childcare facilities and opening a facility for labor-management consultations with a focus on improving operating efficiency and work environments.

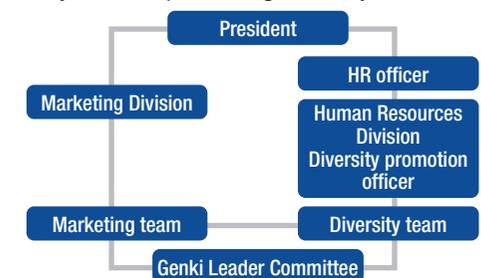
Lawson continues its active efforts to hire women and foreign nationals through its regular recruitment program, while also broadening the scope of its international employment activities, as exemplified by local hiring in South Korea.

Intent on being a company that retains female employees over the long term, Lawson is implementing initiatives to support their career and life planning, including career development training for young employees, education concerning child-rearing leave and leadership training for selected employees. Lawson seeks to attain a ratio of 30% women in management positions by fiscal 2020.

Inspired by hopes that active participation by men in childrearing will lead to efficient, highly productive work styles regardless of gender, Lawson encourages male employees to take paternity leaves. In fiscal 2017 the ratio of paternity leave-taking exceeded 80% for the second consecutive year.

In 2018, Lawson has reinforced its efforts to become a company where employees can continue to work by introducing a flexible workplace system (flexible full-time employee system) to help employees balance work with childrearing, nursing caregiving or cancer treatment.

System for promoting diversity



Under the President's leadership, the Human Resources Division designs and operates a system for promoting diversity and determines employees' positions accordingly. The Marketing Division, meanwhile, takes charge of creating new value based on ideas generated by female employees.



The President participated in a training session for selected female employees.



Lawson, Inc. was named a Nadeshiko Brand as an "Enterprise Encouraging Women's Success in the Workplace" in 2018 for the fifth consecutive year beginning in 2014.

Ikumen promotion posters displayed in every office



Activities contributing to the health of employees and franchise owners

Promoting health management that begins with employees' concern for their own health

As a company that views its stores as a “support for health and wellness in our communities” at the corporate level, Lawson not only supports customers' efforts to lead healthy lives, but it also promotes healthy lifestyles among its employees. With this in mind, we have completed agreements between labor and management to enhance work efficiency and eliminate excessive working hours, while also establishing a cooperative health union to create a mechanism for sustaining employees' long-term health.

We also encourage employees to undergo medical checkups and ensure that those who fail to meet set health criteria retake the examinations.

We instituted the Lawson Healthcare Point program to promote employee health in 2015. We followed this in 2016 by introducing the Health Challenge! program of semi-annual health promotion periods. Various events held during the Health Challenge! periods include the Low Carb Challenge aimed at improving dietary life by curbing per-meal carbohydrate intake and the Step Count Challenge, in which groups of 3 to 5 employees compete with each other, with rankings announced weekly.

In 2017 the Lawson Grand Sports Day for Health, a new event in which all Lawson employees will participate annually, was held in eight areas nationwide, helping to vitalize internal communications and foster a sense of unity through collaboration. The meet featured adult physical fitness tests, including grip

strength measurement and repetitive sideways jumping tests, among others. The intention is to motivate employees to exercise more by calling their attention to their current activity level.



Lawson Grand Sports Day for Health

Among other activities in the area of employee health, we conduct a Health Seminar for newly hired employees to raise awareness of the importance to proper job performance of maintaining good health. Among efforts to promote participation by women in the workplace, Lawson holds the Women and Health Seminar to help female employees take advantage of workplace opportunities while pursuing health at the same time.



Seminar on women and health

Promoting industrial safety and hygiene

We seek to assure safe, worker-friendly workplaces by implementing the “5S Methodology”—which consists of “sorting, setting in order, shining, standardizing and sustaining”—and by providing the stores with manuals that illustrate operating procedures. We also hold safety management meetings to raise awareness of the importance of safe driving among store supervisors whose jobs involve driving. Those with no history of accidents or traffic violations also receive official commendations.

Should any work-related accident occur, we investigate, analyze and share information on the cause internally with the aim of preventing recurrences.

Promoting the health of FC owners

Lawson places a high priority on promoting the health of its FC owners. The Company provides an assistance program for medical examinations and health support through the Lawson Owner Welfare Association, which is operated in a spirit of mutual assistance by the FC owners themselves.

▶▶ See page 37 for details.



Lawson, Inc. was recognized under “The Certified Health and Productivity Management Organization Recognition Program (White 500)” as a company that practices excellent health management for the second consecutive year in 2018.

Lawson pursues a business strategy of diversity without discrimination and irrespective of physical or cultural attributes and background, including gender, nationality, disabilities or place of birth. We have engaged since 2005 in recruiting activities aimed at increased hiring of women, setting a numerical target ratio of 50% for women hired through the regular recruitment program. The ratio of female employees in the Company, formerly in the single digits, has risen to as high as 16% today. We are seeing increasing numbers of women continue to work after taking maternity leaves and achieving career advancement, which has led to many innovations in the Company.

Employees of foreign nationality are performing admirably, leading us to realize requirements of management we might not have noticed in a less diversified organization. We consequently plan to continue promoting diversity, which values differences, and increases corporate value.

General Manager
Human Resources Division
Kyoko Yamaguchi





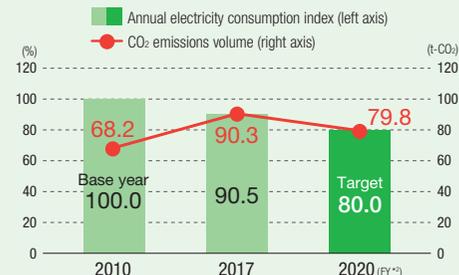
Contributing to a circular society at the stores

Energy-saving objectives

20% reduction in per-store electricity use in fiscal 2020 compared with fiscal 2010

Lawson is implementing energy conservation and generation measures with the goal of achieving a reduction in per-store electricity consumption of 20% in fiscal 2020 compared with fiscal 2010.

● Per-store electricity consumption (index) and CO₂ emissions*1



*1: CO₂ emissions derived using adjusted coefficients for receiving-end terminals published by the Federation of Electric Power Companies of Japan. The figures for fiscal 2017 and 2020 are estimated based on emissions factors reported by the individual electric power companies (EPCOs) for fiscal 2018.

*2: Calculated for April 1 to March 31 to coincide with the administrative fiscal year.

Introduction of CO₂ freezer and refrigeration systems

Lawson began installing highly energy-efficient Freon-free freezer and refrigeration systems cooled by CO₂ refrigerants that do not emit chlorofluorocarbons (CFCs) in fiscal 2010. As of the end of February 2018, they were installed in approximately 2,700 stores. Reduction of the use of HFC* will be required by law beginning in fiscal 2019. Lawson will contribute to combatting climate change by successively replacing the refrigerants currently used for cooling with non-CFC refrigerants.

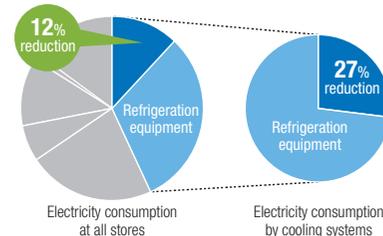
These systems significantly reduce greenhouse gas emissions, moreover, because CO₂ refrigerants exert a global-warming impact about 1/4,000 that of CFC refrigerants. They also excel in energy-saving performance, and can reduce electricity consumption by the store as a whole by 12%.

* HFC (hydrofluorocarbon) is often referred to as "substitute Freon." Although it does not damage the ozone layer, its reduction is required by law due to its significant greenhouse effect.



Freezing and refrigeration systems using CO₂ coolant

● Reduction of electricity consumption through use of CO₂ coolant



Implementing the Ten Energy-saving Rules to promote energy conservation at every store

Lawson has formulated and implemented the "Ten Energy-saving Rules" to improve the operating efficiency of the cooling and air-conditioning systems installed in its stores and reduce wasteful electricity consumption throughout the store operation.

Every store is responsible for keeping the filters of its cooling and air-conditioning systems compliant with the standards and for maintaining the recommended heating and cooling temperature settings in daily operation.



Opening of a new store with wood construction

The LAWSON Tatebayashi Kidocho store (Tatebayashi City, Gunma Prefecture) opened in January



The store exterior

2018 as the first convenience store with its external structure and interior constructed of cross-laminated timber (CLT) comprising domestically grown cedar wood.

A building material composed of layered wooden panels made by gluing adjacent layers together with their grains perpendicular to each other, CLT offers high rigidity and excellent thermal insulation performance.

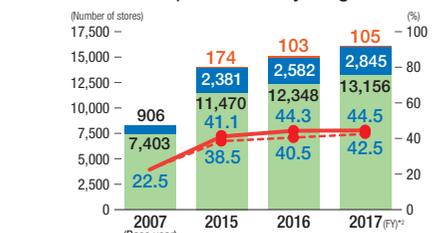
Among efforts to achieve energy conservation through efficient operation, moreover, the store has installed an Ultra-Eco-Ice (heat storage tank) that makes ice by operating a CO₂ freezer at night, when outdoor temperatures are low, and uses the accumulated thermal energy to cool refrigerated display cases during the daytime, when outdoor temperatures rise.

* Cross Laminated Timber

Recycling to reduce food waste

Lawson is working to limit waste generation and encourage recycling in order to reduce the volume of food waste (11kg/day per store) discarded by Lawson stores. These efforts have included introducing a new ordering system to improve the accuracy of our product ordering and cut waste further. Any surplus food that remains is delivered to recycling plants for conversion into animal feed and fertilizer, and waste oil is recycled as a feed additive. These efforts resulted in a food-recycling ratio of 44.5% in fiscal 2017, as compared with our target of 42.5%.

● Transitions in number of stores implementing Lawson Group's food-recycling activities



*1 Figures for the implementation rate of food recycling activities exclude figures for Lawson Okinawa, Inc., Lawson Minami-Kyushu, Inc. Lawson Kochi, Inc. and Lawson Sanin, Inc.

*2 Calculated for April 1 to March 31 to coincide with the administrative fiscal year.



Lawson's social and environmental initiatives

Social and environmental initiatives in our core business

Based on our Environmental Policy, we are seeking to pass on the blessings of our abundant Earth to future generations by conducting efforts in our core business aimed at realizing a sustainable society and through social contribution activities conducted in our local communities. We employ the ISO 14001 Environmental Management System to promote business activities that are considerate of society and the environment and implement the PDCA (Plan-Do-Check-Action) cycle to promote a harmonious relationship with society and reduce the environmental burden. In addition to conducting internal audits several times a year, we invite third-party audits by an external organization as part of ongoing efforts to verify the status of our activities and identify ways to improve them.

Lawson's certification was renewed in fiscal 2017 following a periodic review through third-party audit.

Lawson Group Environmental Policy

Our Commitment

To sustain the blessings of Earth for future generations, the Lawson Group will consider the environment in every aspect of our business activities and strive to achieve sustainable development and coexistence with local communities.

Our principles

1. Creation of a low-carbon society
2. Consideration in the development of products and services
3. Active participation in social contribution activities
4. Continuous improvements
5. Observance of laws and regulations
6. Promotion of communication

Scope of ISO 14001 certification (as of March 1, 2018)

Headquarters, 24 main offices / offices, 8 areas, 5 Group companies, 13,992 stores (as of February 28, 2018)

Promotion of social and environmental education

High levels of awareness, knowledge and information are essential for contributing to society and the environment. The Lawson Group provides social and environmental education for Headquarters' employees as well as for franchise owners and store managers and crew. For Headquarters employees, education begins with new employee training and extends to annual general environmental training of all employees through e-learning. Training is provided at the time of store openings for franchise owners and store managers and crew, who also receive a continuous flow of information through in-house magazines and the Company's social and environmental reports.

Lawson encourages the representatives responsible for promoting CSV* activities in the various departments to deepen their knowledge by acquiring both internal and external training and taking the eco test.

* CSV (Creating Shared Value)

CSV (Creating Shared Value) Subcommittee

With the Business Operations Support Division (CSR and Community Alliance Promotion Department[?]) serving as a secretariat, the CSV Subcommittee convenes monthly meetings attended by representatives of Headquarters, the various areas and the Group companies responsible for CSV promotion. Its principal activities include managing progress and sharing information concerning social and environmental objectives, providing guidance and assistance for stores, responding to internal and third-party audits, and promoting social and environmental education.



Support for greenery and children through social contribution activities

The LAWSON Group promotes social contribution activities centered on support for greenery and children. Among these, the Lawson Group's "Happiness in Communities" fundraising combines customers' benevolence received through donation boxes placed beside store checkout counters with funds donated by headquarters and contributes them to NGOs.

In July 2017, we established the Single-Parent Family Scholarship Program under the auspices of our Support Dreams Fund to provide scholarships to children from single-parent families with no repayment requirement to help them realize their dream of furthering their education.



Lawson Green Fund

Recipient: The National Land Afforestation Promotion Organization

Provides support for elementary school and junior high school greening activities nationwide, and for forest maintenance activities conducted by volunteer groups.



TOMODACHI Fund

Recipient: U.S.-Japan Council (Japan)

Supports nurturing of next-generation leaders through restoration assistance for Great East Japan Earthquake recovery efforts as well as educational and cultural exchanges between Japan and the United States for students from the Tohoku region.



Support Dreams Fund

(Great East Japan Earthquake Scholarship Program)
Recipient: Civic Force

Provides scholarships for approximately 1,000 students from the three Tohoku districts affected by the Great East Japan Earthquake, and conducts support programs in these districts.



Support Dreams Fund

(Single-Parent Family Scholarship Program)
Recipient: General Incorporated Foundation National Council of Mother and Child and Widows Welfare

Supports the dreams of children from single-parent families by providing scholarships for a total of 400 junior high school (3rd-year) and high school students with no repayment requirement.



Shuichi Imagawa,

Senior Vice President, CR Executive Officer and Director, Human Resources

The problems facing society have escalated remarkably in recent years, and new risks continue to emerge. We are responding by reinforcing internal controls across the whole Group, strengthening our compliance and risk management systems, and increasing our emphasis on four key factors: quality and hygiene management, information security, disaster preparedness and crime prevention. We are procuring and providing emergency supplies in preparation for disasters resulting from major earthquakes or extreme weather, especially, while also conducting restoration activities in areas affected by past disasters. We are also using the time between disasters to implement disaster prevention work plans, create a mechanism for grasping disaster information in real time, conduct disaster drills and introduce other measures to meet our responsibilities as a lifeline supporting the lives of people in our communities.

Internal control

Basic policy regarding the internal control system

The Lawson Group is a corporate entity whose characteristics require it to observe a diverse array of laws and regulations. Not only do the Group's operations range from entertainment and home conveniences to financial services, e-commerce and consulting, all with the convenience store business at the core, but LAWSON stores in every prefecture in Japan, as well as our many stores overseas, offer wide variety of products and services. 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 Basic Policy implemented in fiscal 2018 are described below:

Clarification of measures to be taken when any violation of laws and regulations is discovered

Lawson has made it clear that it will implement strict measures if a violation of the laws is discovered by adding the following statement: "When a violation of laws, regulations or in-

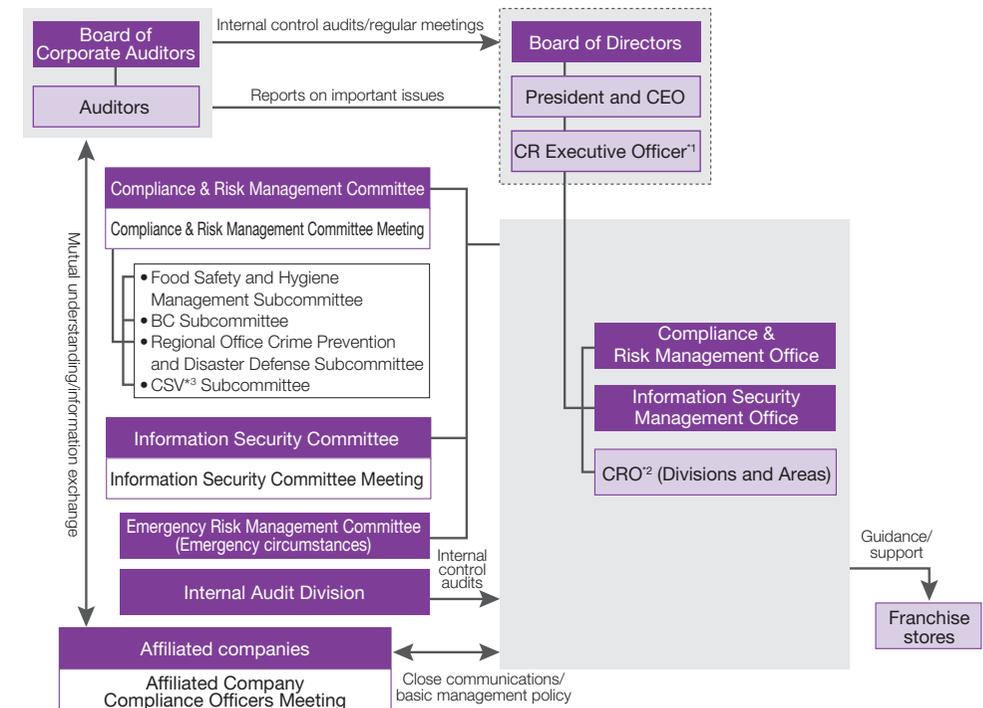
house rules is discovered, corrective measures will be taken immediately and measures to prevent recurrence will be implemented."

Promotion of work style reform

In our conviction that continuous efforts to reform work styles will contribute to creation

of appropriate work environments and exert a positive impact on labor management, we have added a new provision to the Basic Policy: "Seek to improve labor productivity by promoting work style reform."

Lawson's internal control system (as of June 1, 2018)



*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

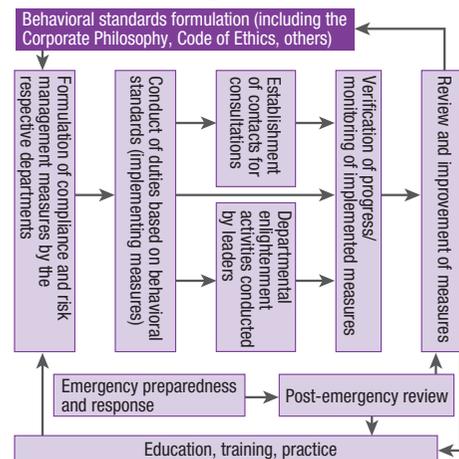
*3 CSV (Creating Shared Value)



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, Lawson Group Privacy Policy and Lawson Group Purchasing Policy to ensure proper conduct of business throughout the Group. We have compiled these in the "Lawson Group C&R Handbook" and distributed it to all



Lawson Group C&R Handbook

our employees to attain their understanding of the policies.

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.

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 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 with anonymous consultations.

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 Compliance and Risk Management Office and the Information Security Management Office and staffed them with specialized personnel under the direction of the CR Executive Officer. As the entities responsible for promoting and assuring compliance as well as for conducting risk management, these offices serve as cross departmental secretariats for the Compliance and Risk Management Committees Meeting and Information Security Committees Meeting and manage the progress of measures implemented in these areas by individual departments throughout the Group. Four separate subcommittees (the Food Safety and Hygiene Management Subcommittee, the BC Subcommittee, the Regional Office Crime Prevention and Disaster Defense Subcommittee, and the CSV Subcommittee) have been established under the Compliance and Risk Management Committees 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.



Group officer training

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.

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 and Risk Management Committee and the Information Security Committee as well as of the four 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.

In the spirit of building national resilience against disasters, the government’s National Resilience Promotion Office, Cabinet Secretariat established a system for “certifying groups contributing to the building of national resilience against disasters (resilience certification).” This system certifies businesses that are actively engaged on a regular basis in efforts related to BC in preparation for large-scale natural disasters and so on as “organizations contributing to the building of national resilience against disasters.” The February 2016 “Guidelines relating to certification of groups contributing to the building of national resilience against disasters” were enacted by this office. 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 by the above guidelines. 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.

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.

■ Formulation of BCP guidelines

Lawson has formulated the “BCP Guidelines” as a practical action manual describing responses to emergency situations based on the Business Continuity Plan. The current guidelines summarize in an easy-to-understand manner appropriate responses by the responsible personnel to such hypothetical emergency situations as the occurrence of an earthquake under the Tokyo Metropolitan Area, the appearance of a new strain of influenza, and such events as deep offshore earthquakes, nuclear power plant accidents, volcanic eruptions and heavy flooding.



BCP Guidelines

■ 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.

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, 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 area can be reopened for business at an early date.



Disaster relief manual



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.



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, 19 cities and wards

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

Mass transit systems: 10

Electric power companies: 2

<Entities concluding agreements on assistance to stranded commuters>

Local governments: 41 prefectures, 10 ordinance designated cities

(As of June 1, 2018)



*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 2, Item 5 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 March 11, 2018)

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.

Upon enforcement of the revised Act on the

Protection of Personal Information in May 2017, we communicated the revised provisions to all members of the Lawson Group and ensured that Lawson and its Group companies revised their own internal rules accordingly. The Lawson Group Privacy Policy has also been revised.

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 unannounced 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

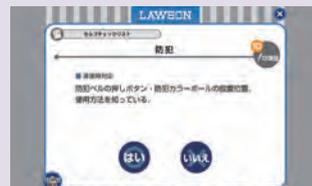
Security cameras are installed at every store to discourage potential perpetrators from committing crimes and to support investigations that may lead to the arrest of perpetrators in the unlikely event an incident should occur. We have upgraded to a digital security camera system, moreover, which provides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



A DVD on measures to prevent robberies and other crimes

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 crews. Various tools and manuals, such as crime prevention self-check lists, have also been prepared.



A crime prevention self-check list



Training in responding to robbers

3. Enhancing guidance provision during patrols

Crime prevention guidance is also provided during store 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.



Training in anti-crime color paintball throwing



Lawson Group Overview As of February 28, 2018/Consolidated

Company name	Lawson, Inc.	Business activities	Franchise chain development of LAWSON, NATURAL LAWSON and LAWSON STORE100
Headquarters	East Tower, Gate City Ohsaki, 11-2, Osaki 1-chome, Shinagawa-ku, Tokyo 141-8643, Japan	Net sales for all stores	¥2,283.6 billion (consolidated)
President and CEO, Representative Director, Chairman of the Board	Sadanobu Takemasu	Number of stores	15,728 (worldwide)
Established	April 15, 1975	Operating areas	All 47 prefectures in Japan, China (Shanghai, Chongqing, Dalian, Beijing, Wuhan), Indonesia, Hawaii, Thailand, Philippines
Capital	¥58,506.644 million		
Number of employees	10,028		

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: The total number of stores in Japan is the total of ①+②+③: ① LAWSON, NATURAL LAWSON and LAWSON STORE100 stores operated by Lawson, Inc.; ② 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 is the number of LAWSON brand stores managed by operating companies in the respective regions.

Share information As of February 28, 2018/Non-consolidated

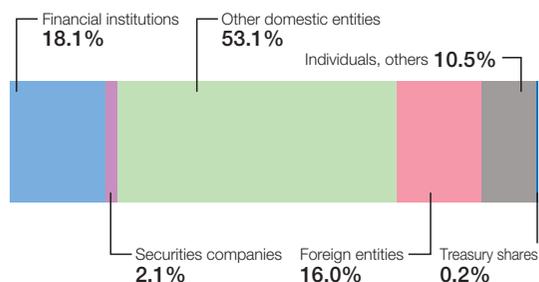
Authorized shares	409,300,000
Shares issued	100,300,000
Shareholders	36,536
Stock exchange listings	Tokyo Stock Exchange (1st Section) Mitsubishi UFJ Trust and Banking Corporation
Stock transfer agent	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

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)	3,338	3.3
3 Japan Trustee Services Bank, Ltd. (Trust account)	2,994	3.0
4 NTT DOCOMO, INC.	2,092	2.1
5 STATE STREET BANK WEST CLIENT — TREATY 505234	1,567	1.6
6 THE BANK OF NEW YORK 133972	1,250	1.3
7 JP MORGAN CHASE BANK 380655	1,204	1.2
8 National Mutual Insurance Federation of Agricultural Cooperatives	1,001	1.0
9 Japan Trustee Services Bank, Ltd. (Trust account 5)	952	1.0
10 Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd.	923	0.9

*The above percentages of total shares held were calculated after excluding 244,849 treasury stocks.

Distribution of shareholders by type



Main Lawson Group companies As of February 28, 2018/Consolidated

Category	Name of company	
Domestic convenience store business	Lawson, Inc.	Consolidated subsidiary
	Lawson Store100, Inc.	Consolidated subsidiary
	SCI, Inc.	Consolidated subsidiary
	Lawson Sanin, Inc.	Equity-method affiliate
	Lawson Okinawa, Inc.	Equity-method affiliate
Entertainment business	Lawson Minami-Kyushu, Inc.	Equity-method affiliate
	Lawson Kochi, Inc.	Equity-method affiliate
Financial services business	Lawson HMV Entertainment, Inc.*1	Consolidated subsidiary (Consolidated subsidiary of Lawson HMV Entertainment, Inc.)
	United Cinemas Co., Ltd.	
Consulting business	Lawson ATM Networks, Inc.*2	Consolidated subsidiary
	Lawson Bank Preparatory Company Inc.*3	Consolidated subsidiary
Overseas business	BestPractice, Inc.	Consolidated subsidiary
	Lawson (China) Holdings, Inc.	Consolidated subsidiary (Consolidated subsidiary of Lawson (China) Holdings, Inc.)
	Shanghai Hualian 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.)
SEIJO ISHII business	Saha Lawson Co., Ltd.	Consolidated subsidiary
	SEIJO ISHII CO., LTD.	Consolidated subsidiary

*1. Lawson HMV Entertainment, Inc. was renamed Lawson Entertainment, Inc. on June 1, 2018.

*2. Lawson ATM Networks, Inc. was integrated into Lawson Bank Preparatory Company Inc. on June 1, 2018.

*3. Lawson Bank Preparatory Company Inc. was renamed Lawson Bank, Inc. on July 2, 2018.

Executive Officers As of March 1, 2018

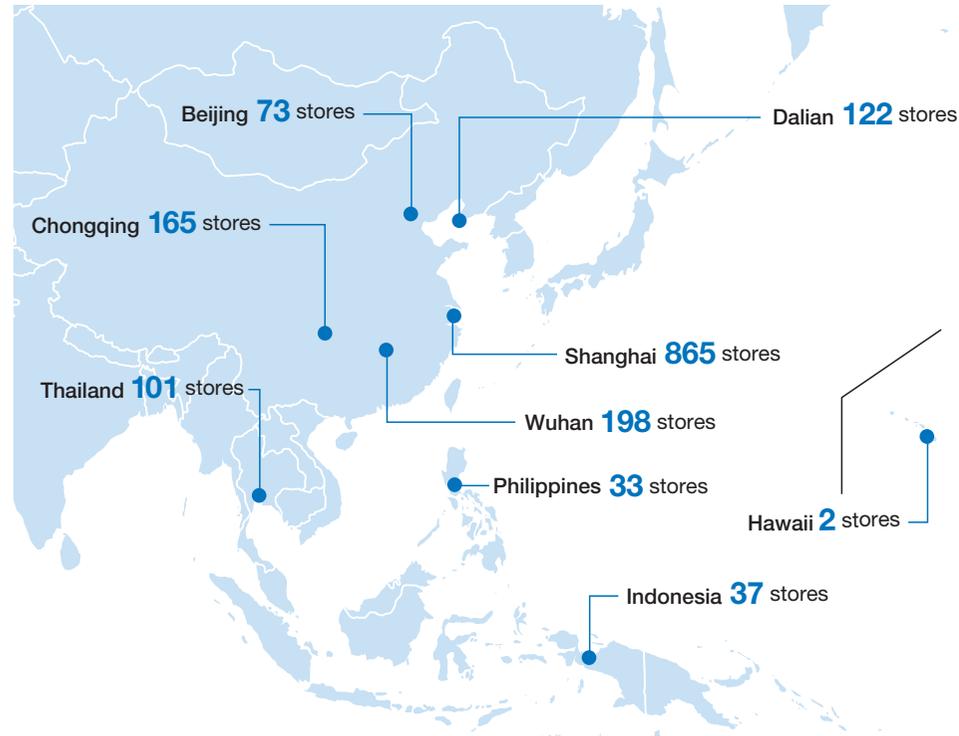
Senior Executive Vice President	Jun Miyazaki	Senior Vice President	Yasuhiko Hirokane
Executive Vice President	Shuichi Imagawa	Senior Vice President	Keita Kamoi
Executive Vice President	Yuichi Wada	Senior Vice President	Zhang Joshua
Senior Vice President	Motonobu Miyake	Senior Vice President	Toshihiko Chihoro
Senior Vice President	Akihito Watanabe	Senior Vice President	Hajime Kawamura
Senior Vice President	Tatsushi Sato	Senior Vice President	Yasuhiro Izeki
Senior Vice President	Kazuya Nobe	Senior Vice President	Naotaka Honda
Senior Vice President	Hitoshi Fujii	Senior Vice President	Masayuki Sawada
Senior Vice President	Kazuhiro Wakui	(Excluding directors' additional posts)	

Store Network Development As of February 28, 2018

Total number of stores (domestic and overseas total) **15,728 stores**

Number of domestic stores **14,132 stores**

Number of overseas stores **1,596 stores**



* The number of domestic stores represents the total number of LAWSON, NATURAL LAWSON and LAWSON STORE100 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 28, 2018

 <p>Operating companies Lawson, Inc. Lawson Okinawa, Inc. Lawson Minamikyushu, Inc. Lawson Kochi, Inc. Lawson Sanin, Inc.</p>	<p>A neighborhood store "Creating Happiness and Harmony in Our Communities" through its manufacturing retailer based on a small commercial area model</p>	 <p>Operating company Lawson, Inc.</p>	<p>A nearby store supporting "beautiful, healthy and comfortable" lifestyles based on the concept of "making the most of every day"</p>
 <p>Operating company Lawson Store 100, Inc.</p>	<p>A store that contributes to savings and an easy, convenient daily life by selling a range of products such as fresh foods, prepared foods and daily necessities at a uniform price of 100 yen (108 yen, including tax)</p>	 <p>Operating company Seijo Ishii Co., Ltd.</p>	<p>A lifestyle supermarket for people who are particular about food, providing food from around the world at reasonable world street corner prices</p>
 <p>Operating companies Individual LAWSON farms</p>	<p>23 farms nationwide producing fresh fruit and vegetables for Lawson Group stores</p>	 <p>Operating company Lawson HMV Entertainment, Inc.*1</p>	<p>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</p>
 <p>Operating company Lawson HMV Entertainment, Inc.*1</p>	<p>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</p>	 <p>Operating company United Cinemas Co., Ltd.</p>	<p>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</p>
 <p>Operating company Lawson ATM Networks, Inc.*2</p>	<p>A business that provides installation, management and operation of ATMs installed at LAWSON stores in cooperation with banks</p>	 <p>Operating company SG Lawson, Inc.</p>	<p>A service based in LAWSON stores, that delivers products handled by the Lawson Group and home-delivery items handled by Sagawa Express Co., Ltd. and provides other services related to shopping and housing/living.</p>

*1: Corporate name changed to Lawson Entertainment, Inc., as of June 1, 2018.

*2: Jointly operated ATM business operations integrated into Lawson Bank Preparatory Company, Inc. (currently Lawson Bank, Inc.), as of June 1, 2018.

LAWSON

2018 MD&A

Management's Discussion and Analysis

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Eleven-Year Financial Summary

	(Millions of yen)									
(Fiscal year)	2017	2016	2015	2014	2013	2012	2011	2010	2009	
For the year:										
Gross operating revenues										
Franchise commissions from franchise stores	¥ 289,232	¥ 275,312	¥ 261,681	¥ 247,681	¥ 242,079	¥ 230,003	¥ 215,574	¥ 197,673	¥ 185,656	
Net sales	264,734	254,169	227,606	174,044	168,159	192,942	208,063	192,330	233,694	
Other	103,357	101,806	94,166	76,188	75,010	64,500	55,320	51,275	47,842	
Total operating revenues	657,324	631,288	583,453	497,913	485,248	487,445	478,957	441,278	467,192	
Operating profit	65,820	73,772	72,542	70,482	68,127	66,246	61,769	55,541	50,276	
Net profit	26,828	36,400	31,381	32,687	37,966	33,183	24,885	25,387	12,562	
Net cash provided by operating activities	113,938	99,864	112,205	110,568	81,503	85,189	86,357	72,210	40,696	
Net cash used in investing activities	(91,209)	(76,227)	(68,657)	(100,434)	(47,924)	(54,196)	(52,912)	(30,522)	(42,596)	
Net cash used in financing activities	(61,238)	(25,638)	(50,201)	(3,289)	(39,650)	(31,980)	(27,545)	(28,799)	(27,239)	
Capital expenditures	140,495	119,784	106,747	141,251	84,032	77,361	74,572	50,326	71,399	
Depreciation and amortization ²	58,601	56,199	49,293	41,826	47,889	43,886	37,846	33,084	27,468	
At year-end:										
Total assets	¥ 900,256	¥ 866,577	¥ 803,212	¥ 764,614	¥ 620,993	¥ 579,810	¥ 531,454	¥ 476,037	¥ 448,132	
Net assets	281,446	285,995	272,997	263,798	250,498	230,182	214,663	208,467	198,136	
Shareholders' equity ratio	30.6%	31.7%	32.9%	33.5%	39.5%	39.1%	39.7%	42.7%	42.8%	
Cash and cash equivalents	30,120	67,692	69,793	76,755	68,760	72,766	73,670	67,712	54,843	
Total number of stores in Japan	13,992	13,111	12,395	12,276	11,606	11,130	10,457	9,994	9,761	
Number of employees (full-time)	10,028	9,403	8,377	7,606	6,336	6,404	6,475	5,703	5,236	
Per share data:										
Net profit (yen/ U.S. dollars ¹)	¥ 268	¥ 363	¥ 314	¥ 327	¥ 380	¥ 332	¥ 249	¥ 255	¥ 127	
Cash dividends (yen/ U.S. dollars ¹)	255	250	245	240	220	200	180	170	160	
Payout ratio	95.1%	68.7%	78.1%	73.4%	57.9%	60.2%	72.2%	66.8%	126.3%	
Financial data:										
Return on equity (ROE)	9.7%	13.5%	12.0%	13.0%	16.1%	15.2%	12.0%	12.8%	6.5%	
Return on assets (ROA)	3.0%	4.4%	4.0%	4.7%	6.3%	6.0%	4.9%	5.5%	2.8%	
Net sales of all stores (Domestic convenience store business):										
Net sales by store format ^{3,4}										
Franchise stores	¥ 2,069,609	¥ 1,958,550	¥ 1,880,395	¥ 1,827,779	¥ 1,810,418	¥ 1,747,915	¥ 1,651,433	¥ 1,499,576	¥ 1,433,678	
Company-operated stores	91,075	84,736	79,872	105,019	126,873	156,339	173,820	183,205	232,459	
Net sales by product category ^{3,4}										
Processed foods	1,138,966	1,073,044	1,033,449	1,034,355	1,060,455	1,063,120	1,022,378	897,415	902,306	
Fast foods	509,415	481,267	463,432	429,212	408,672	372,706	345,226	321,851	324,197	
Daily delivered foods	314,481	294,141	276,886	277,210	275,437	271,920	263,101	264,166	239,088	
Non-food products	197,821	194,833	186,500	192,020	192,726	196,506	194,546	199,348	200,544	
Net sales of all stores	¥ 2,160,684	¥ 2,043,287	¥ 1,960,267	¥ 1,932,798	¥ 1,937,292	¥ 1,904,254	¥ 1,825,253	¥ 1,682,782	¥ 1,666,136	
Ratio of operating profit to net sales of all stores	2.9%	3.4%	3.5%	3.6%	3.5%	3.5%	3.4%	3.3%	3.0%	

Notes: 1. The U.S. dollar amounts represent Japanese yen exchange rate against the US dollar as of February 28, 2018 (\$1 = ¥107.37).

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

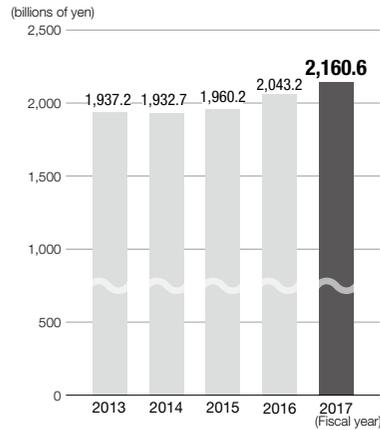
3. These figures include sales reported by franchise stores and are unaudited.

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

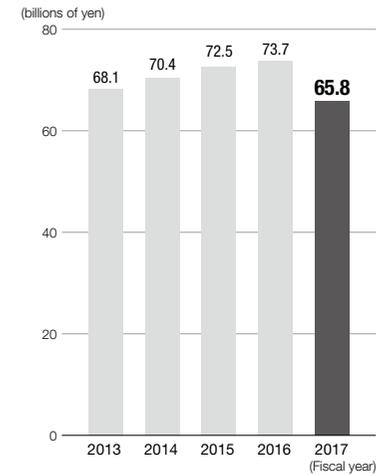
5. Japanese yen figures less than a million yen were rounded down to the nearest million yen.

(Millions of yen)		(Thousands of U.S. dollars ¹)
2008	2007	2017
¥ 186,928	¥ 177,443	\$ 2,693,797
119,944	84,266	2,465,633
42,604	39,468	962,625
349,476	301,177	6,122,055
49,186	46,610	613,030
23,807	22,119	249,874
51,717	55,771	1,061,181
(15,647)	(36,525)	(849,492)
(14,911)	(31,973)	(570,355)
42,907	64,413	1,308,512
20,879	21,469	545,785
¥ 436,096	¥ 397,108	\$ 8,384,614
201,167	188,574	2,621,272
44.8%	46.6%	
83,982	62,823	280,535
9,527	8,587	
5,186	3,735	
¥ 240	¥ 215	\$ 2.50
160	110	2.37
66.6%	51.2%	
12.5%	11.6%	
5.7%	5.6%	
¥ 1,434,166	¥ 1,331,785	\$ 22,221,391
124,614	83,321	977,872
844,324	726,750	10,607,860
332,894	327,501	4,744,481
186,109	162,625	2,928,946
195,453	198,230	1,842,423
¥ 1,558,781	¥ 1,415,106	\$ 20,123,721
3.2%	3.3%	

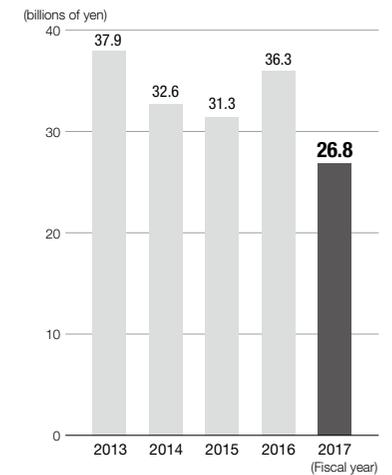
Net sales of all stores (Domestic convenience store business)



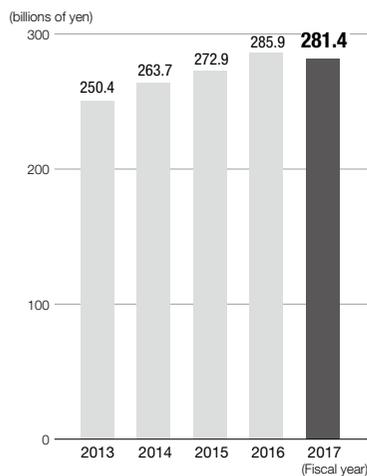
Operating profit



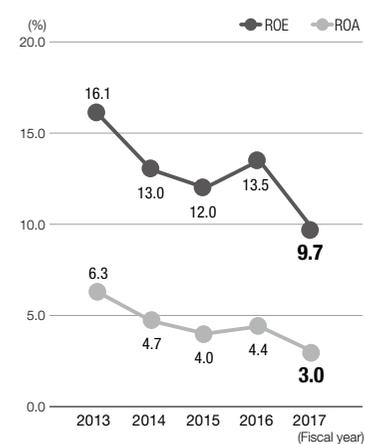
Net profit



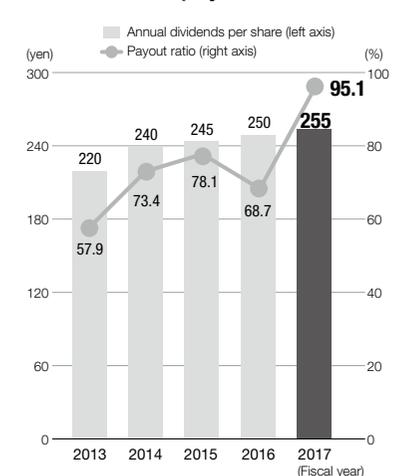
Total assets



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



Dividends and payout ratio



Management's Discussion and Analysis

Industry Trends

Japanese economy enjoyed a moderate recovery in fiscal 2017 (from March 1, 2017 to February 28, 2018) thanks to the effects of the government's economic policy package and the improvement in the employment and income environments. In the retail industry, consumer confidence showed signs of recovery.

Under these circumstances, as there were changes in dietary life due mainly to diversified life styles, the country's convenience store industry expanded the range of products that respond to customer needs in the calendar year 2017 (January to December). Industry-wide sales amounted to 11,745.1 billion yen, up 2.6% from the previous year. However, net sales of existing stores decreased by 0.3% compared to the previous year due to fiercer competition with other businesses and bad weathers such as typhoons in October. The total number of stores as of the end of December 2017 stood at 56,374 up 1.3% year on year.

■ Retail industry market size and convenience store share ¹

(Billions of yen)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total retail industry annual sales	142,514	139,877	140,666	141,219	138,897	137,585	135,157	136,479	132,961	136,019	135,417
Convenience store sector annual sales	11,745	11,445	10,995	10,423	9,872	9,477	8,775	8,114	7,981	7,943	7,490
Convenience store share	8.2%	8.1%	7.8%	7.3%	7.1%	6.9%	6.5%	5.9%	6.0%	5.8%	5.5%

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

Notes: 1. Annual sales amounts of the retail industry and the convenience store sector are on a calendar-year basis.

2. 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.

■ The net sales of all stores among the top four chains in the convenience store industry ¹

(Billions of yen)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Lawson	2,283	2,157	2,049	1,961	1,945	1,907	1,826	1,683	1,666	1,559	1,415
Seven-Eleven Japan	4,678	4,515	4,291	4,008	3,781	3,508	3,281	2,948	2,785	2,763	2,574
FamilyMart	3,016	3,009	2,006	1,860	1,722	1,585	1,535	1,440	1,274	1,246	1,122
Circle K Sunkus	3,016	975	944	951	947	980	923	902	902	940	902
Total of the top 4 chains	9,977	9,682	9,321	8,773	8,399	7,947	7,622	6,994	6,627	6,508	6,013
Total market share of the top 4 chains	84.9%	84.6%	84.8%	84.2%	85.1%	83.9%	86.9%	86.2%	83.0%	81.9%	80.3%

Source: Data published by each company

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

2. On September 1, 2016, all Circle K Sunkus stores have been renamed to FamilyMart as the result of the merger of FamilyMart Co. and Uny Group Holdings Co.

■ Number of convenience stores

(Stores)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Number of convenience stores	56,374	55,636	54,505	52,725	50,234	47,801	43,373	42,347	41,724	40,745	40,405

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

■ Non-consolidated operating results

(Millions of yen)

(Fiscal year)	2017	As a percentage of all stores	2016	2015	2014	2013
Net sales of all stores	2,110,454	100.0%	2,027,504	100.0%	1,960,267	100.0%
Gross operating revenues	372,891	17.6%	356,186	17.5%	333,856	17.0%
Gross operating profit	335,792	15.9%	325,716	16.0%	308,889	15.7%
Selling, general and administrative expenses	284,771	13.5%	268,296	13.2%	251,642	12.8%
Advertising and promotional expenses	12,546	0.6%	13,808	0.6%	14,705	0.7%
Personnel expenses	44,722	2.1%	41,527	2.0%	39,248	2.0%
Facility expenses	160,243	7.6%	150,182	7.4%	142,073	7.2%
Other SG&A expenses	67,260	3.2%	62,779	3.1%	55,616	2.8%
Operating profit	51,021	2.4%	57,419	2.8%	57,247	2.9%
Recurring profit	50,508	2.4%	56,459	2.7%	54,983	2.8%
Net profit	19,417	0.9%	19,088	0.9%	21,802	1.1%

Management Policies for Fiscal 2017

During fiscal 2017, we have advanced and accelerated the “1000-Day Action Plan”, which is in its second year, built the Next-Generation LAWSON Convenience Store model and implemented business activities. Today’s convenience store industry is in a period of dramatic change. Not only are we witnessing such changes in the community as an aging population and an increasing number of nuclear families, but we are also experiencing a drastic change in our industry. Having reached an important milestone, we will advance the evolution of our business model founded on the concept of a Manufacturing Retailer Based on Small Commercial Areas and realize sophisticated, one-of-a-kind store productivity. At the same time, we will continuously pursue “to become an essential part of our communities” that can satisfy customers’ everyday needs.

Overview of Merchandise and Services

We upgraded the assortment of merchandise mainly in the daily purchased categories such as daily delivered foods and frozen foods under the private Lawson Select brand. We also reinforced our product offerings in the delicatessen category including salads. Convenience store staples such as rice balls and boxed meals saw steady sales as a result of the full renewal of the original rice ball brand “Onigiriya”. New initiatives were also successful. For example, we reconsidered ingredients and preparation methods for regular boxed meals under the “Korega” series. We launched products under the “Motto! Yasai” series which propose health consciousness by allowing customers to easily consume vegetables. Sales of these products were strong.

LAWSON stores sell desserts under the “Uchi Café SWEETS×GODIVA” series, crafted with ingredients of uncompromising quality. Until now, seven products are co-developed with GODIVA, realizing a total of five collaborations. The products have been popular especially among female customers.

In the over-the-counter fastfood category, Deka Yakitori (Mega grilled chicken on a skewer) with enhanced savory aroma and deliciousness and Lchicki (fried chicken) with increased volume have been popular. Lawson is introducing the new coffee brewing machines for MACHI café fresh-brewed coffee which allow us to reduce brew time from about 40 to 25 seconds and expand the range of offerings. We plan to subsequently replace the machines with the new models for approximate 14,000 stores, with the aim to provide more delicious coffee faster.

In addition to these merchandise-upgrading efforts, Lawson enhanced services. Sales of gift cards* remained strong.

As a sales promotion initiative, we held Lawson Tokuichi! campaign, where a 10% discount was offered on “Lawson Select” chilled/frozen foods as well as some items offered in the counter cases, as part of our efforts to increase the number of purchased items per customer.

We held the sales promotions which were highly capable of attracting customers such as the Instant Lottery themed on GENERATIONS from EXILE TRIBE, a lottery program in which Lawson leveraged its strength in the entertainment field, and utilization of social media.

* Gift cards: Collective terms for prepaid cards that can be used for online payments

Overview of Store Operations

In store operations, we continued to enhance the Three Essential Practices of (1) serving customers courteously; (2) providing a quality product offering that meets community needs; and (3) keeping our stores and communities clean. We enhanced the assortment of merchandise in both existing stores and new stores. We also made aggressive improvement such as store operations and systems for franchise support by headquarters.

In October 2017, we opened the Lawson Open Innovation Center which is a laboratory to verify practical applications of next-generation IT technologies at stores. Several stores in the Tokyo metropolitan area will start testing of fully automated self-checkout registers with the aim of saving manpower during midnight hours. We will continue to utilize diverse technologies to build the Next-Generation LAWSON Convenience Store model.

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 and closed in Japan during the fiscal year under review stood at 1,250 and 369 stores, respectively, with the total number of stores in the country reaching 13,992 as of the end of February 2018.*

Of the stores above, in partnerships with other convenience store chain operators, under business integration or other contracts with them, we are converting THREE F and other stores operated by Three F Co., Ltd. into the LAWSON THREE F brand and SAVE ON stores operated by Save On Corp. into the LAWSON brand, respectively. We converted 195 stores into LAWSON THREE F stores and 125 Save On stores into LAWSON stores as of the end of February 2018. We will continue to remodel SAVE ON stores on a step-by-step basis and complete the remodeling during fiscal 2018.

Furthermore, through partnerships with prescription drug pharmacy and drug store chains, we continued to expand healthcare-focused stores offering a wider merchandise selection than in ordinary LAWSON stores, by adding such items as non-prescription drugs, cosmetics, and daily necessities. The number of LAWSON stores offering non-prescription drugs, including such healthcare-focused stores, reached 176 as of the end of February 2018 (of which 47 stores were Pharmacy Lawson stores equipped with drug-dispensing pharmacies).

The number of LAWSON stores with a nursing care consultation counter reached 16 as of the end of February 2018.

As for LAWSON STORE100, we will continue to meet customer needs for good value by offering a product assortment containing an increased proportion of adequate-volume and small-lot products priced at 100 yen excluding tax.

* 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., 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)	2017	2016	2015	2014	2013
Total number of stores	13,992	13,111	12,395	12,276	11,606
Openings	1,250	1,143	1,007	1,010	869
Closings	369	427	888	422	393
Net increase	881	716	119	588	476

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

■ Number of convenience stores in Japan

(Stores)

(Fiscal year)	2017		Net increase in the term	2016		2015	
	Stores	Share		Stores	Share	Stores	Share
Lawson, Inc.							
Company-operated stores							
LAWSON	284	2.0%	82	248	1.9%	166	1.3%
NATURAL LAWSON	28	0.2%	0	30	0.2%	30	0.2%
Franchise stores							
Type B	1,616	11.5%	115	1,306	10.0%	1,191	9.6%
Type G	1,582	11.3%	-141	1,680	12.8%	1,821	14.7%
Type C	8,715	62.3%	356	8,115	61.9%	7,759	62.6%
NATURAL LAWSON	115	0.8%	7	111	0.8%	104	0.8%
LAWSON STORE100 ¹	805	5.8%	-11	798	6.1%	809	6.5%
Subtotal	13,145	93.9%	408	12,288	93.7%	11,880	95.8%
Lawson Sanin, Inc.²							
Company-operated stores	5	0.0%	5	5	0.0%	—	—
Franchise stores	285	2.0%	282	282	2.2%	—	—
Subtotal	290	2.1%	287	287	2.2%	—	—
Lawson Kochi, Inc.³							
Company-operated stores	3	0.0%	0	5	0.0%	5	0.0%
Franchise stores	136	1.0%	3	130	1.0%	127	1.0%
Subtotal	139	1.0%	3	135	1.0%	132	1.1%
Lawson Minami-Kyushu, Inc.							
Company-operated stores	2	0.0%	0	1	0.0%	1	0.0%
Franchise stores	192	1.4%	-1	190	1.4%	191	1.5%
Subtotal	194	1.4%	-1	191	1.5%	192	1.5%
Lawson Okinawa, Inc.							
Company-operated stores	3	0.0%	1	3	0.0%	2	0.0%
Franchise stores	221		18	207	1.6%	189	1.5%
Subtotal	224		19	210	1.6%	191	1.5%
Total number of convenience stores in Japan	13,992	100.0%	429	13,111	100.0%	12,395	100.0%

Notes: 1. The number of stores of LAWSON STORE 100 includes that of LAWSON STORE 100 and Lawson Mart.

2. In November 2016, Lawson, Inc. transferred 234 stores to Lawson Sanin, Inc.

3. In April 2015, Lawson, Inc. transferred 128 stores to Lawson Kochi, Inc.

Other Initiatives in Our Convenience Store Business

We continue to build the Open Platform utilizing the service network for LAWSON's store-based merchandise receipt and home delivery, and are striving to provide improved convenience to customers.

At the initiative of the Ministry of Economy, Trade and Industry, Lawson has formulated

■ Types of Lawson contracts

(Previous contracts)

Contract type	C	G	B
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
Signs and business fixtures	Provided by headquarters		
Payment by a franchise store at time of contract ¹	Franchise fee investment	¥1.5 million (Contract fee, training expenses, and store opening preparation commission, each ¥500,000) (excluding tax)	
Guarantee deposit provided by a franchise store	Not required	Average monthly sales x 2 months	Not required
Headquarters income ²	Gross profit x 50%	Gross profit x 45%	Gross profit x 34%
Burden of utility expenses	A franchise store		
Minimum guarantee (annual) ² (thousands of yen)	21,000	22,200	22,200

(New 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
Signs and business fixtures	Provided by headquarters	
Payment by a franchise store at time of contract ¹	Franchise fee	¥1.0 million (Training expenses, and store opening preparation commission, each ¥500,000) (excluding tax)
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% 	
Headquarters income ²	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% 	[Charge] ^{4,5} Multiply by one of the following charge rates according to gross profit ¥3.0 million or less: 41% ¥4.5 million or less: 36% ¥6.0 million or less: 31% Greater than ¥6.0 million: 21%
Burden of utility expenses	50% ³ of electricity expenses and store air conditioning energy expenses are borne by headquarters	
Minimum guarantee (annual) ²	¥18.6 million	¥19.8 million

- Notes: 1. The amount is paid by the franchise store to headquarters at the time of the franchising contract. In addition, the franchise store needs to separately provide a total of about ¥500,000, including the cash register float, at the time of store opening.
 2. The headquarters income and minimum guarantee apply to stores operating on a 24-hour basis.
 3. The ceiling on the monthly amount borne by headquarters is ¥250,000.
 4. Gross profit on a monthly basis
 5. Add 3% uniformly for shortened-hour stores

the “Declaration of Plan to Introduce 100 Billion Electronic Tags for Products in Convenience Stores” with each convenience store chain operator. We will utilize the electronic tags with the aim of making store operations more efficient and providing improve convenience to customers.

■ Types 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 ⁶	Franchise fee ¥1.0 million (excluding tax) Breakdown Contract fee ¥250,000/Training expenses ¥250,000/Store opening preparation commission ¥500,000
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
	Business fixtures	Borne by a franchise store
Minimum guarantee ⁷	¥20.4 million per year	¥22.2 million per year
Headquarters income ⁷	[Sliding scale] The following percentage of gross profit (monthly): ¥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%	Gross profit x 27%
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.	—

- Notes: 6. The amount is paid by the franchise store to headquarters at the time of the franchising contract.
 7. The minimum guarantee and headquarters income apply to stores operating on a 24-hour basis.

Overview of Businesses in Figures

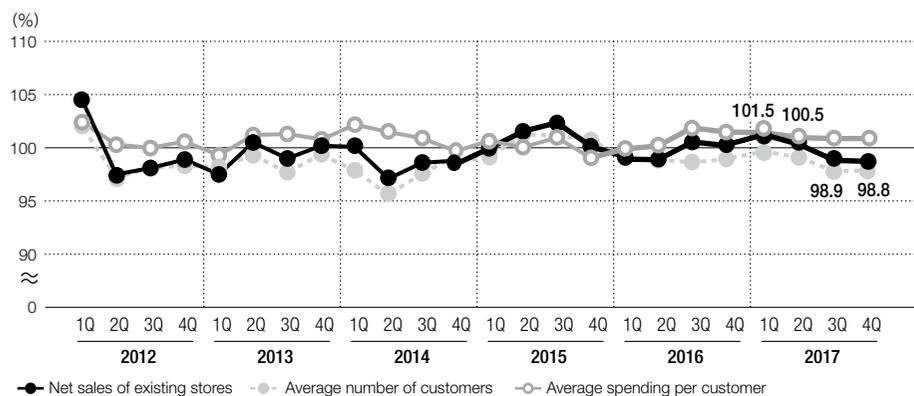
Net Sales

Net sales of all LAWSON stores (consolidated) for fiscal 2017 amounted to 2,283,600 million yen (up 5.8% from the previous fiscal year). This year-on-year sales growth was achieved as the number of LAWSON stores in Japan increased to 14,132 (including the stores of all Group companies and those of the Seijo Ishii business), a gain of 889 compared to the previous fiscal year, among other factors.

Sales of existing stores for fiscal 2017 (non-consolidated basis) decreased by 0.1% from the previous fiscal year and did not reach the plan mainly because the competitive environment became fiercer across boundaries of business categories and the average number of customers was sluggish due to impact by bad weathers such as typhoons in October.

The average spending per customer increased from the previous fiscal year thanks to an increase in the number of purchased items per customer, as we have expanded the product offerings that enhance support for customers' everyday needs since fiscal 2016 and

■ YoY changes in net sales of existing stores, average number of customers and average spending per customer (total of domestic convenience stores)



■ Growth rate of net sales of existing stores, average number of customers, and average spending per customer (Non-consolidated) *

(Fiscal year)	2017	2016	2015	2014	2013
Net sales of existing stores (YoY)	99.9%	99.8%	101.4%	99.0%	99.8%
Average number of customers	98.7%	99.0%	100.9%	98.0%	99.0%
Average spending per customer	101.3%	100.8%	100.4%	101.0%	100.8%

* The total of LAWSON and NATURAL LAWSON.

reinforced promotions on purchases in evenings and at night such as the increased number of delicatessen items.

Regarding consolidated results by product category, the main categories of which both net sales of all stores and existing stores exceeded the previous year results are as follows.

Sales of prepared noodle dishes and delicatessen items in the fast food category increased from the previous fiscal year, as a result of strong sales of renewed pasta dishes and enhanced assortment of salads.

In the daily delivered food category, sales of the supermarket alternative products we have expanded since fiscal 2016 remained strong. As a result, sales of daily delivered foods, frozen foods and ice cream increased.

In the dessert category, sales of the dessert category grew from the previous fiscal year, as desserts such as a total of five collaborations with GODIVA were popular.

In the processed food category, sales of soft drinks grew, driven by the successful Receipt Stamp Campaigns during the first half of fiscal 2017. Sales of cigarette products also grew from the previous fiscal year due mainly to increased sales of heat-not-burn tobacco products and related items.

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

(Billions of yen)

(Fiscal year)	2017	2016	2015	2014	2013
Fast foods (share)	484.9 24.5%	464.8 24.5%	450.5 24.7%	412.2 23.5%	391.5 22.4%
Daily delivered foods (share)	268.0 13.5%	251.4 13.3%	235.6 12.9%	227.4 12.9%	219.7 12.6%
Processed foods (share)	1,043.0 52.7%	995.3 52.6%	960.8 52.8%	941.5 53.6%	957.0 54.9%
(Cigarettes) (share)	498.6 25.2%	471.9 24.9%	460.0 25.3%	462.8 26.3%	474.1 27.2%
Non-food products (share)	182.9 9.3%	182.1 9.6%	174.0 9.6%	175.9 10.0%	176.5 10.1%
Net sales of all stores (share)	1,979.0 100.0%	1,893.7 100.0%	1,821.1 100.0%	1,757.2 100.0%	1,744.7 100.0%

■ 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 (Non-consolidated basis)*

The gross profit margin stood at 31.3%, up 0.1% from the previous fiscal year and down 0.2% compared to the plan. This was mainly attributable to the fact that sales of cigarette products with a lower gross profit margin exceeded the plan while sales of the over-the-counter fast foods with a higher gross profit margin did not reach the plan.

* The total of LAWSON and NATURAL LAWSON.

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

(Fiscal year)	2017	2016	2015	2014	2013
Fast foods	38.3%	38.4%	38.4%	38.9%	38.9%
Daily delivered foods	33.9%	34.0%	34.0%	34.1%	34.1%
Processed foods	24.0%	24.1%	24.0%	24.1%	24.0%
Non-food products	50.1%	49.1%	49.7%	48.9%	47.7%
Gross profit margin	31.3%	31.4%	31.3%	31.3%	31.0%

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

(Fiscal year)	2017	2016	2015	2014	2013
Bill settlements (millions of yen)	2,263,937	2,132,450	2,088,693	2,073,049	1,979,384
Number of transactions (millions)	208.6	202.0	198.3	198.9	196.1
Commission revenues (millions of yen)	11,154	10,788	10,671	10,779	10,585

Other Businesses

In addition to the domestic convenience store business, the Group is also involved in other businesses, including the entertainment-related business, Seijo Ishii business, overseas business, and financial services business.

With regard to entertainment-related business, Lawson HMV Entertainment, which forms the core of the business, continued to secure the top position in the ticketing industry. The number of HMV stores which sell music CDs and DVDs totaled 54 as of the end of February 2018. This figure includes the HMV record shop specialized in second-hand analog records and CDs. We will strive to better respond to customer needs by, for example, expanding an even wider selection of products and services in the entertainment-related business. United Cinemas Co., Ltd. operates a total of 40 sites and 351 screens at its cinemas nationwide (including screens operated on commission) as of the end of February 2018.

Regarding the Seijo Ishii business, the company-operated stores of Seijo Ishii, an operator of high-end supermarkets that are highly particular about taste and quality, totaled 140 as of the end of February 2018. Sales remained strong. In September 2017, we opened the first grocerant in a fusion of a supermarket and a restaurant in Chofu City, Tokyo. As the place which offers the dishes using seasonal unique products of Seijo Ishii, the grocerant has been used by a wide range of customers. We will further strive to enhance the brand appeal and corporate value of SEIJO ISHII CO., LTD. At the same time, we will leverage its strengths, including product development capabilities, knowhow as a manufacturing retailer, and sales techniques, in order to strengthen the domestic convenience store business.

With regard to the overseas business, LAWSON stores are operated by regional operators in Thailand, Indonesia, the People's Republic of China, the Philippines and Hawaii in the United States.

In the People's Republic of China, the Group has opened stores in Chongqing, Dalian, Beijing, Wuhan, Nanjin and other cities as the first Japanese convenience store opened in Shanghai. As of the end of February 2018, the total number of LAWSON stores in the People's Republic of China was 1,423. In 2018, we will open stores in Hefei, Anhui Province.

Lawson ATM Networks, Inc., which operates the financial services business, increased the number of ATMs installed at LAWSON stores and other locations. We promoted new partnerships with financial institutions, bringing the total number of our financial institution partners, including online banks, to 90 nationwide (up three from the end of the previous fiscal year), and the number of ATMs installed nationwide to 12,733 (up 821 from the end of the previous fiscal year) as of the end of February 2018.

Through Lawson Bank Preparatory Company, Inc. ("LBP"), the company established in November 2016, we had prepared for establishing a bank leveraging Lawson's previous experience in financial service. In March 2018, LBP decided to apply for the Preliminary Examination of License of Banking Business to Financial Services Agency.

* Effective June 1, 2018, LBP succeeded to the joint ATM business of Lawson ATM Networks, Inc. through an absorption-type company split. Following the completion of Preliminary Examination, LBP will change its corporate name to Lawson Bank, Inc. and continue to apply to the Financial Services Agency for the License of Banking Business.

Items of the Consolidated Statement of Income

Gross Operating Revenues

For the year ended February 28, 2018, gross operating revenues consisting of net sales, franchise commissions from franchise stores, and “Other” stood at 657.3 billion yen, an increase of 26.0 billion yen, and 14.6 billion yen short of the plan. Of these items, net sales amounted to 264.7 billion yen, higher year on year,

This was mainly attributable to the fact that net sales increased as revenues of franchise stores increased due to the increased number of convenience stores in Japan and the number of Company-operated, non-consolidated stores increased, among other factors.

Selling, General, and Administrative Expenses

For the year under review, consolidated selling, general, and administrative expenses stood at 410.1 billion yen, an increase of 26.8 billion yen compared to the year-ago period, and approx. 4 billion yen short of the plan.

This increase was attributable to the fact that selling, general, and administrative expenses increased on a non-consolidated basis and at Lawson Sanin, Inc. which started business in November 2016, among other factors.

Non-consolidated selling, general, and administrative expenses amounted to 284.7 billion yen, an increase of 16.4 billion yen, compared to the year-ago period, and approx. 3.7 billion yen short of the plan.

Non-consolidated advertising and promotional expenses decreased by 1.2 billion yen from the previous fiscal year to 12.5 billion yen, but increased by 200 million yen compared to the plan, due mainly to the reaction to an upsurge of costs in the previous fiscal year as part of our initiative to assist consumers’ living.

Non-consolidated personnel expenses amounted to 44.7 billion yen,

This was attributable to a growth in the number of Company-operated stores and an increase in headquarter employees for reinforcing systems, among other factors. Non-consolidated personnel expenses showed an increase of 3.1 billion yen compared to the year-ago period, yet came in 100 million yen short of the plan.

Non-consolidated sales commission consists mostly of the costs associated with food waste and electricity expenses. These costs and expenses are paid partially by headquarters based on franchise contracts. Non-consolidated sales commission was 19.7 billion yen, an increase of 3.9 billion yen compared to the year-ago period but 100 million yen below the plan. This was mainly attributable to the fact that the number of stores increased and the Company supported franchise stores aggressively.

Breakdown of Selling, General, and Administrative expenses

(Millions of Yen)

(Fiscal Year)	2017	2016	2015	2014	2013
Personnel expenses	79,135	73,893	68,994	60,847	58,990
Percentage composition	19.3%	19.2%	19.4%	20.3%	20.3%
Advertising and promotional expenses	26,001	30,594	29,461	16,718	17,734
Percentage composition	6.3%	7.9%	8.3%	5.6%	6.1%
Rent	124,387	115,926	108,795	96,877	89,485
Percentage composition	30.3%	30.2%	30.6%	32.3%	30.8%
Equipment lease	2,796	2,149	2,763	3,579	4,494
Percentage composition	0.7%	0.5%	0.8%	1.2%	1.5%
Depreciation and amortization	58,499	55,516	49,157	41,788	47,889
Percentage composition	14.3%	14.5%	13.8%	14.0%	16.5%
Depreciation of property and store equipment	47,595	44,652	40,270	32,959	37,872
Percentage composition	11.6%	11.6%	11.3%	11.0%	13.0%
Amortization of intangible assets	10,903	10,864	8,886	8,830	10,017
Percentage composition	2.7%	2.8%	2.5%	3.0%	3.5%
Other	119,311	105,182	95,791	79,506	71,892
Percentage composition	29.1%	27.4%	27.0%	26.6%	24.8%
Total	410,129	383,260	354,961	299,315	290,483
Percentage composition	100%	100%	100.0%	100.0%	100.0%

Non-consolidated information technology (IT) costs stood at 7.2 billion yen, a decrease of 2.1 billion yen compared to the year-ago period and 2.2 billion yen short of the plan, which was attributable to the fact that the costs required for existing systems decreased further and part of the costs would be recorded after next fiscal years due to partial schedule changes in development of next-generation systems.

Non-consolidated facilities costs totaled 155.6 billion yen, an increase of 11.3 billion yen compared to the year-ago period on the back of the rising number of stores, yet came in 400 million yen short of the plan.

The remainder of non-consolidated costs and expenses grew by 1.4 billion yen to 44.8 billion yen compared to the year-ago period. This was attributable to the fact that the amount of pro forma standard tax increased by 1.1 billion yen from the previous fiscal year, among other factors. However, these non-consolidated costs and expenses decreased by 1 billion yen compared to the plan, as we controlled costs including new businesses. The difference

between consolidated and non-consolidated selling, general, and administrative expenses was 125.3 billion yen, a decrease of 10.3 billion yen compared to the year-ago period and 300 million yen below the plan.

Operating Profit

Operating profit for fiscal 2017 stood at 65.8 billion yen, down 10.7% compared to the year-ago period and 2.6 billion yen short of the plan, which was attributable to the fact that net sales and gross profit margin in the domestic convenience store business did not reach the plan, among other factors. In addition, we recorded extraordinary losses of 21.8 billion yen including impairment losses of 17.5 billion yen for stores and systems. As a result, consolidated net income was 26.8 billion yen and 6.6 billion yen short of the plan.

Recurring Profit

Recurring profit for the year under review stood at 65.1 billion yen, a decrease of 7.8 billion yen compared to the year-ago period and 300 million yen short of the plan. Non-operating loss was 600 million yen, improved by approximately 100 million yen from the previous fiscal year and by 2.3 billion yen compared to the plan. This was mainly attributable to the fact that the smaller number of closings than originally planned reduced loss on lease contract termination stemming from store shutdowns to a low level and the foreign exchange profit gains were recorded.

Income before Income Taxes and Minority Interests

Consolidated extraordinary losses amounted to 21.5 billion yen, an increase of 6.9 billion yen from the previous fiscal year and 7.6 billion yen compared to the plan due to impairment of stores and next-generation systems.

As a result, consolidated income before income taxes and minority interests for fiscal 2017 stood at 43.5 billion yen, a decrease of 14.8 billion yen from the previous fiscal year.

Net Income

As a result, net income attributable to owners of the parent for the year under review stood at 26.8 billion yen, a decrease of 9.5 billion yen compared to the year-ago period. Net income per share amounted to 268.16 yen.

Items of the Consolidated Balance Sheet

●Consolidated Balance Sheet

Current Assets

Current assets as of February 28, 2018 stood at 231.8 billion yen, a decrease of 17.4 billion yen compared to the end of the previous fiscal year. This was mainly attributable to the fact that cash and deposits decreased by 37.9 billion yen.

Non-current assets

Non-current assets as of February 28, 2018 amounted to 668.3 billion yen, an increase of 51 billion yen, compared to the end of the previous fiscal year.

This was mainly attributable to the fact that property and store equipment grew by 25.4 billion yen, and investments and other assets such as lease deposits increased by 20.2 billion. As a result, total assets as of February 28, 2018 stood at 900.2 billion yen, an increase of 33.6 billion yen, compared to the end of the previous fiscal year.

Current Liabilities

Current liabilities as of February 28, 2018 stood at 668.3 billion yen, an increase of 51 billion yen, compared to the end of the previous fiscal year,

This was mainly attributable to the fact that accounts payable increased by 7.3 billion yen, money held as agent grew by 6.4 billion yen and lease obligations increased by 5 billion yen.

Long-term Liabilities

Long-term liabilities as of February 28, 2018 amounted to 239.5 billion yen, an increase of 15.7 billion yen, compared to the end of the previous fiscal year, which was mainly attributable to the fact that lease obligations grew by 13.6 billion yen. As a result, total liabilities as of February 28, 2018 stood at 618.8 billion yen, an increase of 38.2 billion yen, compared to the end of the previous fiscal year.

Net Assets

Net assets as of February 28, 2018 amounted to 281.4 billion yen, a decrease of 4.5 billion yen compared to the end of the previous fiscal year. This was mainly attributable to the fact that noncontrolling interests decreased by 5.2 billion yen.

As a result, the shareholders' equity ratio as of February 28, 2018 stood at 30.6%.

Items of the Consolidated Balance Sheet

●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 Franchise 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. This is followed by the franchise headquarters collecting the payment amount from each franchise store as "accounts receivable-due from franchise stores," which essentially constitutes their obligation to the franchise headquarters. As of February 28, 2018, accounts receivable-due from franchise stores stood at 46.5 billion yen, an increase of 6.6 billion yen compared to the end of the previous fiscal year.

Accounts Receivable-Other

"Accounts receivable-other" include accounts receivable from business partners, such as certain accounts receivable from franchise stores (franchise store credit card-based sales proceeds). Accounts payable are composed of accounts payable-trade, an account for directly operated stores, and accounts payable-due to franchise stores, an account for franchise stores. However, accounts receivable-other include all credit card-related accounts receivable relating to both directly operated and franchise stores. This is because, being party to agreements with credit card companies, Lawson, Inc. is the holder of all accounts receivable from them.

As of February 28, 2018, accounts receivable-other amounted to 84.7 billion yen, an increase of 6.6 billion yen compared to the end of the previous fiscal year.

Long-term Loans Receivable

Long-term loans receivable consist mainly of store construction cooperation money for landlords (store land and building owners) and of headquarters loans to franchise stores. Money deposited with the landlord at the time of a new store opening was previously recorded in lease deposits, yet it is currently recorded in long-term loans receivable. Long-term loans receivable as of February 28, 2018 stood at 47.4 billion yen, an increase of 3 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 28, 2018 totaled 100.6 billion yen, an increase of 5.1 billion yen compared to the end of the previous fiscal year.

Accounts Payable-Due to Franchise Stores

Accounts payable-due to franchise stores refer to the headquarters' obligation to franchise stores. All franchise stores' daily sales proceeds are sent to the headquarters, and exceed, on occasion, "accounts receivable-due from franchise stores." In such event, the Company records the amount in "accounts payable-due to franchise stores" on the consolidated balance sheet, as part of outstanding liabilities. Accounts payable-due to franchise stores as of February 28, 2018 totaled 2.5 billion yen, a decrease of 6.6 million yen compared to the end of the previous fiscal year.

Money Held as Agent

Money held as agent is composed chiefly of money received for utility bill agent payment service and money received as the price of tickets for concerts and so forth. The agency payment service handling amount stood at 2,263.9 billion yen, an increase of 6.1% compared to a year-ago period, supported by the rising.

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

Total consolidated capital expenditures for the year ended February 28, 2018 stood at 140.4 billion yen, an increase of 20.7 billion yen compared to a year-ago period.

Investments in new stores amounted to 55.8 billion yen, an increase of 8.3 billion yen compared to a year-ago period as the number of store openings was higher year-on-year. Investments in existing stores totaled 7.4 billion yen, an increase of 200 million yen compared to a year-ago period.

IT-related investments came to 18.6 billion yen, a decrease of 600 million yen compared to a year-ago period due mainly to a decrease in investments in next-generation systems.

Lease transactions stood at 48.8 billion yen, an increase of 6.2 billion yen compared to a year-ago period due mainly to aggressive renovations for bolstering our customer living assistance service.

New investments and advances amounted to 4.3 billion yen, an increase of 2.8 billion yen compared to a year-ago period.

Shown below is the breakdown of the main capital expenditures.

■ Capital Expenditures		(Millions of Yen)				
(Fiscal Year)	2017	2016	2015	2014	2013	
New store investments	55,863	47,594	40,460	49,014	32,230	
Existing store investments	7,403	7,233	6,727	5,840	7,078	
IT-related investments	18,615	19,261	15,882	8,218	5,362	
Other investments	5,401	1,464	1,466	2,752	2,067	
Sub-total investments	87,283	75,554	64,535	65,823	46,736	
Investments and advances	4,358	1,594	4,122	42,610	5,189	
Leases*	48,854	42,634	38,089	32,818	32,107	
Total	140,495	119,784	106,747	141,251	84,032	

* 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 30,054 millions of yen in fiscal year 2016 and 32,096 millions of yen in fiscal year 2017.

■ Breakdown of depreciation and amortization		(Millions of Yen)				
(Fiscal Year)	2017	2016	2015	2014	2013	
Depreciation of property and store equipment	47,697	44,792	40,396	32,977	37,872	
Amortization of intangible assets	10,903	11,406	8,897	8,849	10,017	
Total depreciation and amortization	58,601	56,199	49,293	41,826	47,889	

Cash Flows

Net cash provided by operating activities for the year ended February 28, 2018 stood at a cash inflow of 113.9 billion yen, a cash increase of 14 billion yen compared to a year-ago period, due mainly to changes in accounts receivable and accounts payable.

Net cash used in investing activities for the year ended February 28, 2018 amounted to a cash outflow of 91.2 billion yen, a cash decrease of 14.9 billion yen compared to a year-ago period, which was due, among others, to increases in payments for transfer of business and purchases of long-term prepaid expense.

Net cash used in financing activities for the year ended February 28, 2018 amounted to a cash outflow of 61.2 billion yen, a cash decrease of 35.6 billion yen compared to a year-ago period, which was due, among other reasons, to a net increase/decrease of short-term bank loans.

As a result, cash and cash equivalents as of February 28, 2018, stood at 30.1 billion yen, a decrease of 37.5 billion yen compared to February 28, 2017.

Capital Policy: Dividend and Treasury Stock Retirement

To return profits to shareholders is deemed by the Company to be one of its top priority business management policies. Thus, management runs the organization with due regard to the levels of capital cost reflecting what investors expect from the Company in terms of investment returns.

For this reason, we use ROE (Return on Equity), one of the return on capital metrics, as the Company's top priority business management indicator in an effort to selectively pursue businesses offering ROI above the cost of capital.

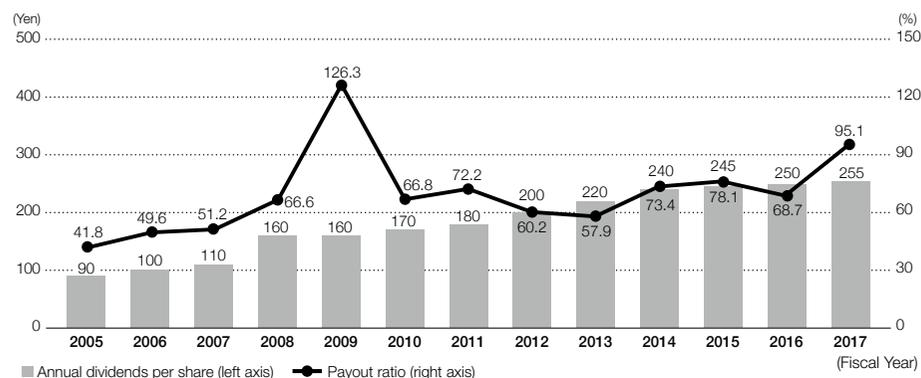
Based on a rigorous selection process, we will make investments offering the prospect of superior investment returns towards achieving corporate growth that is sustainable in the medium- to long-term. As a result, we strive to grow cash flows from operating activities in a sustainable manner while continuing to generate free cash flows, and continue to preserve the stability of its financial position. Moreover, based on a capital composition deemed appropriate by management, the Company will distribute dividends of surplus, purchase its own shares as treasury stock and retire them while striving to achieve return on capital above the cost of capital, thereby aiming to improve ROE in the medium-term.

The Company's dividend policy does not have any specific dividend payout ratio target.

Through the process of making investments necessary for its sustainable growth, the Company aims to increase its dividend payments stably as a means of distributing its ample free cash flows to shareholders. The fundamental concept of its capital policy is that such process will allow the organization to improve return on capital without needlessly holding surplus cash internally. The Company plans to keep the per-share dividend of 255 yen unchanged for the year ended February 28, 2019.

The Company purchased its own shares worth approx. 43.0 billion yen as treasury stock to retire them during a period of four years from the year ended February 28, 2002 to the year ended February 28, 2005. Moreover, it purchased its own shares worth approx. 21.0 billion yen (approx. 5.3 million shares) as treasury stock during the period from October 2007 to January 2008 before retiring a total of 5.0 million of such shares in February 2008. The Company will continue to consider acquiring its own shares as treasury stock to retire them in the future as a means of achieving higher ROE.

■ Annual dividends per share & payout ratio



Overview of major consolidated subsidiaries and equity method affiliates

Consolidated financial results for the year ended February 28, 2018 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 business, overseas business and financial service 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 meets the needs of a wide range of customers from children to senior citizens, with a focus on single person and homemaker customers, by offering three types of value, the "diverse merchandise selection" of a supermarket, the "convenience" of a convenience store and the easy-to-understand "standardized prices" of a 100-yen shop.

For the year ended February 28, 2018, Lawson Store100, Inc. had a total of 805 stores at the period-end date. Operating loss stood at 300 million yen, a decrease of 800 million yen compared to a year-ago period. This was mainly attributable to the fact that net sales of existing stores decreased to 98.3% compared to the previous fiscal year due to a decrease in prices in the fruit and vegetable market and the fiercer competitive environment.

■ Lawson Store100, Inc.

(Millions of Yen)

(Fiscal Year)	2018.2	2017.2	2016.2	2015.2
Gross operating revenues	44,942	48,111	50,675	78,232
Operating profit (loss)	(325)	545	375	1,763
Net income (loss)	(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, with the objective of becoming the "Manufacturing Retailer Based on Small Commercial Areas." The Company aims to build a manufacturing retailer business model that coherently covers the entire supply chain

from the upstream to the downstream, reducing inefficiencies such as waste and redundant work that occur in the supply chain from raw materials procurement to manufacturing to logistics to the store. Added value generated through this supply chain management reform initiative will be leveraged by Lawson, Inc. for attaining greater product competitiveness and assisting the sales promotion efforts of franchise owners. In the medium term, the Company will use the know-how in this area to grow the business of supplying raw materials and merchandise to non-group customers.

For the year ended February 28, 2018, operating profit amounted to 2.3 billion yen, an increase of 28.2% compared to a year-ago period.

■ SCI, Inc.		(Millions of Yen)				
(Fiscal Year)	2018.2	2017.2	2016.2	2015.2	2014.2	
Gross operating revenue	284,300	256,143	191,299	87,638	74,460	
Operating profit	2,385	1,860	2,365	1,128	509	
Ordinary profit	2,392	2,065	2,369	1,128	510	
Net income	1,558	1,395	1,423	687	300	

* Consolidated starting from September 2012

Lawson Sanin, Inc. (consolidated subsidiary)

In September 2016, Lawson Inc. established Lawson Sanin, Inc. 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 addition to two experimental double-brand convenience stores opened in November 2015, 52 LAWSON stores in Tottori, Shimane and Yamaguchi Prefectures were transferred to a joint LAWSON POPLAR brand. Lawson Sanin, Inc. operates 287 stores (including existing LAWSON stores in Tottori and Shimane Prefectures). LAWSON POPLAR brand stores are function-reinforcing stores selling POP Ben boxed lunches that are prepared on site, under LAWSON FC packages. Sales of the two experimental stores remain strong due to high synergistic effects of the customer drawing powers of both companies. Lawson, Inc. has strengths in attracting female and senior customers, while Poplar Co., Ltd., has the advantage of gathering male customers.

For the year ended February 28, 2018, operating income stood at 500 million yen and turned positive from the previous fiscal year.

■ Lawson Sanin, Inc.		(Millions of Yen)	
(Fiscal Year)	2018.2	2017.2	
Gross operating revenues	7,876	2,460	
Operating profit (loss)	582	(56)	
Net income (loss)	254	(75)	

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

Lawson Okinawa, Inc. (equity-method affiliate)

In January 2009, Lawson, Inc. entered into a business alliance agreement with SAN-A CO., LTD. ("SAN-A"), the largest integrated retailer in Okinawa, concerning operations in the prefecture. Through this alliance with SAN-A, an unrivalled player there with a loyal customer following, we desire to deliver services better suiting local needs and to offer a merchandise and store environment befitting local consumer tastes, in a prefecture that has unique lifestyle and food preferences. To this end, 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 28, 2018, Lawson Okinawa, Inc. had a total of 224 stores at the period-end date, and operating profit stood at 1.6 billion yen, an increase of 1.2% compared to a year-ago period. 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)	2018.2	2017.2	2016.2	2015.2	2014.2	
Gross operating revenues	7,090	6,509	5,605	4,674	4,199	
Operating profit	1,658	1,637	1,407	1,183	1,051	
Net income	1,069	1,081	954	738	792	

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 took a 51% equity participation in Lawson Minamikyushu (Lawson, Inc.'s equity interest ratio became 49%) to acquire Lawson, Inc.'s Kagoshima operations before starting to run Lawson stores in the prefecture in the form of a joint venture with it.

For the year ended February 28, 2018, Lawson Store100, Inc. had a total of 194 stores at the period-end date, and operating profit stood at 100 million yen, an increase of 72.3% compared to a year-ago period.

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)	2018.2	2017.2	2016.2	2015.2	
Gross operating revenues	4,317	4,007	3,756	3,595	
Operating profit (loss)	162	94	(183)	(422)	
Net income (loss)	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 28, 2018, the number of LAWSON stores in the prefecture stood at 139 at the period-end date, and the operating profit of Lawson Kochi, Inc. amounted to 400 million yen, an increase of 7.5% compared to the previous fiscal year.

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)	2018.2	2017.2	2016.2
Gross operating revenues	4,321	4,482	4,208
Operating profit	498	463	430
Net income	290	298	286

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

SEIJO ISHII CO., LTD. (consolidated subsidiary)

SEIJO ISHII CO., LTD ("Seijo Ishii") strives to enhance the brand appeal and corporate value. At the same time, the company leverages its strengths, including product development capabilities, knowhow as a manufacturing retailer, and sales techniques, in order to strengthen the domestic convenience store business.

In September 2017, Seijo Ishii opened the first grocerant that is the fusion of a supermarket and a restaurant in Chofu City, Tokyo.

For the year ended February 28, 2018, Operating profit stood at 7.6 billion yen, a slight decrease of 0.3% compared to the previous fiscal year, though 14-month accounts in fiscal 2016 decreased to 12-month accounts as a result of the change in the accounting period.

■ SEIJO ISHII CO., LTD. (Millions of Yen)				
(Fiscal Year)	2018.2	2017.2	2015.12	2014.12
Gross operating revenues	81,957	85,824	68,993	17,881
Operating profit	7,611	7,795	5,795	1,547
Net income	4,339	4,616	2,625	1,086

*Consolidated starting from February 2013

Lawson HMV Entertainment, Inc. (consolidated subsidiary)

Lawson HMV Entertainment, Inc. ("Lawson HMV 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 HMV 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 order to make the most of the customer interface provided by Lawson Ticket as well as the e-commerce business know-how and mechanism developed by i-Convenience, Inc., then a wholly-owned Lawson, Inc. subsidiary, these two subsidiaries merged in March 2009, with Lawson Ticket as the surviving company. 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 businesses of the Lawson Group, going forward. Lawson HMV Entertainment in the future will be able to leverage the Group's solid e-commerce business platform to provide one-stop shopping convenience to customers by, for instance, enabling those now buying concert tickets and CDs for a given artist separately to make purchases in one single location. The company is likely to generate 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 HMV 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 28, 2018, operating profit decreased to 1.8 billion yen, a decrease of 0.7% compared to the previous fiscal year in reaction to series of large-scale entertainment events in fiscal 2016.

On June 1, 2018, the corporate name was changed from Lawson HMV Entertainment, Inc. to Lawson Entertainment, Inc.

* HMV Japan K.K. (a consolidated subsidiary of Lawson, Inc. until August 31, 2011) was a retailer selling CDs and DVDs under the "HMV" brand. Established in 1990, the firm opened its first store in Shibuya, Tokyo that year. The company in 1999 launched the "HMV Online" service to commence its current e-commerce business. In 2007, HMV Japan Holdings Co., Ltd., all shares of which were owned directly or indirectly by Daiwa Securities SMBC Principal Investments Co., Ltd., acquired all shares in HMV Japan K.K. In December 2010, Lawson, Inc. acquired all of the shares from HMV Japan Holdings Co., Ltd. in an effort to reinforce its entertainment business and achieve increased synergies with Lawson Entermedia, Inc.

■ Lawson HMV Entertainment, Inc.

(Millions of Yen)

(Fiscal Year)	2018.2	2017.2	2016.2	2015.2	2014.2
Gross operating revenues	53,261	50,423	50,205	46,018	45,314
Operating profit	1,851	2,119	2,469	3,094	2,819
Net income	1,524	1,466	1,644	2,918	2,450

Lawson ATM Networks, Inc. (consolidated subsidiary)

Lawson ATM Networks, Inc. ("Lawson ATM Networks") was established in 2001 with investments from Mitsubishi Corporation, partner banks and Lawson, Inc., as a provider of automated teller machine (ATM) services for Lawson stores. The company installed ATMs at certain Lawson stores that year to launch an ATM service. It engages in the installation of multibank ATMs at Lawson stores in areas for which an ATM installation agreement is reached with individual partner banks. Revenues, consisting mainly of an ATM operation service fee from such banks, are recorded as "operating revenues-other" in Lawson, Inc.'s consolidated statement of income. Principal expenses are composed chiefly of operation center contract service fees, ATM line costs and ATM equipment lease fees.

For the year ended February 28, 2018, operating profit stood at 5.5 billion yen, a decrease of 7.3% year on year, which was mainly attributable to the effect from a hike in ATM-related line cost.

During the year, Lawson ATM Networks continued to add to its list of ATM service partner banks, bringing the total to 90 banks based in Japan, including online banks, as of February 28, 2018, an increase of seven banks compared to a year ago. The number of ATMs in operation at Lawson stores nationwide totaled 12,733, an increase of 821 year-on-year.

On June 1, 2018, Lawson Bank Preparatory Company, Inc. succeeded to the ATM business of Lawson ATM Networks, Inc. which installs jointly operated ATMs in LAWSON stores through an absorption-type company split.

■ Lawson ATM Networks, Inc.

(Millions of Yen)

(Fiscal Year)	2018.2	2017.2	2016.2	2015.2	2014.2
Gross operating revenues	27,341	25,722	24,688	23,567	24,188
Operating profit	5,555	5,991	6,188	5,935	6,089
Net income	3,684	3,857	3,877	3,605	3,690

United Cinemas Co., Ltd. (consolidated subsidiary)

In August 2014, Lawson, Inc. acquired all shares in United Entertainment Holdings, Inc., a holding company of cinema operator United Cinemas Co., Ltd. ("UC"), in a deal conducted via Lawson HMV Entertainment United Cinemas Holdings, Inc., a firm newly established by Lawson HMV

Entertainment, Inc. Adding the firm 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.

In April 2017, UC launched in Fukuoka City the Premium Dining Cinema, a new style movie theater that allows customers to enjoy having food while watching a movie as the first of its kind in Japan. As of the year ended February 2018, UC operates a total of 40 sites and 351 screens at its cinemas nationwide (including screens operated on commission).

For the year ended February 28, 2018, operating profit was 2.5 billion yen, up 0.2% from the previous fiscal year, though there was in reaction to major hit movies in the previous fiscal year.

■ United Cinemas Co., Ltd.

(Millions of Yen)

(Fiscal Year)	2018.2	2017.2	2016.2	2014.12
Gross operating revenues	22,243	22,637	24,960	5,773
Operating profit	2,512	2,457	2,338	156
Net income (loss)	1,694	2,137	2,260	(112)

* Consolidated starting from September 2014

Shanghai Lawson, Inc. (consolidated subsidiary)

We were the first Japanese convenience store company to gain a foothold in China with our first store opening in 1996. We 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.

With the aim of acquiring land and buildings in good locations and motivating local employees better, we transferred, in 2004, to the Hualian Group 21.0% of equity interest in Shanghai Hualian Lawson, out of our 70.0% equity interest in the firm, reducing our ownership in it to 49.0%. Subsequently, in response to changes in China's (Shanghai's) economic environment, we recognized the need to reinforce the Japanese-style convenience store concept. Accordingly, in September 2011, we began to again acquire incremental shares in Shanghai Hualian Lawson to regain management control of the company. After we brought our equity interest in Shanghai Hualian Lawson to 85.0%, the company was included in Lawson, Inc.'s scope of consolidation as a subsidiary. Lawson, Inc. carried out the above-mentioned incremental share acquisition program 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. This program, aimed at strengthening and expanding our China business, was performed by concluding a share transfer agreement with Baillian Group Co., Ltd. ("Baillian

Group)*, whose retail division restructuring was underway. Our equity interest in Shanghai Hualian Lawson was raised even further since, standing at 100% as of February 28, 2018. On February 28, 2017, Shanghai Hualian Lawson, Inc. changed its corporate name to Shanghai Lawson, Inc.

From now on, the company aims to upgrade the quality of Lawson stores in Shanghai, the economic center of China, and achieve increased store brand appeal while focusing on ROI, a criterion used for new store openings in the country, as in Japan.

The total number of Lawson stores in operation stood at 865 as of February 28, 2018.

* Through a restructuring of China's retail industry driven by the national government, the Hualian Group was merged into the Bailian Group. In the course of this restructuring, all shares in the Hualian Group were transferred to the Bailian Group in December 2008.

■ Shanghai Lawson, Inc. (Millions of Yen)					
(Fiscal Year)	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	19,905	13,561	8,531	1,360	1,290
Operating profit (loss)	(567)	(555)	(755)	(646)	(404)
Net income (loss)	(1,025)	(1,347)	(1,099)	(925)	(1,568)

* 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 Hualian Lawson, Inc.

Chongqing Lawson, Inc. (consolidated subsidiary)

Populated by 34 million people (2015 JETRO survey), Chongqing is one of the world's biggest cities, and is the fourth direct-controlled municipality of China after Beijing, Shanghai and Tianjin. The city has continued to enjoy double-digit economic growth for 10 consecutive years (2015 JETRO survey). This double-digit economic growth rate exceeds the national average and that of coastal cities such as Shanghai. It is against this backdrop that potential demand for convenience stores in China's fast-growing inland cities is increasing.

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. The first local Lawson store was opened. The Lawson store network has continued to grow steadily since, bringing the total store count to 165 as of February 28, 2018.

■ Chongqing Lawson, Inc. (Millions of Yen)					
(Fiscal Year)	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	3,225	3,586	4,400	3,474	1,843
Operating profit (loss)	(306)	(452)	(778)	(904)	(840)
Net income (loss)	(413)	(623)	(973)	(1,047)	(833)

Dalian Lawson, Inc. (consolidated subsidiary)

With a population of some six million (2015 JETRO survey), Dalian is the biggest port city in Northeast China. 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 122 as of February 28, 2018.

■ Dalian Lawson, Inc. (Millions of Yen)					
(Fiscal Year)	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	2,371	2,043	1,502	995	516
Operating profit (loss)	4	(183)	(312)	(313)	(227)
Net income (loss)	(28)	(190)	(344)	(338)	(211)

Beijing Lawson, Inc. (consolidated subsidiary)

In the People's Republic of China, Beijing is a big city with a population of about 20 million (2009 JETRO survey). We established Beijing Lawson, Inc. in May 2013. The company opened 14 stores in the fiscal year under review, bringing the total number of stores to 73 as of the end of February 2018.

■ Beijing Lawson, Inc. (Millions of Yen)		
(Fiscal Year)	2017.12	2016.12
Gross operating revenues	3,106	2,168
Operating profit (loss)	(635)	(643)
Net income (loss)	(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 101 as of February 28, 2018.

■ Saha Lawson Co., Ltd. (Millions of Yen)					
(Fiscal Year)	2017.12	2016.12	2015.12	2014.12	2013.12
Gross operating revenues	8,271	7,171	6,962	7,800	5,959
Operating profit (loss)	(653)	(305)	(251)	(655)	(338)
Net income (loss)	(767)	(396)	(308)	(831)	(525)

* Consolidated starting from January 2013

Future Outlook

We believe the three years from fiscal 2016 through fiscal 2018 will greatly influence our future growth. We launched the “1,000-Day Action Plan” with the aim of continuing to become an essential part of our communities. For the year ending February 2019, the plan’s final year, we will strive to enhance the domestic convenience store business, our core operations, and particularly grow evening and night-time sales in a move to put the finishing touches to the plan. Moreover, following on from the previous year, we will strengthen the foundation for sustainable growth in the form of investing in next-generation systems in an effort to achieve improved store productivity, among other steps.

Enhancement of the Domestic Convenience Store Business

For the year ending February 2019, we will seek to grow sales with a focus on evening and night-time hours by continuing to broaden, as in the past, the scope of our customers such as those among female worker and senior citizen customers. In addition to bolstering the product appeal of staple items such as boxed meals and rice balls, and over-the-counter fast foods as delicatessen, we will revamp the mechanisms of our merchandise ordering and logistics, stepping up the merchandise assortment with a focus on evening and night-time hours. We are projected to expand stores with the “Machikado Chubo” in-store kitchen to 6,000 in February 2019, up from about 4,300 in February 2018. Through the above-mentioned steps, we aim to achieve a year-on-year growth of 1.0% in existing store sales and a gross profit margin of 31.4% (up 0.1 percentage point year on year). We will continue to open stores in ways prioritizing quality, and plan to increase the number of domestic convenience stores by 800 on a net basis by opening 1,200 stores, including approx. 300 stores to be converted from other convenience store chains, and closing 400 stores.

Continued Investments for Sustainable Growth

Faced with growing effects from labor shortages amid a declining birth rate and aging population, we have been working to improve store productivity to date by building next-generation systems in an effort to enable employees to focus on services that can be performed only by humans while delegating to machines services able to be done by them. For the year ending February 2019, following on from the installation of tablets in the previous year, we will continue to deploy automatic change machine-fitted new POS cash registers for all stores. Going forward, we aim to improve the convenience for the customer’s shopping experience and store operation productivity by tapping into IT technologies. As a case in point, we launched in April 2018 an experiment of Lawson Smartphone Pay, a self-payment service using a smartphone-dedicated application.

Business Performance Outlook for Fiscal 2018

For fiscal 2018 ending February 2019, consolidated operating profit is projected to be 60.0 billion yen, a decrease of 5.8 billion yen year on year partly due to lower profit factors from initiatives aimed at sustainable growth such as higher investments in next-generation systems, among others, and elevated expenses associated with new businesses, including the financial services business launched. This is despite the fact that higher profits will likely be posted by the domestic convenience store business thanks to the above-mentioned initiatives as well as consolidated subsidiary SEIJO ISHII CO., LTD. and that the overseas business is projected to deliver improved profits. Consolidated net profit is expected to be 28.0 billion yen, an increase of 1.1 billion yen from the previous fiscal year following an extraordinary loss recorded for the year.

With regard to cash flow, consolidated cash flow from operating activities is projected to be 128 billion yen, which is greater than the 95 billion yen of projected consolidated cash flow from investment activities including investments in new store openings and in next-generation systems.

Lastly, concerning returns to shareholders, we plan to maintain a dividend of 255 yen for fiscal 2018, unchanged from the previous year, and will continue steady dividend payout although the business environment remains challenging.

Consolidated Balance Sheet

Lawson, Inc. and its Consolidated Subsidiaries
February 28, 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents	¥30,121	¥67,692	\$280,535
Time deposits	4	423	37
Accounts receivable:			
Due from franchised stores (Note 3)	46,599	39,982	434,004
Other	84,705	79,637	788,908
Allowance for doubtful accounts	(29)	(50)	(270)
Lease receivables (Note 4)	16,426	12,336	152,985
Inventories	18,914	18,131	176,157
Deferred tax assets (Note 16)	3,411	3,907	31,769
Other	31,709	27,221	295,324
Total current assets	231,860	249,279	2,159,449
PROPERTY AND STORE EQUIPMENT:			
Land (Notes 7 and 8)	9,582	9,701	89,243
Buildings (Note 7)	369,567	347,086	3,441,995
Furniture, fixtures, and equipment (Note 7)	74,401	74,988	692,940
Lease assets (Note 7)	213,561	186,344	1,989,019
Other (Note 7)	791	743	7,367
Total	667,902	618,862	6,220,564
Accumulated depreciation	(317,966)	(294,351)	(2,961,404)
Net property and store equipment	349,936	324,511	3,259,160
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	13,376	8,781	124,579
Investments in associated companies	15,172	14,151	141,306
Long-term loans receivable	47,425	44,495	441,697
Goodwill (Note 7)	47,947	46,042	446,559
Software (Note 7)	41,602	37,568	387,464

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Trademark right	10,075	10,691	93,834
Lease deposits	100,686	95,594	937,748
Deferred tax assets (Note 16)	24,406	23,139	227,307
Other (Note 7)	18,866	13,295	175,709
Allowance for doubtful accounts	(1,095)	(968)	(10,198)
Total investments and other assets	318,460	292,788	2,966,005
TOTAL	¥900,256	¥866,578	\$8,384,614

* See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT LIABILITIES:			
Accounts payable:			
Trade (Notes 9 and 21)	¥118,175	¥110,835	\$1,100,633
Due to franchised stores (Note 10)	2,594	1,611	24,159
Other	60,441	59,546	562,923
Short-term bank loans (Note 11)	36,340	31,180	338,456
Current portion of long-term debt (Note 11)	33,639	28,588	313,300
Income taxes payable	6,880	9,877	64,077
Money held as agent	109,629	103,157	1,021,039
Other (Note 13)	11,525	11,990	107,340
Total current liabilities	379,223	356,784	3,531,927
LONG-TERM LIABILITIES:			
Net defined benefit liability (Note 12)	13,781	13,084	128,351
Allowance for retirement benefits to executive officers and audit and supervisory board members	271	332	2,524
Long-term debt (Note 11)	169,087	156,687	1,574,807
Asset retirement obligations (Note 13)	29,063	26,958	270,681
Deferred tax liabilities (Note 16)	2,617	958	24,374
Other	24,768	25,779	230,678
Total long-term liabilities	239,587	223,798	2,231,415
EQUITY (Note 14):			
Common stock—authorized, 409,300,000 shares in 2018 and 2017; issued, 100,300,000 shares in 2018 and 2017	58,507	58,507	544,910
Capital surplus	46,690	49,084	434,851
Stock acquisition rights	195	315	1,816
Retained earnings	166,125	165,162	1,547,220

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Treasury stock—at cost, 244,849 shares in 2018 and 285,191 shares in 2017	(1,041)	(1,211)	(9,695)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	2,084	274	19,410
Land revaluation difference (Note 8)	(576)	(619)	(5,365)
Foreign currency translation adjustments	4,596	4,611	42,805
Defined retirement benefit plans	(727)	(928)	(6,771)
Total	275,853	275,195	2,569,181
Noncontrolling interests	5,593	10,801	52,091
Total equity	281,446	285,996	2,621,272
TOTAL	¥900,256	¥866,578	\$8,384,614

* See notes to consolidated financial statements.

Consolidated Statement of Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING REVENUES:			
Franchise commissions from franchised stores	¥289,233	¥275,312	\$2,693,797
Net sales	264,735	254,169	2,465,633
Other	103,357	101,807	962,625
Total operating revenues	657,325	631,288	6,122,055
COSTS AND OPERATING EXPENSES:			
Cost of sales (Note 21)	181,374	174,255	1,689,243
Selling, general, and administrative expenses	410,130	383,261	3,819,782
Total costs and operating expenses	591,504	557,516	5,509,025
Operating income	65,821	73,772	613,030
OTHER INCOME (EXPENSES):			
Interest expense—net	(1,187)	(1,103)	(11,055)
Compensation income	897	524	8,354
Loss on cancellation of leases	(1,304)	(1,275)	(12,145)
Equity in earnings of unconsolidated subsidiaries and associated companies	694	602	6,464
Gain on sales of shares of subsidiaries and associates	303		2,822
Loss on sales of non-current assets	(368)	(295)	(3,427)
Loss on disposal of property and store equipment	(3,115)	(3,554)	(29,012)
Impairment of long-lived assets (Note 7)	(17,534)	(9,535)	(163,304)
Gain on valuation of derivatives		409	
Loss on disaster		(772)	
Other—net	(616)	(317)	(5,738)
Other expenses—net	(22,230)	(15,316)	(207,041)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
INCOME BEFORE INCOME TAXES	43,590	58,456	405,979
INCOME TAXES (Note 16):			
Current	14,190	18,929	132,160
Deferred	2,539	2,453	23,647
Total income taxes	16,729	21,382	155,807
NET INCOME	26,861	37,074	250,172
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	32	(674)	298
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥26,829	¥36,400	\$249,874

	Yen		U.S. Dollars
	2018	2017	2018
PER SHARE OF COMMON STOCK (Notes 2.t and 23):			
Net income—basic	¥268.16	¥363.96	\$2.50
Net income—diluted	268.02	363.71	2.50
Cash dividends applicable to the year	255	250	2.37

* See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥26,861	¥37,074	\$250,172
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on available-for-sale securities	1,810	(527)	16,858
Land revaluation difference		(53)	
Foreign currency translation adjustments	36	(929)	335
Remeasurements of defined benefit plans	201	(22)	1,872
Total other comprehensive income (loss)	2,047	(1,531)	19,065
COMPREHENSIVE INCOME	¥28,908	¥35,543	\$269,237
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥28,825	¥34,879	\$268,464
Noncontrolling interests	83	664	773

* See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2018

	Thousands of Shares/Millions of Yen														
	Common Stock					Treasury Stock		Accumulated other comprehensive income					Total	Noncontrolling Interests	Total Equity
	Shares	Amount	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Shares	Amount	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Land Revaluation Difference	Foreign Currency Translation Adjustments	Remeasurements of defined benefit plans				
BALANCE, MARCH 1, 2016	100,300	¥58,507	¥47,697	¥307	¥154,609	(302)	¥(1,280)	¥801	¥(566)	¥5,531	¥(906)	¥264,700	¥8,297	¥272,997	
Net income attributable to owners of the parent					36,400							36,400		36,400	
Change in the parent's ownership interest due to transactions with noncontrolling interests			1,387									1,387		1,387	
Year-end cash dividends, ¥122.5 per share					(12,250)							(12,250)		(12,250)	
Interim cash dividends, ¥125 per share					(12,502)							(12,502)		(12,502)	
Change of scope of consolidation					(1,130)							(1,130)		(1,130)	
Reversal of land revaluation difference					52							52		52	
Purchase of treasury stock						(1)	(3)					(3)		(3)	
Exercise of stock acquisition rights to shares (delivery of treasury stock)			(0)		(17)	17	72					55		55	
Others—net				8		0		(527)	(53)	(920)	(22)	(1,514)	2,504	990	
BALANCE, FEBRUARY 28, 2017	100,300	58,507	49,084	315	165,162	(303)	(1,211)	274	(619)	4,611	(928)	275,195	10,801	285,996	
Net income attributable to owners of the parent					26,829							26,829		26,829	
Change in the parent's ownership interest due to transactions with noncontrolling interests			(2,454)									(2,454)		(2,454)	
Year-end cash dividends, ¥125 per share					(12,502)							(12,502)		(12,502)	
Interim cash dividends, ¥127.5 per share					(12,757)							(12,757)		(12,757)	
Change of scope of consolidation					(565)							(565)		(565)	
Reversal of land revaluation difference					(42)							(42)		(42)	
Purchase of treasury stock							(3)					(3)		(3)	
Exercise of stock acquisition rights to shares (delivery of treasury stock)			60				173					233		233	
Others—net				(120)				1,810	43	(15)	201	1,919	(5,208)	(3,289)	
BALANCE, FEBRUARY 28, 2018	100,300	¥58,507	¥46,690	¥195	¥166,125	(303)	¥(1,041)	¥2,084	¥(576)	¥4,596	¥(727)	¥275,853	¥5,593	¥281,446	

	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, 2017	\$544,910	\$457,148	\$2,934	\$1,538,251	\$(11,279)	\$2,552	\$(5,765)	\$42,945	\$(8,643)	\$2,563,053	\$100,596	\$2,663,649
Net income attributable to owners of the parent				249,874	0					249,874		249,874
Change in the parent's ownership interest due to transactions with noncontrolling interests		(22,856)		0						(22,856)		(22,856)
Year-end cash dividends, \$1.16 per share				(116,438)						(116,438)		(116,438)
Interim cash dividends, \$1.19 per share				(118,813)						(118,813)		(118,813)
Change of scope of consolidation				(5,263)						(5,263)		(5,263)
Reversal of land revaluation difference				(391)						(391)		(391)
Purchase of treasury stock					(28)					(28)		(28)
Exercise of stock acquisition rights to shares (delivery of treasury stock)		559		0	1,612					2,171		2,171
Others—net			(1,118)			16,858	400	(140)	1,872	17,872	(48,505)	(30,633)
BALANCE, FEBRUARY 28, 2018	\$544,910	\$434,851	\$1,816	\$1,547,220	\$(9,695)	\$19,410	\$(5,365)	\$42,805	\$(6,771)	\$2,569,181	\$52,091	\$2,621,272

* See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥43,591	¥58,456	\$405,989
Adjustments for:			
Income taxes paid	(18,287)	(18,204)	(170,318)
Depreciation and amortization	58,602	56,199	545,795
Impairment of long-lived assets	17,534	9,535	163,304
Loss on disposal of property and store equipment	3,115	3,554	29,012
Changes in assets and liabilities:			
Increase in accounts receivable	(10,675)	(20,289)	(99,423)
Increase in accounts payable	10,829	5,051	100,857
Increase in money held as agent	6,469	1,244	60,250
Increase in allowance for retirement benefits to employees and executive officers and audit and supervisory board members	721	666	6,715
Other—net	2,040	3,653	19,000
Total adjustments	70,348	41,409	655,192
Net cash provided by operating activities	113,939	99,865	1,061,181
INVESTING ACTIVITIES:			
Purchases of property and store equipment	(41,537)	(42,064)	(386,859)
Purchases of software and other intangible assets	(18,534)	(18,892)	(172,618)
Increase in long-term loans receivable	(3,284)	(3,917)	(30,586)
Long-term prepaid expenses	(9,230)	(3,112)	(85,964)
Acquisition of associated companies	(3,920)	(1,805)	(36,509)
Payments for transfer of business	(11,010)	(4,436)	(102,543)
Other—net	(3,695)	(2,002)	(34,414)
Net cash used in investing activities	(91,210)	(76,228)	(849,492)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
FINANCING ACTIVITIES:			
Net increase in short-term loans payable	5,160	29,190	48,058
Repayments of long-term debt	(33,330)	(30,913)	(310,422)
Cash dividends paid	(25,259)	(24,752)	(235,251)
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation	(7,799)	(709)	(72,637)
Other—net	(11)	1,546	(103)
Net cash used in financing activities	(61,239)	(25,638)	(570,355)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	174	(436)	1,620
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,336)	(2,437)	(357,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,692	69,793	630,455
CASH AND CASH EQUIVALENTS IN SUBSIDIARIES RESULTING FROM CHANGES IN SCOPE OF CONSOLIDATION	765	336	7,126
CASH AND CASH EQUIVALENTS, END OF YEAR	¥30,121	¥67,692	\$280,535

* See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lawson, Inc. and its Consolidated Subsidiaries
Year Ended February 28, 2018

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 (“Japanese GAAP”), 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 2017 financial statements to conform to the classifications used in 2018.

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 ¥107.37 to \$1, the approximate rate of exchange at February 28, 2018. 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 28, 2018, which represents 50.2% 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 (20 in 2017) 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 2017) associated companies are accounted for by the equity method. Investments in 23 (22 in 2017) 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 Preparatory Company, 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 ¥3 million upon commencement. Upon receipt of such payment, ¥1.5 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 8). 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 has applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets" effective March 1, 2017.

- 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 100,044 thousand shares for 2018 and 100,009 thousand shares for 2017.

Diluted net income per share for the years ended February 28, 2018 and 2017 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.

(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. Reclassification of Prior Year's Consolidated Financial Statements— The Company has made changes to the classification of amounts in the consolidated statement of cash flows for the year ended February 28, 2018. In order to conform to the presentation for the year ended February 28, 2018, the Company has reclassified the related amounts in the consolidated statement of cash flows for the year ended February 28, 2017, as stated below.

(Consolidated Statement of Cash Flows)

In the "Investing activities" section, "Payments into time deposits" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Payments into time deposits" is now included in "Other-net." To reflect this change in method of presentation, the consolidated statement of cash flows for the previous fiscal year has been reclassified. As a result, in the "Investing activities" section, the (842) million yen that had previously been presented as "Payments into time deposits" in the consolidated statement of cash flows for the previous fiscal year is now included in "Other-net."

In the "Investing activities" section, "Proceeds from withdrawal of time deposits" was presented separately in the previous fiscal year. Due to a decline in financial materiality, "Proceeds from withdrawal of time deposits" is now included in "Other-net." To reflect this change in method of presentation, the consolidated statement

of cash flows for the previous fiscal year has been reclassified. As a result, in the “Investing activities” section, the 1,764 million yen that had previously been presented as “Proceeds from withdrawal of time deposits” in the consolidated statement of cash flows for the previous fiscal year is now included in “Other-net.”

In the “Investing activities” section, “Payments from transfer of business” was included in “Other-net” in the previous fiscal year. Due to an increase in financial materiality, “Payments from transfer of business” is now separately presented. To reflect this change in the method of presentation, the consolidated statement of cash flows for the previous fiscal year has been reclassified. As a result, in the “Investing activities” section, the (4,436) million yen that had previously been presented in “Other-net” in the consolidated statement of cash flows for the previous fiscal year is now presented as “Payments from transfer of business.”

In the “Financing activities” section, “Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation” was included in “Other-net” in the previous fiscal year. Due to an increase in financial materiality, “Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation” is now separately presented. To reflect this change in the method of presentation, the consolidated statement of cash flows for the previous fiscal year has been reclassified. As a result, in the “Financing activities” section, the (709) million yen that had previously been presented in “Other-net” in the consolidated statement of cash flows for the previous fiscal year is now presented as “Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation”.

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 | LEASE RECEIVABLES

Lease receivables as of February 28, 2018 and 2017, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Lease revenue receivable	¥16,646	¥12,533	\$155,036
Interest income equivalents	(220)	(197)	(2,051)
Lease receivables	¥16,426	¥12,336	\$152,985

Maturities of lease receivables for finance leases deemed to transfer leased property to the lessee at February 28, 2018 are as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2019	¥2,096	\$19,523
2020	1,962	18,277
2021	1,742	16,223
2022	1,493	13,905
2023	1,372	12,779
2024 and thereafter	7,981	74,331
Total	¥16,646	\$155,038

5 | MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current			
—Marketable and other equity securities	¥13,183	¥8,624	\$122,781
Non-current—Corporate bonds	193	157	1,798
Total	¥13,376	¥8,781	\$124,579

The costs and aggregate fair values of marketable and investment securities as of February 28, 2018 and 2017, were as follows:

February 28, 2018	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale				
—Equity securities	¥8,866	¥3,724	¥894	¥11,696

February 28, 2017	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale				
—Equity securities	¥6,407	¥1,099	¥983	¥6,523

February 28, 2018	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale				
—Equity securities	\$82,574	\$34,684	\$8,326	\$108,932

The proceeds, realized gains, and realized losses on the available-for-sale securities which were sold during the years ended February 28, 2018 and 2017, were as follows:

February 28, 2018	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥665		

February 28, 2017	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	¥560	¥89	

February 28, 2018	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale: Equity securities	\$6,194		

6 DERIVATIVES TRADING

Derivative transactions to which hedge accounting was not applied at February 28, 2018

February 28, 2018		Millions of Yen			
		Contract Amount	Contract Amount Due After One Year	Fair Value	Unrealized Loss
Transactions other than market transactions	Exchange contracts				
	Short position				
	Chinese Yuan	¥12,410		¥ (28)	¥ (28)
	Thai Baht	186		(0)	(0)
Total		¥12,596		¥ (28)	¥ (28)

February 28, 2018		Thousands of U.S. Dollars			
		Contract Amount	Contract Amount Due After One Year	Fair Value	Unrealized Loss
Transactions other than market transactions	Exchange contracts				
	Short position				
	Chinese Yuan	\$115,578		\$ (258)	\$ (258)
	Thai Baht	1,738		(4)	(4)
Total		\$117,316		\$ (262)	\$ (262)

7 | 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 28, 2018 and 2017:

Category	Related Assets	Location	Millions of Yen		Thousands of U.S. Dollars
			2018	2017	2018
Stores	Buildings and	Tokyo	¥1,306	¥1,703	\$12,164
	Furniture, fixtures, and equipment	Osaka	1,390	1,442	12,946
		Others	8,721	6,390	81,224
Other	Land		70		652
	Software		6,035		56,207
	Goodwill		12		112
Total			¥17,534	¥9,535	\$163,304

The above noted assets which incurred impairment losses for the years ended February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Buildings	¥5,968	¥5,833	\$55,583
Furniture, fixtures, and equipment	811	529	7,553
Lease assets	4,485	2,786	41,771
Land	183	354	1,704
Software	6,035		56,208
Goodwill	12		112
Other	40	33	373
Total	¥17,534	¥9,535	\$163,304

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 rate used was mainly 4.4% for the years ended February 28, 2018 and 2017.

8 | 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 28, 2018, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥177 million (\$1,649 thousand).

9 | 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 28, 2018 and 2017, were summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Accounts payable —trade for franchised stores	¥101,115	¥95,107	\$941,752
Accounts payable —trade for the Company-operated stores	17,059	15,728	158,881
Total	¥118,175	¥110,835	\$1,100,633

10 | 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 sheets, such excess balances are presented as “Accounts payable—Due to franchised stores.”

11 | SHORT-TERM BANK LOANS AND LONG TERM DEBT

Short-term bank loans at February 28, 2018 and 2017, consisted of notes to banks.

The annual interest rates applicable to the short-term bank loans were 0.06% and 0.14% at February 28, 2018 and February 28, 2017, respectively.

Long-term debt at February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks, due serially to 2020 with a weighted-average interest rate of 0.09% (2018)	¥56,045	¥57,278	\$521,980
Obligations under finance leases	146,681	127,997	1,366,127
Less current portion	(33,639)	(28,588)	(313,300)
Long-term debt, less current portion	¥169,087	¥156,687	\$1,574,807

The aggregate annual maturities of long-term debt, excluding finance leases, at February 28, 2018, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2019	575	5,355
2020	55,470	516,625
Total	¥56,045	\$521,980

The aggregate annual maturities of finance lease obligations at February 28, 2018, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2019	¥33,063	\$307,935
2020	30,146	280,767
2021	26,317	245,106
2022	21,138	196,871
2023 and thereafter	36,017	335,447
Total	¥146,681	\$1,366,126

As of February 28, 2018, the carrying amounts of assets pledged as collateral for short-term bank loans and the current portion of long-term debt of ¥575 million (\$5,355 thousand) and long-term debt of ¥5,469 million (\$50,936 thousand), were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Cash and cash equivalents	¥4,213	\$39,238
Shares of consolidated subsidiaries (Amount before elimination)	16,614	154,736
Total	¥20,827	\$193,974

12 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 28, 2018

(1) Changes in defined benefit obligations for the year ended February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year (as restated)	¥18,417	\$171,529
Current service cost	1,757	16,364
Interest cost	64	596
Actuarial losses	(85)	(792)
Benefits paid	(1,066)	(9,928)
Others	4	37
Balance at end of year	¥19,091	\$177,806

(2) Changes in plan assets for the year ended February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥5,587	\$52,035
Actuarial gains	0	0
Balance at end of year	¥5,587	\$52,035

(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	¥17,434	\$162,373
Plan assets	(5,587)	(52,035)
	11,847	110,338
Unfunded defined benefit obligation	1,657	15,433
Net liability arising from defined benefit obligations	¥13,504	\$125,771

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥13,504	\$125,771
Net liability arising from defined benefit obligations	¥13,504	\$125,771

(4) Components of net periodic benefit costs for the year ended February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,757	\$16,364
Interest cost	64	596
Recognized actuarial losses	198	1,844
Amortization of prior service cost	10	93
Others	(25)	(233)
Net periodic benefit costs	¥2,004	\$18,664

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥10	\$93
Actuarial losses	284	2,636
Total	¥293	\$2,729

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥1	\$9
Unrecognized actuarial losses	1,012	9,425
Total	¥1,013	\$9,434

(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, 2018, 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, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit cost	¥489	\$4,554

Year Ended February 28, 2017

(1) Changes in defined benefit obligations for the year ended February 28, 2017, were as follows:

	Millions of Yen
Balance at beginning of year (as restated)	¥17,552
Current service cost	1,595
Interest cost	54
Actuarial losses	149
Benefits paid	(932)
Others	(1)
Balance at end of year	¥18,417

(2) Changes in plan assets for the year ended February 28, 2017, were as follows:

	Millions of Yen
Balance at beginning of year	¥5,590
Actuarial gains	(3)
Balance at end of year	¥5,587

(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 obligations	¥16,920
Plan assets	(5,587)
	11,333
Unfunded defined benefit obligations	1,497
Net liability arising from defined benefit obligations	¥12,830

	Millions of Yen
Liability for retirement benefits	¥12,830
Net liability arising from defined benefit obligation	¥12,830

(4) Components of net periodic benefit costs for the year ended February 28, 2017, were as follows:

	Millions of Yen
Service cost	¥1,595
Interest cost	54
Recognized actuarial losses	140
Amortization of prior service cost	9
Others	(20)
Net periodic benefit costs	¥1,778

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the year ended February 28, 2017, were as follows:

	Millions of Yen
Prior service cost	¥10
Actuarial losses	(12)
Total	¥(2)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of February 28, 2017, were as follows:

	Millions of Yen
Unrecognized prior service cost	¥11
Unrecognized actuarial losses	1,295
Total	¥1,306

(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, 2017, 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, 2017, were as follows:

	Millions of Yen
Net periodic benefit cost	¥483

13 ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥27,023	¥24,721	\$251,681
Additional provisions associated with the acquisition of property, plant, and equipment	2,493	2,625	23,219
Reconciliation associated with passage of time	392	393	3,651
Reduction associated with settlement of asset retirement obligations	(799)	(716)	(7,442)
Total	29,109	27,023	271,109
Less current portion	(46)	(65)	(428)
Asset retirement obligations, less current portion	¥29,063	¥26,958	\$270,681

14 | 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.

15 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 28, 2018, 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
15th Stock Option	1 director	1,100 shares	2015.6.10	¥1 (\$0.01)	From June 10, 2015 to May 25, 2035
16th Stock Option	8 director	15,100 shares	2016.5.2	¥1 (\$0.01)	From May 2, 2016 to April 12, 2036
17th Stock Option	8 director	20,100 shares	2017.5.1	¥1 (\$0.01)	From May 1, 2017 to April 11, 2037
18th Stock Option	12 executive officer	5,100 shares	2017.7.21	¥1 (\$0.01)	From July 21, 2017 to July 4, 2037

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
Year Ended February 28, 2017										
<u>Non-vested</u>										
February 29, 2016—Outstanding										
Granted										
Canceled										
Vested										
February 28, 2017—Outstanding										
<u>Vested</u>										
February 29, 2016—Outstanding	3,800	9,900	6,600	9,200	6,300	5,900	7,100	8,500	7,300	12,400
Vested										
Exercised	500	400	2,500	3,400	4,200	3,600	500	500	500	500
Canceled	1,700	5,800						1,000	500	500
February 28, 2017—Outstanding	1,600	3,700	4,100	5,800	2,100	2,300	6,600	7,000	6,300	11,400
Year Ended February 28, 2018										
<u>Non-vested</u>										
February 28, 2017—Outstanding										
Granted										
Canceled										
Vested										
February 28, 2018—Outstanding										
<u>Vested</u>										
February 28, 2017—Outstanding	1,600	3,700	4,100	5,800	2,100	2,300	6,600	7,000	6,300	11,400
Vested										
Exercised								6,500	5,300	7,200
Canceled	500	1,000	1,000	1,300	1,100	1,300	1,300			
February 28, 2018—Outstanding	1,100	2,700	3,100	4,500	1,000	1,000	5,300	500	1,000	4,200
Exercise price	¥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)
Average stock price at exercise								¥7,560	¥7,560	
								(\$70.41)	(\$70.41)	
Fair value price at grant date		¥3,178	¥2,852	¥3,477	¥2,652	¥2,689	¥3,339	¥5,516	¥5,146	¥6,251
		(\$29.60)	(\$26.56)	(\$32.38)	(\$24.70)	(\$25.04)	(\$31.10)	(\$51.37)	(\$47.93)	(\$55.54)

Stock option activity is as follows:

	15th Stock Option	16th Stock Option	17th Stock Option	18th Stock Option
Year Ended February 28, 2017				
<u>Non-vested</u>				
February 28, 2017—Outstanding				
Granted		15,100		
Canceled				
Vested		15,100		
February 28, 2018—Outstanding				
<u>Vested</u>				
February 28, 2017—Outstanding	1,100			
Vested		15,100		
Exercised		500		
Canceled		500		
February 28, 2018—Outstanding	1,100	14,100		
Year Ended February 28, 2018				
<u>Non-vested</u>				
February 28, 2017—Outstanding				
Granted			20,100	5,100
Canceled				
Vested			20,100	5,100
February 28, 2018—Outstanding				
<u>Vested</u>				
February 28, 2017—Outstanding	1,100	14,100		
Vested			20,100	5,100
Exercised	1,100	8,800	11,400	400
Canceled				
February 28, 2018—Outstanding		5,500	8,700	4,700
Exercise price	¥1	¥1		
	(\$0.01)	(\$0.01)		
Average stock price at exercise	¥6,310	¥6,254		
Fair value price at grant date	(\$56.06)	(\$55.56)		

	17th Stock Option	18th Stock Option
Estimate method	Black-Scholes option pricing model	Black-Scholes option pricing model
Volatility of stock price	24.25%	24.27%
Estimated remaining outstanding period	10 years	10 years
Estimated dividend	¥247.5 per share	¥250.0 per share
Risk-free interest rate	0.01%	0.07%

The assumptions used to measure the fair value of the 17th and 18th stock options were as follows:

16 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 30.9% and 33.1% for the years ended February 28, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at February 28, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Accrued enterprise taxes	¥787	¥875	\$7,330
Accrued employees' bonuses	1,187	1,054	11,055
Excess of depreciation	10,771	11,048	100,317
Excess of amortization of software	374	410	3,483
Employees' retirement benefits	5,967	5,633	55,574
Allowance for doubtful accounts	348	310	3,241
Impairment losses	6,017	5,248	56,040
Tax loss carryforwards	9,172	10,901	85,424
Other	6,407	5,954	59,673
Less valuation allowance	(12,784)	(12,114)	(119,065)
Total	28,246	29,319	263,072
Deferred tax liabilities:			
Trademark rights	3,046	3,231	28,370
Net deferred tax assets	¥25,200	¥26,088	\$234,702
Net deferred tax assets	¥25,200	¥26,088	\$234,702

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 28, 2018 and 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	30.9 %	33.1 %
Change in valuation allowance	2.8	(0.3)
Expenses not deductible for income tax purposes	0.5	0.4
Per-capita inhabitant tax	0.8	0.6
Difference in tax rates of foreign consolidated subsidiaries	1.3	0.5
Reduction of ending deferred tax balance due to change in statutory tax rate	0.6	3.1
Amortization of goodwill	2.9	1.2
Other—net	(1.4)	(2.5)
Actual effective tax rate	38.4 %	36.6 %

At February 28, 2018, certain domestic subsidiaries has tax loss carryforwards aggregating approximately ¥31,749 million (\$3,408,890 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥2,951	\$316,850
2019	5,758	618,236
2020	3,562	382,452
2021	8,558	918,872
2022	5,230	561,545
2023	2,987	320,714
2024	575	61,738
2025	506	54,329
2026	1,622	174,154
Total	¥31,749	\$3,408,890

17 | SUPPLEMENTAL CASH FLOW INFORMATION

(1) Finance lease assets and finance lease obligations regarded as non-cash transactions incurred for the year ended February 28, 2018, amounted to ¥47,054 million (\$438,242 thousand).

(2) Asset retirement obligations regarded as non-cash transactions incurred for the year ended February 28, 2018, amounted to ¥2,492 million (\$23,209 thousand).

18 | OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities			
Gains (losses) arising during the year	¥2,568	¥ (1,059)	\$23,917
Reclassification adjustments to profit or loss	31	244	289
Amount before income tax effect	2,599	(815)	24,206
Income tax effect	(789)	288	(7,348)
Total	¥1,810	¥ (527)	\$16,858
Land revaluation difference			
Adjustments arising during the year		(53)	
Total		¥(53)	
Foreign currency translation adjustments			
Adjustments arising during the year	¥36	¥(906)	\$345
Reclassification adjustments to profit or loss		(23)	
Total	¥36	¥ (929)	\$345
Remeasurements of defined benefit plans			
Losses arising during the year	¥86	¥ (151)	\$801
Reclassification adjustments to profit or loss	207	149	1,928
Amount before income tax effect	293	(2)	2,729
Income tax effect	(92)	(20)	(857)
Total	¥201	¥(22)	\$1,872
Total other comprehensive income	¥2,047	¥(1,531)	\$19,065

19 BUSINESS COMBINATIONS

Business combination due to acquisition

(1) Outline of business combination**① Name of the acquired company and business description**

Name of company: Three F Co., Ltd. (hereinafter, "Three F")

Business description: Convenience store business

② Main reason for business combination

Under the terms of the business integration contract signed by the Company and Three F on April 13, 2016, the two companies established a new joint venture LTF Co., Ltd., which began converting 89 Three F stores operated in Chiba and Saitama Prefectures into "LAWSON Three F" double-brand stores in September 2016. As the collaboration proved to be effective, the two companies decided to also transform Three F stores in Tokyo and Kanagawa Prefecture, and part of Chiba Prefecture, into "LAWSON Three F" double-brand stores. The business combination is a pre-arranged company split designed to transfer a portion of the rights and obligations relate to Three F's convenience store operations.

③ Date of business combination

June 1, 2017

④ Legal form of business combination

Absorption-type company split whereby Three F is the split company and Lawson is the succeeding company

⑤ Main grounds for determining the Company to be the acquiring company

The Company acquired Three F's business for cash consideration.

(2) Acquisition cost for acquiring the business and breakdown by type of consideration

		(Millions of yen)
Type of consideration	Cash and deposits	10,996
Acquisition cost		10,996

(3) Details and amount of major acquisition-related expenses

Advisory compensation and fees, etc. 78 million yen

(4) Amount, cause, and amortization method and period of goodwill generated**① Amount of goodwill generated**

5,688 million yen

② Cause of generation of goodwill

Excess earnings power anticipated through business development

③ Method and period of amortization

Straight-line method over 9 years

(5) Amounts and major breakdown of assets acquired and liabilities assumed on the date of business combination

		(Millions of yen)
Non-current assets		5,308
Total assets		5,308

(6) Estimated amount and its calculation method regarding the impact on the consolidated statement of income for the current fiscal year assuming that the business combination was completed at the beginning of the current fiscal year
The estimated amount of the impact is not presented as it cannot be reasonably calculated.

20 | 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 reporting segment and is subject to regular review by the Board of Directors with regard to allocation of managerial resources and performance evaluation. The Company primarily operates the Domestic Convenience Store Business, Seijo Ishii Business, and Entertainment-Related Business, while incorporating other related businesses.

Therefore, the Company has made the Domestic Convenience Store Business, Seijo Ishii Business, and Entertainment-Related Business its 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 undertakes direct management of stores in Japan as the parent company of LAWSON, NATURAL LAWSON and LAWSON STORE100. Lawson Sanin, Inc. undertakes the direct management of Lawson stores in the Sanin area. Lawson Store100, Inc. undertakes the direct management of LAWSON

STORE100 stores. SCI, Inc. is a subsidiary that serves the function of rationally managing the process from procurement to sale, and aims to improve the efficiency of and optimize the process.

Regarding the Seijo Ishii Business, SEIJO ISHII CO., LTD. operates the SEIJO ISHII supermarket.

Regarding the Entertainment-Related Business, Lawson HMV Entertainment, Inc. manages the sale of concert tickets at LAWSON stores and others, and music and video at HMV stores and others. In addition, United Cinemas Co., Ltd. operates multiplex movie theaters.

(b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of each reportable segment are basically consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

Segment profit is determined in the same manner as operating income. "Intersegment sales or transfers" are calculated based on market prices.

(c) Information about sales, profit (loss), assets, and other items is as follows:

	Millions of Yen						
	2018						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Other				
Sales:							
Sales to external customers	¥437,216	¥81,957	¥73,967	¥64,185	¥657,325		¥657,325
Intersegment sales or transfers	5,468		1,414	1,258	8,140	¥ (8,140)	
Total	¥442,684	¥81,957	¥75,381	¥65,443	¥665,465	¥ (8,140)	¥657,325
Segment profit	¥53,648	¥6,854	¥3,854	¥1,465	¥65,821		¥65,821
Segment assets	834,644	60,458	63,846	70,522	1,029,470	¥(129,214)	900,256
Other:							
Depreciation	46,162	1,799	2,300	4,503	54,764		54,764
Amortization of goodwill	1,839	1,437	502	60	3,838		3,838
Investments in associated companies	5,146				5,146		5,146
Increase in property, plant, and equipment and intangible assets	49,156	1,061	1,242	8,612	60,071		60,071

	Millions of Yen						
	2017						
	Reportable Segments				Total	Reconciliations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Other				
Sales:							
Sales to external customers	¥419,691	¥85,825	¥71,545	¥54,227	¥631,288		¥631,288
Intersegment sales or transfers	4,918		1,391	920	7,229	¥(7,229)	
Total	¥424,609	¥85,825	¥72,936	¥55,147	¥638,517	¥(7,229)	¥631,288
Segment profit	¥59,866	¥6,912	¥3,988	¥2,999	¥72,534	¥7	¥73,772
Segment assets	800,384	58,705	62,271	56,925	978,285	(111,707)	866,578
Other:							
Depreciation	44,797	2,006	2,279	3,386	52,468		52,468
Amortization of goodwill	912	1,677	501	99	3,189		3,189
Investments in associated companies	4,922				4,922		4,922
Increase in property, plant, and equipment and intangible assets	55,489	1,055	1,483	2,928	60,955		60,955

Thousands of U.S. Dollars

	2018						Reconcil- iations	Consol- idated
	Reportable Segments				Total			
	Domestic Convenience Store Business	Seijo Ishii Business	Entertainment-Related Business	Other				
Sales:								
Sales to external customers	\$4,072,050	\$763,314	\$688,898	\$597,793	\$6,122,055		\$6,122,055	
Intersegment sales or transfers	50,927		13,170	11,716	75,813	\$(75,813)		
Total	\$4,122,977	\$763,314	\$702,068	\$609,509	\$6,197,867	\$(75,813)	\$6,122,055	
Segment profit	\$499,655	\$63,835	\$35,895	\$13,645	\$613,030		\$655,030	
Segment assets	7,773,531	563,081	594,635	656,813	9,588,060	\$(1,203,446)	8,384,614	
Other:								
Depreciation	429,934	16,755	21,421	41,939	510,049		510,049	
Amortization of goodwill	17,128	13,384	4,675	559	35,746		35,746	
Investments in associated companies	47,928				47,928		47,928	
Increase in property, plant, and equipment and intangible assets	457,819	9,882	11,567	80,209	559,477		559,477	

Notes: 1. The "Other" category refers to business segments that do not fall under the main reporting segments and includes the Financial Services-Related Business operated by Lawson ATM Networks, Inc. and Lawson Bank Preparatory Company, Inc., the Overseas Business operated by Shanghai Lawson, Inc., and others.

2. Reconciliation of segment profits and segment assets is the balance of elimination of intra-segment transactions.

3. Segment profit is adjusted against consolidated operating income.

(d) Information regarding loss on impairment of long-lived assets of reportable segment

	Millions of Yen						
	2018						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Loss on impairment of long-lived assets	¥16,854	¥88	¥150	¥442	¥17,534		¥17,534

	Millions of Yen						
	2017						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Loss on impairment of long-lived assets	¥9,035	¥62	¥208	¥230	¥9,535		¥9,535

	Thousands of U.S. Dollars						
	2018						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Loss on impairment of long-lived assets	\$156,971	\$820	\$1,397	\$4,116	\$163,304		\$163,304

(e) Information regarding the carrying amount of goodwill by reportable segments

	Millions of Yen						
	2018						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Goodwill at February 28, 2018	¥15,160	¥23,833	¥8,188	¥766	¥47,947		¥47,947

	Millions of Yen						
	2017						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Goodwill at February 28, 2017	¥11,269	¥25,270	¥8,690	¥813	¥46,042		¥46,042

	Thousands of U.S. Dollars						
	2018						
	Reportable Segments				Total	Reconcil- iations	Consolidated
Domestic Convenience Store Business	Seijo Ishii Business	Entertainment- Related Business	Other				
Goodwill at February 28, 2018	\$141,194	\$221,971	\$76,260	\$7,134	\$446,559		\$446,559

The amount under "Other" is attributable to the overseas business.

21 RELATED PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Mitsubishi Corporation as of and for the years ended February 28, 2018 and 2017, were as follows:

(1) Transactions between the Company and a related party

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Mitsubishi Shokuhin Co., Ltd.:			
Accounts payable—trade	¥57,253	¥54,257	\$533,231
Purchases	707,802	654,902	6,592,177

Purchase prices and other conditions are determined on an arm's-length basis.

(2) Transactions between subsidiaries and a related party

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Mitsubishi Shokuhin Co., Ltd.:			
Accounts receivable—Other	¥14,466	¥12,850	\$134,730
Sales of processed food, etc.	143,626	120,219	1,337,673

Sales prices and other conditions are determined on an arm's-length basis.

22 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 due from franchised stores, lease receivables, and accounts receivable—other are exposed to credit risk from business counterparties.

Long-term loans receivable (mainly construction assistance fund receivables and loans to franchised stores) 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-trade for franchised stores, accounts payable-other, and money held as agent 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.

Long-term loans from banks payable are mainly for the purpose of funding M&A, and are due within four 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 28, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	¥46,599	¥46,599	
Lease receivables	16,426	15,550	¥ (876)
Accounts receivable	82,605	82,605	
Long-term loans receivable	47,366	47,351	(15)
Investment securities	11,696	11,696	
Lease deposits	100,210	99,659	(551)
Total	¥304,903	¥303,460	(1,443)
Accounts payable	¥178,616	¥178,616	
Money held as agent	109,629	109,629	
Long-term debt (including current portion of long-term debt)	202,726	197,678	¥(5,048)
Total	¥490,971	¥485,923	¥(5,048)

February 28, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	¥39,982	¥39,982	
Lease receivables	12,336	11,588	¥(747)
Accounts receivable	78,316	78,316	
Long-term loans receivable	44,461	44,445	(16)
Investment securities	6,523	6,523	
Lease deposits	95,181	94,608	(572)
Total	¥276,800	¥275,462	¥(1,336)
Accounts payable	¥170,381	¥170,381	
Money held as agent	103,157	103,157	
Long-term debt (including current portion of long-term debt)	185,275	180,856	¥(4,419)
Total	¥458,813	¥454,394	¥(4,419)

February 28, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Due from franchised stores	\$434,004	\$434,004	
Lease receivables	152,985	144,826	\$(8,159)
Accounts receivable	769,349	769,349	
Long-term loans receivable	441,147	441,008	(139)
Investment securities	108,932	108,932	
Lease deposits	933,315	928,183	(5,132)
Total	\$2,839,732	\$2,826,302	\$(13,430)
Accounts payable	\$1,663,556	\$1,663,556	
Money held as agent	1,021,039	1,021,039	
Long-term debt (including current portion of long-term debt)	1,888,107	1,841,091	\$(47,016)
Total	\$4,572,702	\$4,525,686	\$(47,016)

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 money held as agent

The carrying values of accounts payable and money held as agent approximate fair value because of their short maturities.

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
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥330	¥945	\$3,073
Investments in unconsolidated subsidiaries and affiliated companies	15,172	14,151	141,307
Others	1,350	1,313	12,573

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	2018			
	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	¥46,599			
Lease receivables	2,031	¥6,437	¥7,957	
Accounts receivable	82,633			
Long-term loans receivable	133	15,963	15,963	¥15,366
Lease deposits	5,912	21,961	25,452	47,361
Total	¥137,309	¥44,361	¥49,372	¥62,727

	Millions of Yen			
	2017			
	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	¥39,982			
Lease receivables	1,688	¥4,768	¥5,878	
Accounts receivable	78,363			
Long-term loans receivable	450	14,901	14,408	¥14,736
Lease deposits	5,481	20,708	24,809	44,596
Total	¥125,964	¥40,377	¥45,095	¥59,332

	Thousands of U.S. Dollars			
	2018			
	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	\$434,004			
Lease receivables	18,916	\$59,952	\$74,108	
Accounts receivable	769,349			
Long-term loans receivable	1,239	148,673	148,673	\$143,112
Lease deposits	55,062	204,536	237,049	441,101
Total	\$1,278,570	\$413,161	\$459,830	\$584,213

23 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2018 and 2017, is as follows:

Year Ended February 28, 2018	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted- Average Shares	EPS	
Basic EPS				
—Net income available to common shareholders	¥26,828	100,044	¥268.16	\$2.50
Effect of dilutive securities—Stock options		53		
Diluted EPS—Net income for computation	¥26,828	100,097	¥268.02	\$2.50

Year Ended February 28, 2017	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted- Average Shares	EPS	
Basic EPS				
—Net income available to common shareholders	¥36,400	100,009	¥363.97	
Effect of dilutive securities—Stock options		71		
Diluted EPS—Net income for computation	¥36,400	100,080	¥363.71	

24 | SUBSEQUENT EVENTS

a. Appropriation of Retained Earnings

The following appropriation of retained earnings was approved at the general shareholders' meeting held on May 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥127.5 (\$1.19) per share	¥12,757	\$118,813

b. Borrowing of Capital

The final resolution of the following syndicated loan agreement was approved at the board meeting of Lawson Bank Preparatory Company, Inc., held on March 26, 2018:

Lawson Bank Preparatory Company, Inc. applied for preliminary examination of its banking license. In order to raise working capital for the banking business, Lawson Bank Preparatory Company, Inc., entered into the following syndicated loan agreement.

(1) Date of agreement	March 30, 2018	
(2) Arranger	MUFG Bank, Ltd (formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	
(3) Co-arranger	Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation	
(4) Borrower	Lawson Bank Preparatory Company, Inc.	
(5) Implementation term	From September 28, 2018 to October 31, 2018	
(6) Repayment	Bullet repayment at maturity	
(7) Amount	50,000 million yen	80,000 million yen
(8) Term	3 years	5 years
(9) Interest rate	Floating interest	Floating interest
(10) Guarantee	Cosigned by Lawson, Inc.	Cosigned by Lawson, inc.
(11) Financial covenant	Both Lawson, Inc. and Lawson Bank Preparatory Company, Inc. are bound by the following financial covenants	
	i) Covenant for allocation of periodic loss	
	ii) Covenant for amount of net assets	
	iii) Covenant for provision of collateral	



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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 28, 2018, 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 28, 2018, 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.

May 22, 2018

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Published September 2018

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Printed in Japan

